

$$y_i = [1 + z(x)] c_i = \frac{x^\varepsilon [1 + z(x)]^{1-\varepsilon}}{1 + x^\varepsilon [1 + z(x)]^{1-\varepsilon}} \left[f(x) k_i + \frac{\mu_i}{p} \right]$$

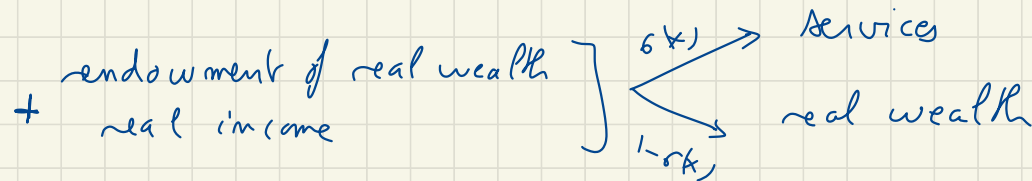
↑ purchases of services $\sigma(x) \in (0, 1)$ ↑ initial real wealth

$$y_i = \sigma(x) \cdot \left[f(x) k_i + \frac{\mu_i}{p} \right]$$

$$\frac{m_i}{p} = f(x) k_i + \frac{\mu_i}{p} - \underbrace{[1 + z(x)] c_i}_{y_i = \text{purchases} = \sigma(x) \left[f(x) k_i + \frac{\mu_i}{p} \right]}$$

↑ savings = real wealth

$$\frac{m_i}{p} = [1 - \sigma(x)] \left[f(x) k_i + \frac{\mu_i}{p} \right]$$



$$v_i = \frac{y_i}{q(x)} = \frac{\sigma(x)}{q(x)} \left[f(x) k_i + \frac{\mu_i}{p} \right] - v_i$$

↑ vicks

key function: $\sigma(x) \in (0, 1)$ is the
Marginal Propensity to Spend (MPS)

→ marginal propensity to spend out of
wealth & income

→ $[1 - \sigma(x)]$ is the marginal propensity to
save, also $\in (0, 1)$