4th Sem (M)

The Consumption Function :

One of the important tools of the Keynesian economics is the consumption function. The consumption function or propensity to consume refers to the income consumption relationship. It is a "functional relationship between two aggregates i.e total consumption and gross national income." Symbolically, the relationship is represented as $c = f(Y)$, where c is consumption Y is income and f is the functional relationship between c and Y, c is determined by Y.

In fact, propensity to consume or consumption function is a schedule of the various amounts of consumption expenditure corresponding to different levels of income. A hypothetical consumption schedule is given in Table-I.

Table — I :- Consumption Schedule

Income (Y) (Rs. Crores)	Consumption, $c = f(Y)$ (Rs. Crores)
0	20
60	70
120	120
180	170
240	220
300	270
360	320

The table-I shows that consumption is an increasing function of income because consumption expenditure increases with increase in income.

It is shown that when income is zero during the depression, people spend out of their past savings on consumption because they must eat in order to live. When income is generated in the economy to the extent of Rs. 60 crores, it is not sufficient to meet the consumption expenditure. When both consumption expenditure and income equal Rs. 120 crores, it is the basic consumption level. After this, income is shown to increase by 60 crores and consumption by 50 crores. This implies a stable consumption function during the short-run as assumed by Keynes. The increase in consumption is less than the increase in income. The portion of income not consumed is saved. Thus, the consumption function measures not only the amount spent on consumption but also the amount saved.