

## properties of the Consumption Function

The consumption function has two properties:

- (i) The average propensity to consume and
- (ii) The marginal propensity to consume.

(i) The Average propensity to consume: The average propensity to consume (APC), defined as the ratio of consumption expenditure to any particular level of income. It is found by dividing consumption expenditure by income, or  $APC = \frac{C}{Y}$ . It is expressed as the percentage or proportion of income consumed. The APC at various income levels is shown in column 3 of Table-I. The APC declines as income increases because the proportion of income spent on consumption decreases, but

Table - I

Income (Y) (1)	Consumption (C) (2)	$APC = \frac{C}{Y}$ (3)	$APS = \frac{S}{Y}$ (= 1 - APC) (4)	$MPC = \frac{\Delta C}{\Delta Y}$ (5)	$MPS = \frac{\Delta S}{\Delta Y}$ (= 1 - MPC) (6)
120	120	$\frac{120}{120} = 1.0$ or 100%	0	—	—
180	170	$\frac{170}{180} = 0.92$ or 92%	0.08	$\frac{50}{60} = 0.83$	0.17
240	220	$\frac{220}{240} = 0.91$ or 91%	0.09	$\frac{50}{60} = 0.83$	0.17
300	270	$\frac{270}{300} = 0.90$ or 90%	0.10	$\frac{50}{60} = 0.83$	0.17
360	320	$\frac{320}{360} = 0.88$ or 88%	0.12	$\frac{50}{60} = 0.83$	0.17

Reverse is the case with APS (Average propensity Save) which increases with increase in income (column - 4). The APC also tells us about the APS,  $APS = 1 - APC$ .

Diagrammatically, the APC is any one point on the C curve. In fig-(1) point R measures the APC of the C curve which is  $\frac{OC'}{OY'}$ . The flattening of the C curve to the right shows declining APC.

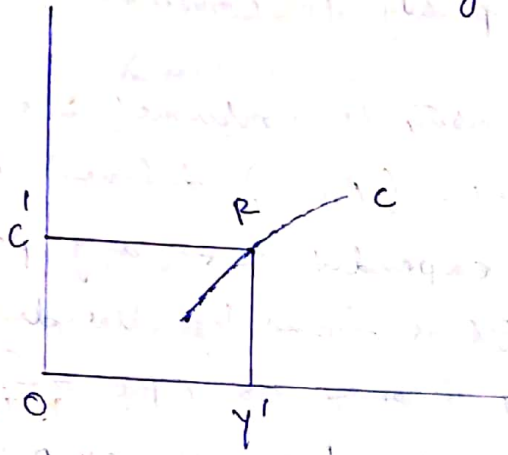


fig - (1)