The consumption function

\[ C = a + b \times Y_{GP} \]

The slope of the consumption function

\[ \frac{\Delta C}{\Delta Y_{GP}} = b = m.p.c. \]

m.p.c. marginal propensity to consume

For U.S.

m.p.c. = 0.70

For the French student?
S = AGDP - C

Savings = income - consumption

. substitute for C

S = RGDP - a - b * RGDP

. collect terms

S = -a + (y - b) * RGDP

. give it a name

The savings function

. make a graph
the saving function
\[ S = \alpha + (1 - \beta) \times \Delta GDP \]
\[ \Delta S = -\alpha + (1 - \beta) \times \Delta GDP \]
the slope of the saving function
\[ \frac{\text{rise}}{\text{run}} = \frac{\Delta S}{\Delta GDP} = (1 - \beta) \text{ mps} \]
mps represent propensity to save

For U.S.
\[ \text{mps} = 0.9 \]

For the typical student?

Note
\[ \text{MPC} + \text{MPS} = 1.0 \]
\[ 1 + (1 - \beta) = 1.0 \]
\[ mpc + mps = 0 \]

Hence

\[ ompc + omps = 0 \]

\[ \text{if } ompc > 0 \]

then \[ omps < 0 \]
When the marginal propensity to save increases and disposable income does not change, saving ______ and consumption expenditure ______

A. increases, increases

B. increases, decreases

C. increases, remains the same

D. remains the same, increases

Question Graph A
Consumption expenditure ($ tr.)

Question Graph B
Saving ($ tr.)

Disposable income (tr. 1992 $)

If \( \Delta mp \leq 0 \)

\( \Delta mp < 0 \rightarrow \) note \( \Delta mp > 0 \)

then: \( \Delta c < 0 \)

\( \Delta s > 0 \)

MC answer [ ]