

## Macro Module 8 Readings

(The attached PDF file has better formatting.)

### Chapter 7: Consumption, Saving, and Investment (Module 8)

Read pages 112-121, and know key equation 7.9 on page 118. Focus on the income effect on pages 117-118 and the intertemporal substitution effect on pages 118-119. Skip “By the Numbers” sections on pages 119.

Read pages 121-123. Figure 7.4 shows the basic effects. The multi-year model is an extension of the two year model. Key equation 7.12 on page 121 extends the two year budget constraint to a multi-year budget constraint. Focus on permanent income on page 164 and the propensities to save and consume on pages 163-164.

Skip “By the Numbers” on page 123.

Read “By the Numbers” on page 124.

Read pages 123-125. Know especially equation 7.13 on page 125. The mathematics in this chapter derives the key equations; the final exam does not test the derivations.

Review Questions A.4 and B.6 on page 126.

Skip the appendix on pages 127-128.