3055 BA SANGAM COLLEGE
PH: 6674003/9264117 E-mail: basangam@connect.com.fj

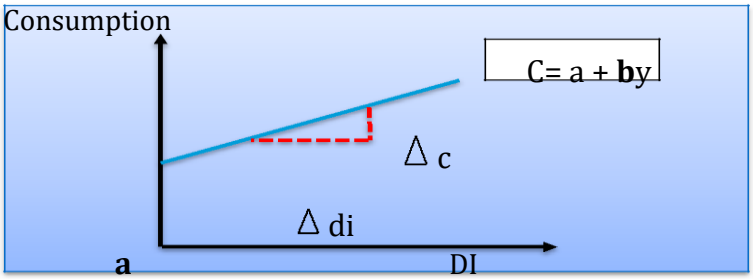
Worksheet 10

Subject: Economics **Year / Level: 13** **Name**: _____

Strand	3 - Macroeconomics
Sub Strand	3.2 Income and expenditure analysis
Content Learning Outcome	3.2.1 Analyze the income and expenditure analysis.

CONSUMER SPENDING- is the proportion of income spent on consumption expenditure. The consumer's income and spending is positively related i.e. as disposable income increases consumption increases and vice versa.

Figure 3.5: Graph Showing Consumption Function



Consumption Function and MPC

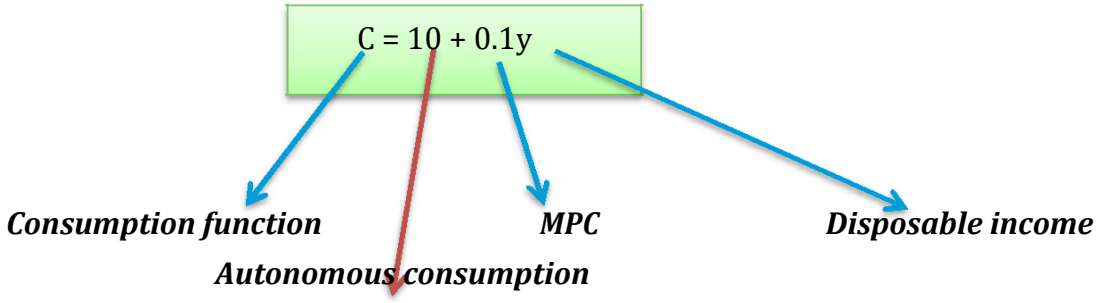
MPC is marginal propensity to consume. MPC measures the slope of the consumption function. It is calculated as follows.

$$MPC = \frac{\triangle \text{ in consumption}}{\triangle \text{ in Disposable Income}}$$

In the diagram **b** in the equation is MPC which is induced consumption which varies with income and **a** is **autonomous consumption** which takes place without income.

C= **a** + **b**y

Consumption Function Example



Savings Function

DI = C + S

S = DI - C or S = y - c

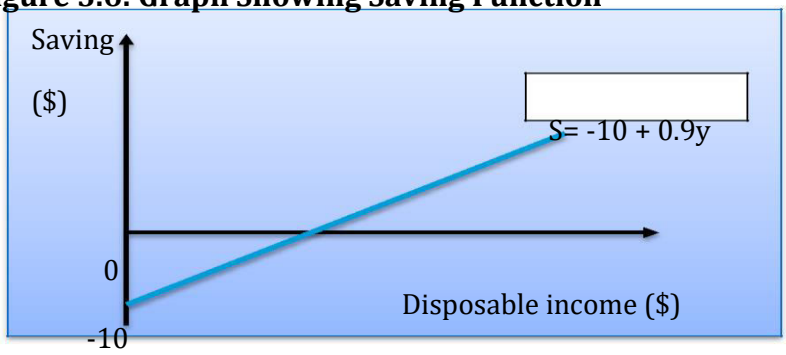
E.g. If C = 10 + 0.1y

Therefore S = y - (10 + 0.1y)

Or S = y – 10 - 0.1y

Therefore **s = -10 + 0.9y**

Figure 3.6: Graph Showing Saving Function



Dissaving's are excess of consumption over Disposable income.

SAVINGS FUNCTION AND MPS

Marginal propensity to save (MPS) is the fraction of the Disposable income that is saved. It measures the slope of the saving function.

Note :

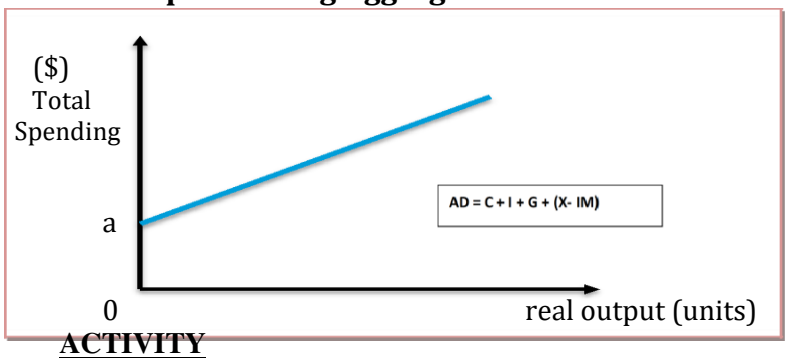
MPC + MPS = 1

Therefore MPC = 1 – MPS

Therefore combination of all components gives rise to

AD = C + I + G + (X- IM)

Figure 3.7: Graph Showing Aggregate Demand Function



ACTIVITY

Use the information to answer the questions which follows.

Note: values are (000's)

C= 200 +0.9 Y	I= 200	G=500	X=400	M=600

(i) Calculate the GDP using the expenditure approach. (2 Marks)

(ii) If the MTR is 0.3Y. How much tax revenue was collected by government. (1 mark)

_____

(iii) What is the slope of consumption function? (1 mark)

_____

(iv) What special name is given to the slope of the consumption? (1 mark)

_____

(v) Calculate the autonomous consumption and net exports. (2 marks)