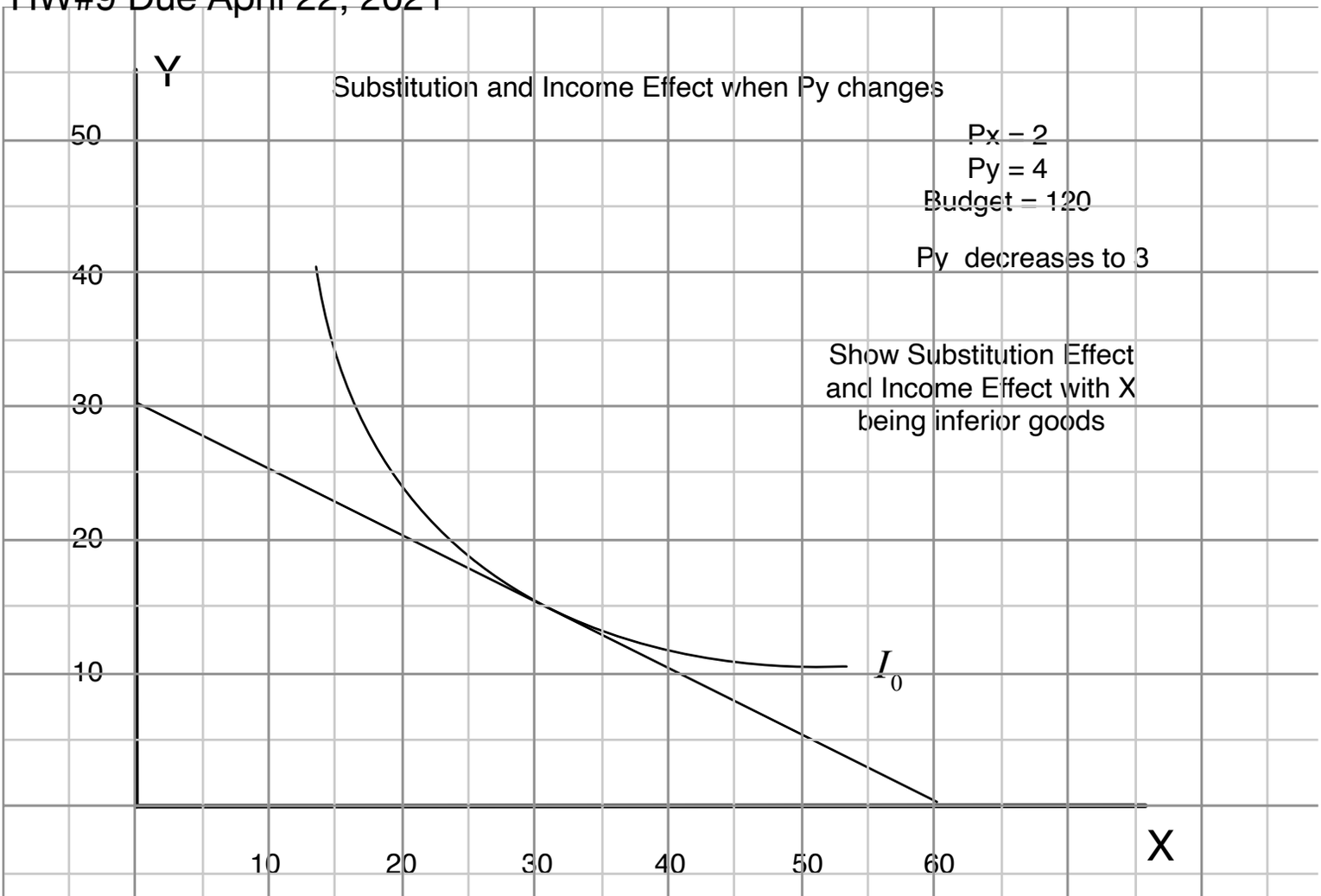
