Determinants of The Consumption Function

Keynes mentions two principal factors which influence the consumption function and determine its slope and position. They are:

(i) The Subjective factors

(ii) The objective factors.

The Subjective factors are endogenous or internal to the economic system. They include psychological characteristics of human nature, social practices and institutions and social arrangements. They, therefore determine the slope and position of the C curve which is fairly stable in the short-run.

The objective factors are exogenous or external to the economic system. They may, therefore undergo rapid changes and may cause marked shifts in the consumption function (i.e the C curve).

(i) Subjective Factors in the Consumption Function:

Keynes's subjective factors basically underlie and determine the form (i.e. slope and position) of the consumption function. The subjective factors are the psychological characteristics of human nature, social practices and institutions, especially the behaviour patterns of business concerns with respect to wage and dividend payments and retained earnings and social arrangements affecting the distribution of income.

<u>Individual Motive</u>:- First, there are 8 motives which lead individuals to refrain from spending out of the incomes. They are:-

(i) The desire too build reserves for unforeseen contingencies.

(ii) The desire to provide for anticipated futuree needs, i.e old age, sickness etc.

(iii) The desire to enjoy an enlarged future income by way of interest and appreciation.

(iv) The desire to enjoy a gradually increasing expenditure in order to improve the standard to living,

(v) The desire to enjoy a sense of independence and power to do things.

(vi) The desire to secure to carry out speculative or business projects.

(vii) The desiree to bequeath a fortune.

(viii) The desire to satisfy a pure miserly instinct.

<u>Business Motive</u>:- The subjective factors are also influenced by the behaviour of business corporations and govts. Keynes lists four

motives for accumulation on their part:-

(i) enterprise, the desire to do big things and to expand.

(ii) Liquidity, the desire to meet emergencies and difficulties successfully.

(iii) income raise, the desire to secure large income and to show succeful management.

(iv) financial prudence, the desire to provide adequate financial resources against depreciation and obsolescence and to discharge debt.

These factors remain constant during the short-run and keep the consumption function stable.

Objective Factors:- The objective factors which undergo rapid changes and cause marked shifts in the consumption function are considered. We take up the objective factors given by keynes:

(1) Change in the wage level:- If the wage rate rises, the consumption function shifts upward. The workers having a high propensity to consume spend more out of their increased income and this tends to shifts the C curve upward. If however, the rise in the wage rate is accompanied by a more than proportinate rise in the price level, the real wage rate will fall and it will tend to shifts the C curve downward,