Date:- 06/04/21

Keynesian consumption function :—

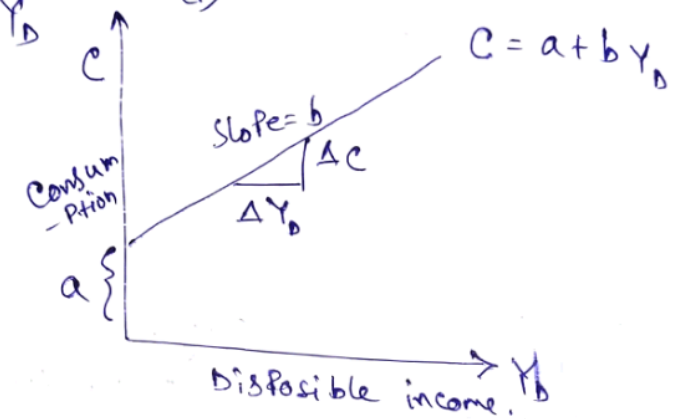
According to keynes the consumption function is

$C = a + bY_D$, $a > 0$, $0 < b < 1$ ... (ix)

where, Y_D = Disposible income.

$Y_D = Y - T$ (Y = National income, T = Tax).

$$b = \frac{\Delta C}{\Delta Y_D} \quad \text{--- (x)}$$



Keynesian saving function :-

We know,

$Y \equiv C + S + T$ ---- (iii)

we can write,

$Y_D = Y - T = C + S$ ---- (xi)

we know, $MPS + MPC = 1$

According to keynes the saving function is $S = -a + (1-b)Y_D$ --- (xii)

$$1 - b = \frac{\Delta S}{\Delta Y_D} \quad \text{--- (xiii)}$$