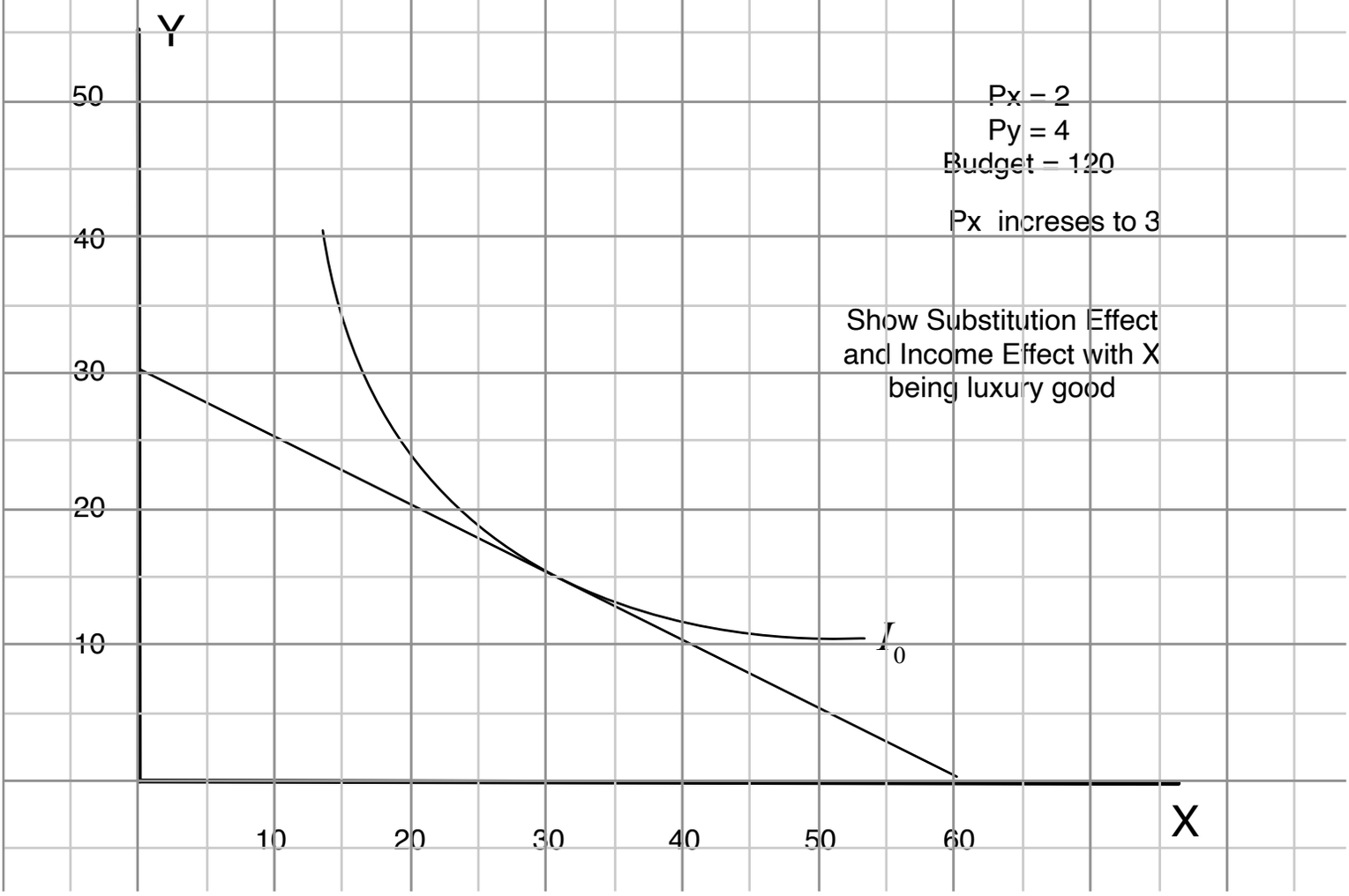
