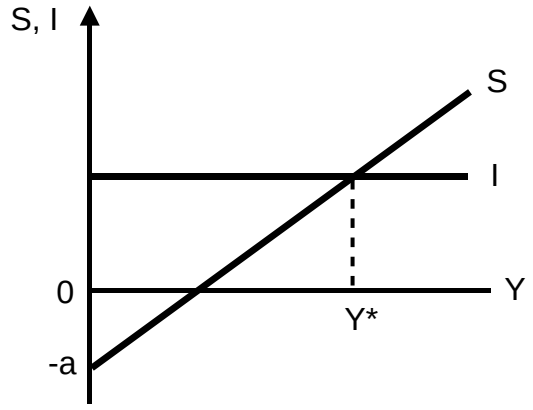
Paradox of thrift

1 Equilibrium national income (Y)

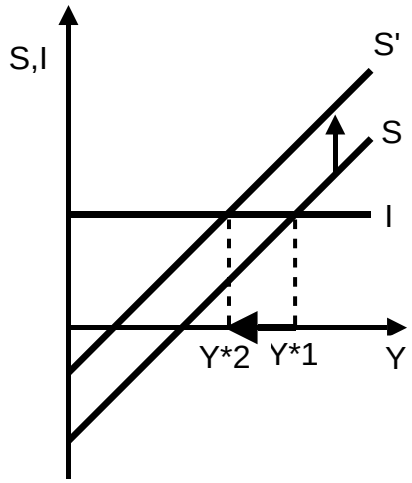


Assumptions:

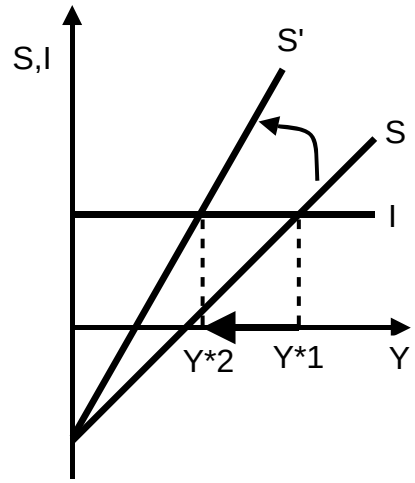
- Saving (S) is dependent on Y.
  Formula: S = -a + bY
  (a ➡ consumption if Y = 0
  -a ➡ dissaving if Y = 0
  b ➡ marginal propensity to save)
- Investment (I) is independent of Y.
- **Equilibrium Y*:**
  Planned saving = planned investment

2 Attempts to increase S ➡ Equilibrium S is unchanged.

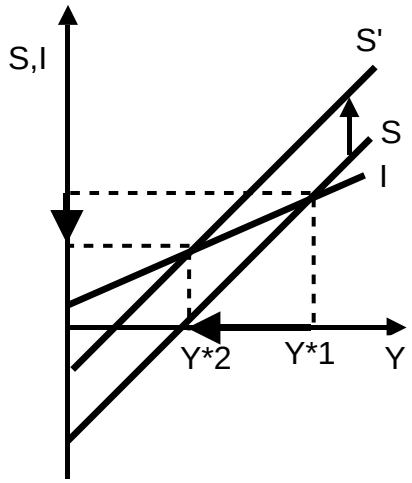
Change of -a

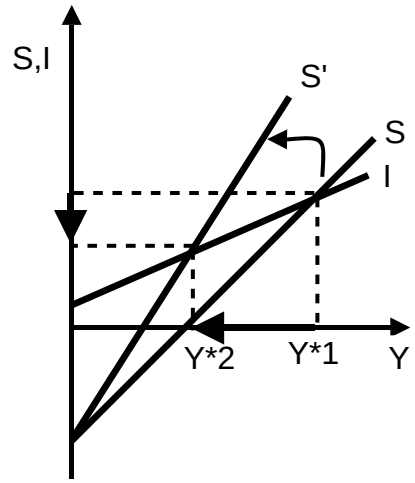


Change of b



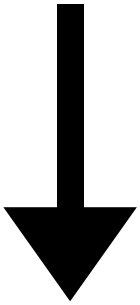
3 Attemps to increase S ➡ Equilibrium S falls if I is dependent on Y.





Paradox of thrift

An attempt to increase saving can result in *unchanged* saving or ...



...even in *reduced* saving if I is dependent on Y.