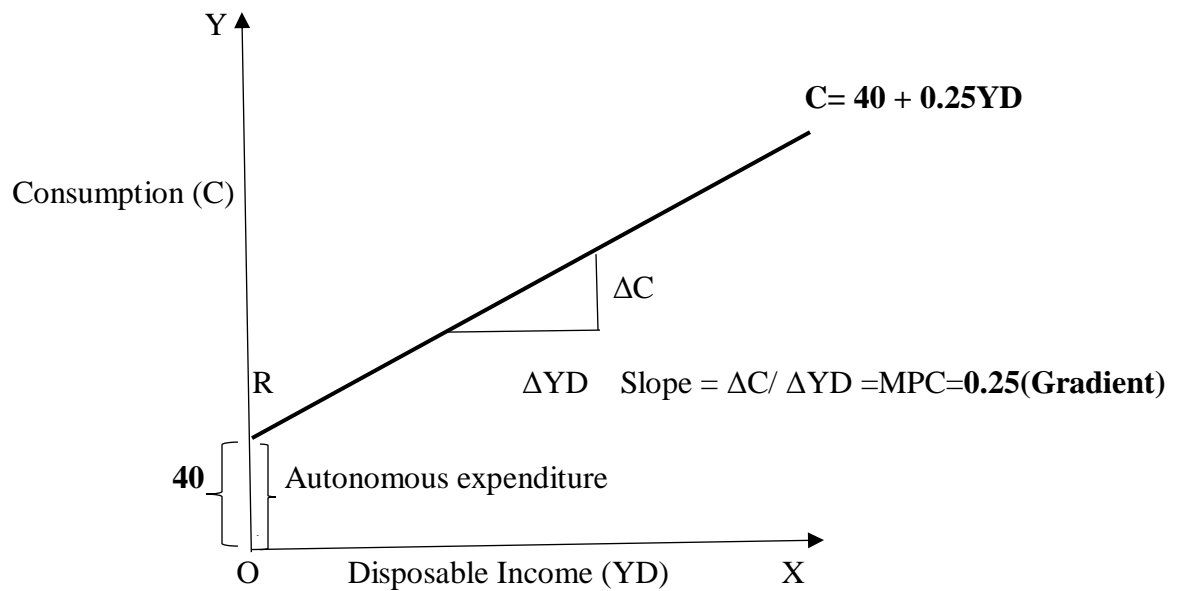Answer on Question #87745 – Economics / Macroeconomics

QUESTION: Consider the consumption function below and answer the questions that follow:

C= 40 + 0.25YD.

1.1. Sketch the above function on a graph.

1.2. What is the value of autonomous expenditure?

1.3. What is the gradient of the consumption function?

1.4. What is the value of total consumption if disposable income is R2500?

ANSWER: 1.1 FIGURE

1.2 VALUE OF AUTONOMOUS EXPENDITURE = **R 40**

1.3 GRADIENT/SLOPE OF CONSUMPTION FUCNTION OR MARGINAL PROPENSITY TO CONSUME(MPC) = **0.25.**

1.4 TOTAL CONSUMPTION WHEN YD= R 2500 will be calculated as:

= 40+0.25(2500)

= 40+625

= 665