ACTIVITY 24
What Is an MPC?

The marginal propensity to consume (MPC) is the *change* in consumption divided by the *change* in disposable income. It is the fraction of any change in disposable income that is spent on consumer goods.

The marginal propensity to save (MPS) is the fraction saved of any change in disposable income. The MPS is equal to the change in saving divided by the change in disposable income.

Using the data in the table *Marginal Propensity to Consume and to Save* calculate the MPC and MPS at each level of disposable income. The first one is completed as an example. This is not a typical consumption function. Its purpose is to provide practice in calculating MPC and MPS.

Marginal Propensity to Consume and to Save

Level of output and income (NNP = DI) (1)	Consumption (2)	Saving (1) – (2) (3)	Marginal propensity to consume (MPC) Δ(2)/Δ(1) (4)	Marginal propensity to save (MPS) Δ(3)/Δ(1) (5)
$12,000	12,100	–100		
			.90	.1
$13,000	13,000	0		
			____	____
$14,000	13,800	200		
			____	____
$15,000	14,500	500		
			____	____
$16,000	15,100	900		

1. If disposable income changes from $10,000 to $12,000 and consumption changes from $9,000 to $10,000:

   a. What is the MPC?

   b. What is the MPS?

2. Why do the MPC and MPS always equal one?