THE MPS AND MPC BY KEYNES

Introduction to political economy

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ESSCA

INTRODUCTION

1. Definition and Explanation of Concepts
2. Economic Implications of These Concepts
3. Application of Keynes Theory in Economic Policies

DEFINITION AND EXPLANATION OF CONCEPTS

MPC

The marginal propensity to consume

Formula: $\dfrac{\text{Increase in Consumption}}{\text{Increase in income}}$

Example: If a person earns an extra 100 € and spends 80 €, their MPC is 0.8 (80%).

MPS

The marginal propensity to save

Formula: $\dfrac{\text{Increase in Saving}}{\text{Increase in income}}$

Example: If the person saves 20 € out of the 100 €, their MPS is 0.2 (20%).

Relationship between MPC and MPS: The sum of the two always equals **1**:

ECONOMIC IMPLICATIONS OF THESE CONCEPTS

WHEN MPC IS HIGH

- higher demand for goods and services
- reduce unemployment

WHEN MPS IS HIGH

- demand decreases
- may lead to job losses and economic stagnation

APPLICATION OF KEYNES' THEORY IN ECONOMIC POLICIES

Government Intervention During Crises

Tax cuts: Reducing taxes puts more money into consumers' hands, encouraging spending.

Social benefits and subsidies: Providing direct financial assistance to low-income households boosts consumption.

Public investments: Governments can invest in infrastructure, education, and healthcare to create jobs and stimulate demand.

The Keynesian multiplier

The Keynesian multiplier explains how an increase in spending has a bigger impact on the economy has than the initial amount invested.

For example, if the government gives 100 € to a person with a marginal propensity to consume (MPC) of 0.8, they will spend 80 €, which will then be used by others. This chain reaction increases total economic activity.

The multiplier formula is 1 / (1 - MPC), meaning that if MPC = 0.8, every euro injected creates 5 euros of total economic activity

PRESENTATION CONCLUSION

In summary, MPC and MPS are important indicators of consumer behaviour and economic growth. When MPC is high, people spend more, which helps the economy grow. On the other hand, when MPS is high, people save more, which can slow down economic growth

A good understanding of MPC and MPS helps governments create better economic policies.

Opening question : During the COVID-19 pandemic, many governments used Keynesian policies by providing financial aid to citizens. This helped people continue spending and prevented a deeper recession. In the long run, how do you think these measures affected the global economy?

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