

ACTIVITY 25

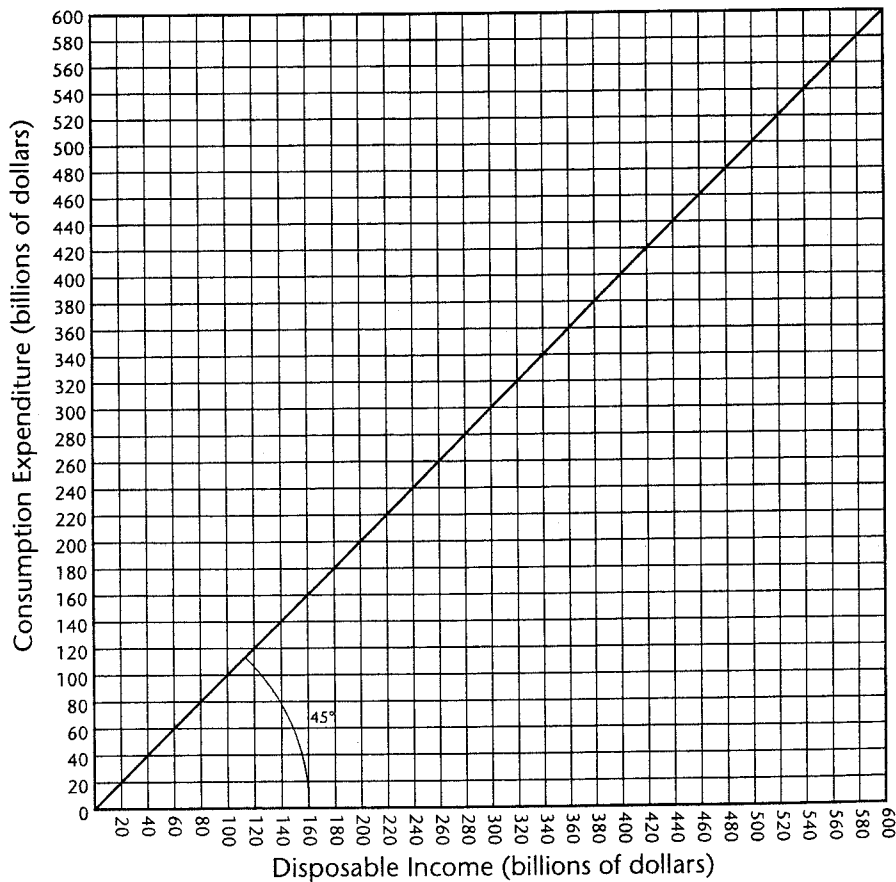
The Consumption Function

In the nation of Chaos-on-the-Styx, the relationship between consumption expenditure and disposable income is shown in the table *Consumption Expenditure and Disposable Income*.

Consumption expenditure (billions of dollars)	Disposable income (billions of dollars)	Savings (billions of dollars)
120	100	_____
200	200	_____
280	300	_____
360	400	_____
440	500	_____
520	600	_____

- Plot the consumption function for Chaos-on-the-Styx on the graph *Plotting the Consumption Function*. Label it C.
 - At what level is consumption equal to disposable income? _____