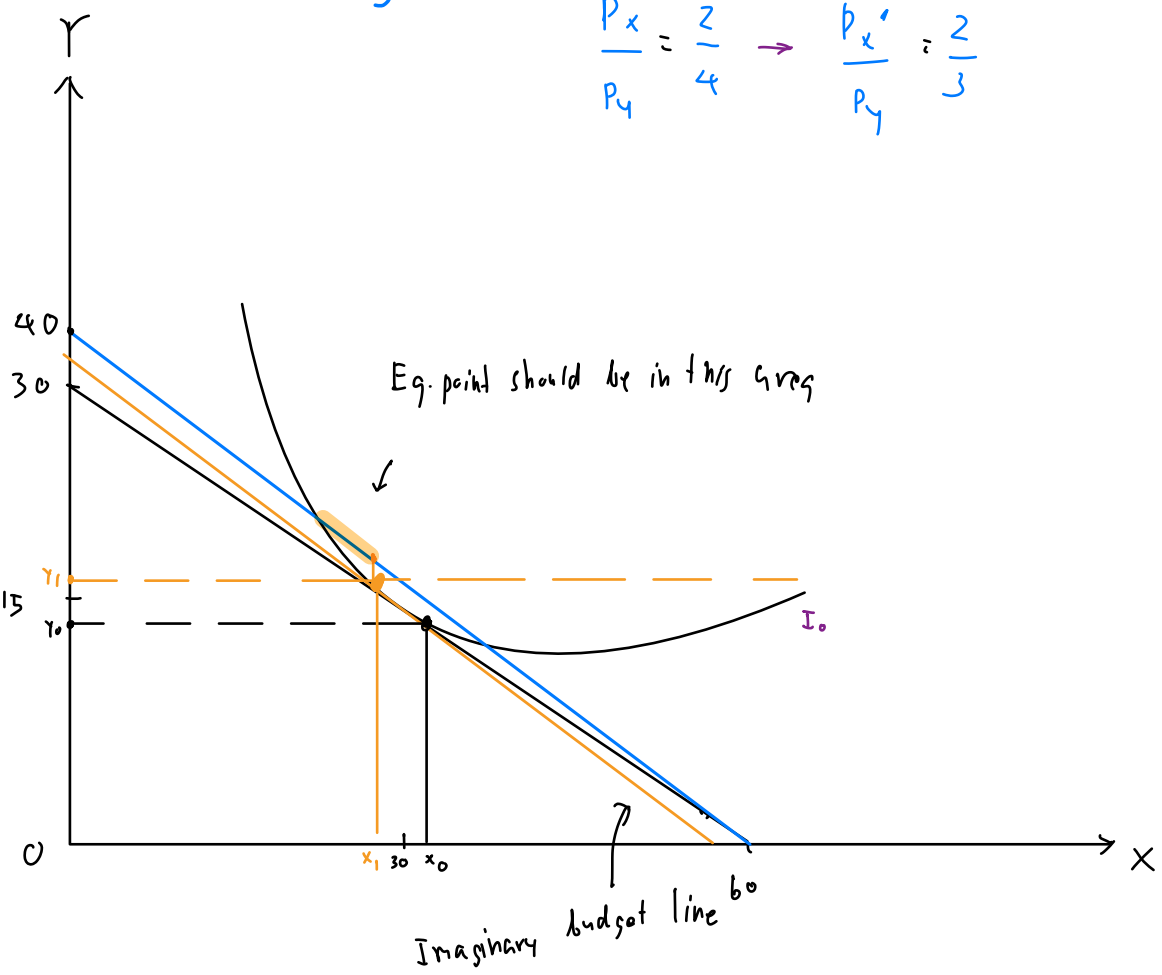
HW#9 Due April 22, 2021





