MODULE 16
CONSUMPTION & SAVINGS

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AP MACROECONOMICS

DISPOSABLE INCOME (DI)

✳ Income after taxes or net income

✳ DI = Gross Income - Taxes

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2 CHOICES

✳ With disposable income, households can either

  ✳ Consume (spend money on goods & services)

  ✳ Save (not spend money on goods & services)

✳ Average Propensity to save/consume

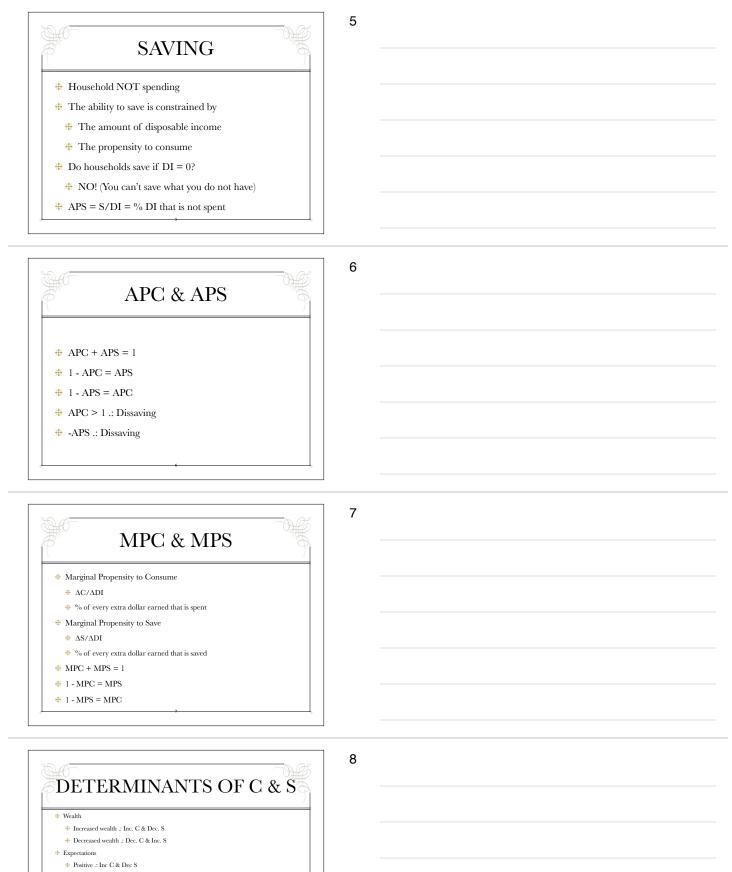 ✳ APS & APC

CONSUMPTION

✳ Household spending

✳ The ability to consume is constrained by

  ✳ The amount of disposable income

  ✳ The propensity to save

✳ Do households consume if DI = 0?

  ✳ Autonomous consumption

  ✳ Dissavings

✳ APC = C/DI = % DI that is spent

SAVING

* Household NOT spending
* The ability to save is constrained by
  * The amount of disposable income
  * The propensity to consume
* Do households save if DI = 0?
  * NO! (You can't save what you do not have)
* APS = S/DI = % DI that is not spent

APC & APS

* APC + APS = 1
* 1 - APC = APS
* 1 - APS = APC
* APC > 1 .: Dissaving
* -APS .: Dissaving

MPC & MPS

* Marginal Propensity to Consume
  * $\Delta C/\Delta DI$
  * % of every extra dollar earned that is spent
* Marginal Propensity to Save
  * $\Delta S/\Delta DI$
  * % of every extra dollar earned that is saved
* MPC + MPS = 1
* 1 - MPC = MPS
* 1 - MPS = MPC

DETERMINANTS OF C & S

* Wealth
  * Increased wealth .: Inc. C & Dec. S
  * Decreased wealth .: Dec. C & Inc. S
* Expectations
  * Positive .: Inc C & Dec S
  * Negative .: Dec C & Inc S
* Household Debts
  * High Debt .: Dec C & Inc S
  * Low Debt .: Inc C & Dec S
* Taxes
  * Taxes Inc .: Dec C & Dec S
  * Taxes Dec .: Inc C & Inc S