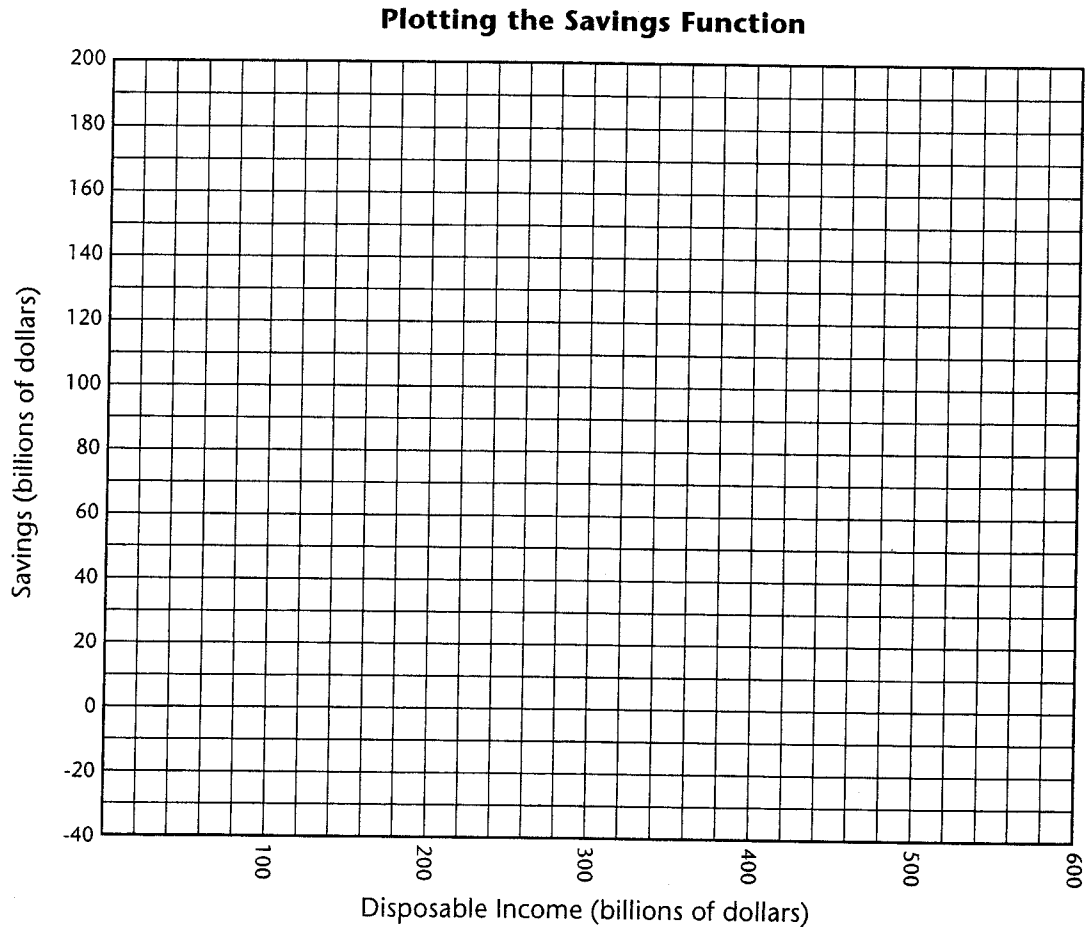
Plotting the Consumption Function



Unit 3

ACTIVITY 25 continued

2. a. Based on the data shown on the table *Consumption Expenditure and Disposable Income*, plot the savings function for Chaos-on-the-Styx on the graph *Plotting the Savings Function*. Label it S .
- b. At what level of disposable income is savings equal to zero? _____

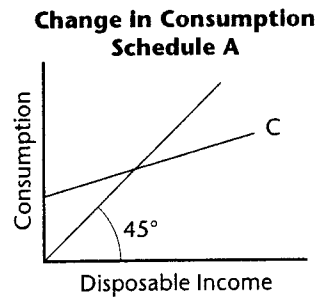


3. Now the nation of Chaos-on-the-Styx consumes \$20 billion more at each level of disposable income that shows in the graphs you just completed.
- a. Plot the new consumption function on the graph *Plotting the Consumption Function*. Label it C_1 . At what level is consumption equal to disposable income? _____
- b. Plot the new savings schedule on the graph *Plotting the Savings Function*. Label it S_1 . At what level of disposable income is savings equal to zero?

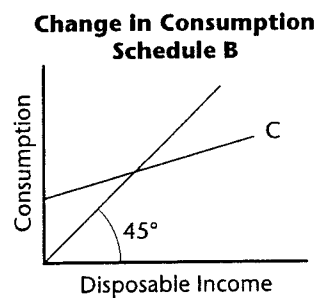
ACTIVITY 25 continued

4. For each of the following events, write + in the answer blank at the left if it increased the consumption schedule or a - if it decreased the consumption schedule. Then plot the change on the corresponding graph provided below. Each graph should show an increase or decrease compared to the original consumption schedule.

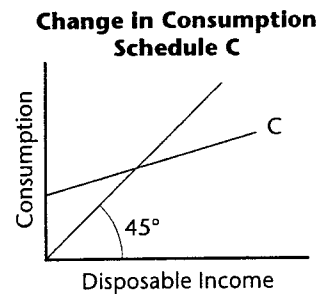
_____ a. Development of consumer expectations that prices will be higher in the future.



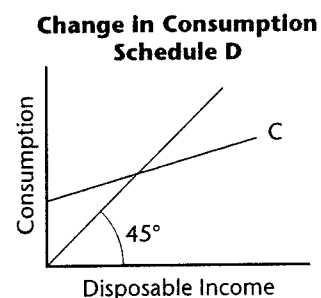
_____ b. Gradual shrinkage in the quantity of real assets owned by consumers.



_____ c. Increase in the volume of consumer indebtedness.



_____ d. Growing belief that disposable income will be lower in the future.



_____ e. Rumors that a current shortage of consumer goods will soon disappear.

