CONSUMPTION AND SAVINGS

COACH BURNETT
AP MACROECONOMICS

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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

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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

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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