

(2) changes in the Fiscal policy: changes in the fiscal policy in the form of taxation and public expenditure affect the consumption function by reducing the disposable income of the people.

(3) changes in the Rate of Interest: - Substantial changes in the market rate of interest may influence the consumption function indirectly. A rise in rate of interest will lead to a fall in the price of bonds, thereby tending to discourage the propensity to consume. People may be encouraged to save rather than invest in bonds. They will tend to postpone their purchases when the rate of interest rises. They will have to pay more in instalments and thus their consumption function will shift downward.

(4) Windfall Gains or Losses: - unexpected changes in the stock market leading to gains or losses tend to shift the consumption function upward or downward. For instance, the phenomenal windfall gains due to the stock-market boom led to a rise in the consumption spending of the stock-holders by the increased income and as a result the consumption function shifted upward. Similarly, unexpected losses in the stock market lead to the downward shifting of the C curve.

(5) Change in Expectations: - Changes in future expectations also affect the propensity to consume. If a war is expected in the near future, people start hoarding durable and semi-durable commodities in anticipation of future scarcity and rising prices. As a result, the consumption function shifted upward. On the contrary, if it is expected that prices are likely to fall in the future, people would buy only those things which are very essential. It will lead to a fall in consumption demand and to a downward shift of the consumption function.

(6) Financial policies corporations: - Financial policies of corporations with regard to income retention, dividend payments, and reinvestments tend to affect the consumption function in several ways. If corporations keep more money in the form of reserves, dividend payments to shareholders will be less, this will have the effect of reducing the income of the shareholders and the consumption function will shift downward.

(7) Holding of Liquid Assets: - The amount of liquid assets in the form of cash balances, savings and govt. bonds in the hands of consumers also influence the consumption function. If people hold larger liquid assets they will have the tendency to spend more out of their current income and the propensity to consume will move upward and vice-versa. "pignon was



of the view that with a cut in money wage, prices fall and the real value of such assets increases. This tends to shift the consumption function upward. This is called the "Pigeon Effect."

⑧ The Distribution of Income: The distribution of income in the community also determines the shape of the consumption function. If there are large disparities in income distribution between the rich and the poor, the consumption function is low, therefore the consumption function shift downward. If through progressive taxation and other fiscal measures, the inequalities of income and wealth are reduced, the consumption function will shift upward.

⑨ Attitude toward Saving: The consumption function is also influenced by people's attitude toward saving. If the value of future consumption make them present consumption, they will tend to save more and the consumption function will shift downward. In a high-saving economy, the consumption function is low. Therefore, the consumption function will shift downward.

