Consumption

Why

\[ Y = C + I + G + X - M \]

Why The Interest

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• There are constant calls for increasing the saving rate, the opposite of consumption.
• There are, paradoxically, calls for stimulating consumption.

Some Questions

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  – If the budget is to be balanced, is it more important that it be balanced with higher taxes or reduced government spending?
  – Or does it matter?
Even More Questions

• Tax Policy
  – Should we replace the federal income tax with a national sales tax?
  – Should we eliminate the “death tax”?
  – Should we tax corporate profits?
  – What should we do about social security?

To be esoteric…

• Do we really love our children?
• And, equally important, do our parents love us?

What Is a Consumption Function?

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  – Make a budget for how much they will spend each year or period
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• Analogy is to Christmas spending
• Our interest is in total

End

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