1.) $P_x = 2$, $P_y = 4 \rightarrow 3$, Budget = 120, x = inferior goods

$$\frac{P_x}{P_y} = \frac{2}{4} \rightarrow \frac{P_x'}{P_y} = \frac{2}{3}$$



For S.E. → Δx ; $x_1 - x_0 < 0$

Δy ; $y_1 - y_0 > 0$

} x & Y are complementary

For I.E. → Δx ; $x_2 - x_1 < 0$

Δy ; $y_2 - y_1 > 0$

} with higher real income, buying less units of x because x is inferior goods.

For T.E. S.E. + I.E. = $x_2 - x_0 < 0$

$y_2 - y_0 > 0$

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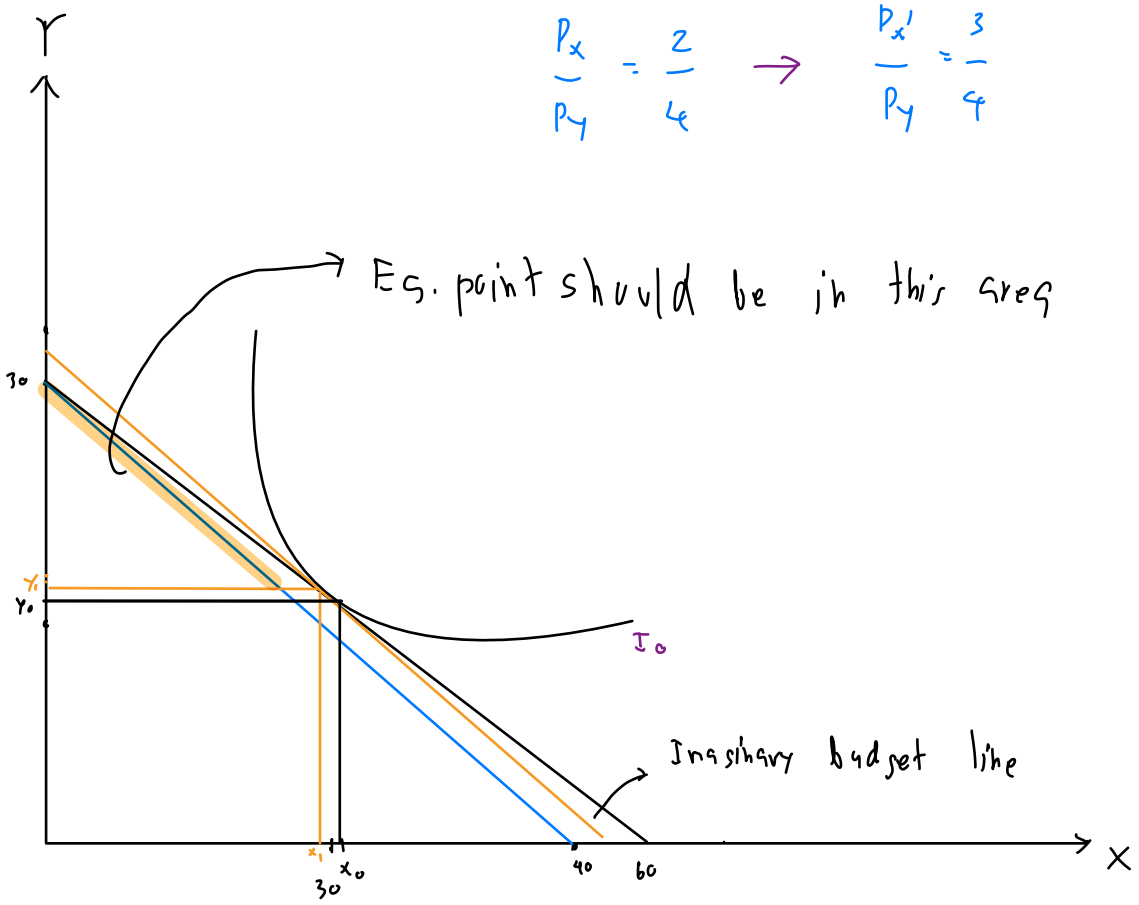
2) $P_x = 2 \rightarrow 3$, $P_y = 4$, Budget = 120 , x = luxury goods

$$\frac{P_x}{P_y} = \frac{2}{4} \rightarrow \frac{P_x'}{P_y} = \frac{3}{4}$$



For S.E. → Δx ; $x_1 - x_0 < 0$
Δy ; $y_1 - y_0 > 0$
} x & Y are complementary

For I.E. → Δx ; $x_2 - x_1 < 0$
Δy ; $y_2 - y_1 > 0$
} with lower real income, buying less units of x because x is luxury goods.

For T.E. S.E. + I.E. = $x_2 - x_0 < 0$
$y_2 - y_0 > 0$

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