Substitution and Income Effect when Py changes

(From E to F)

- Total Effect $= x_1 - x_0$

Px = 2
Py = 4
Budget = 120

$2x + 4y = 120$

Py decreases to 3

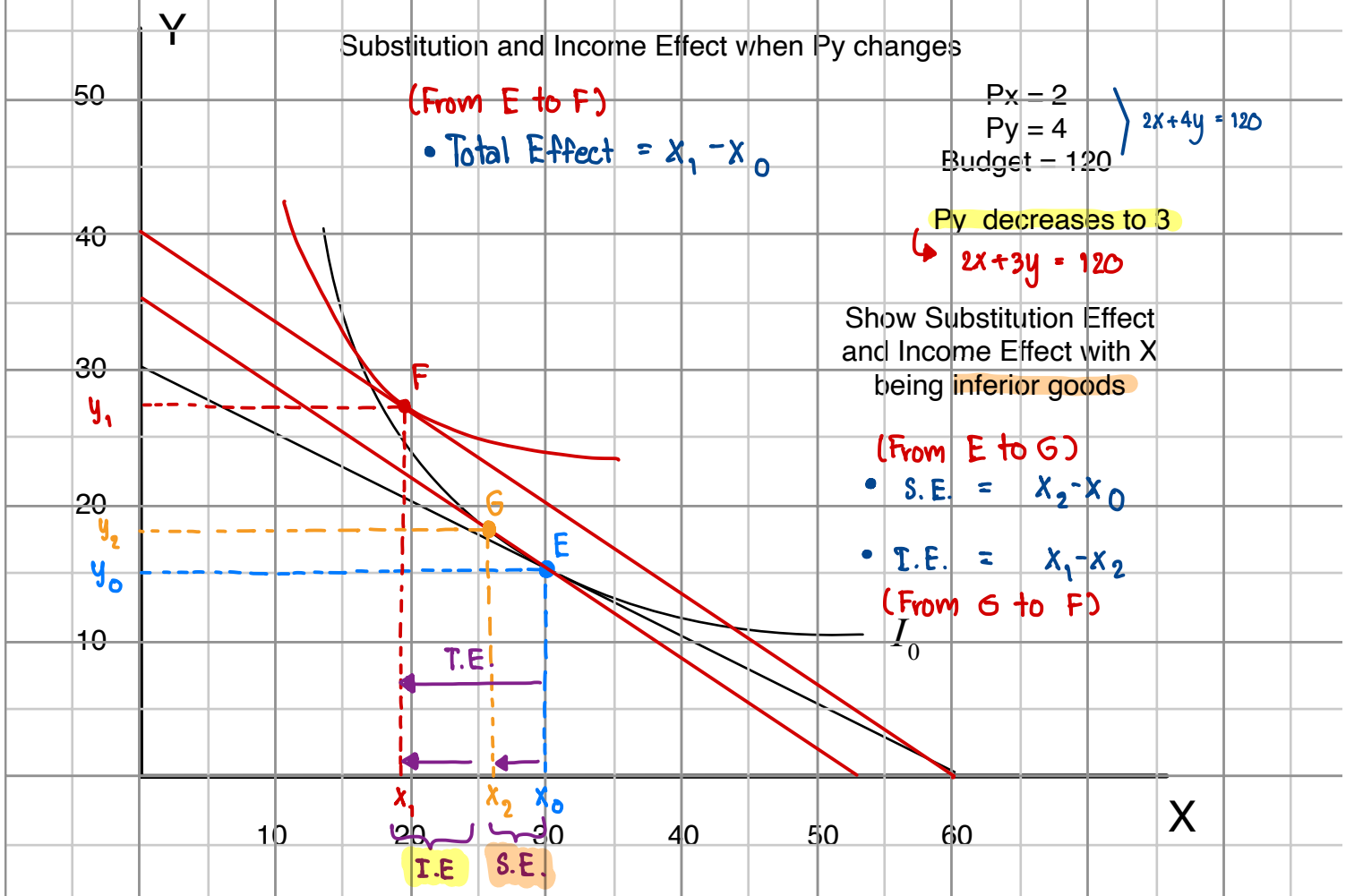
$2x + 3y = 120$

Show Substitution Effect and Income Effect with X being inferior goods

(From E to G)

- S.E. $= x_2 - x_0$
- I.E. $= x_1 - x_2$

(From G to F)



(From E to F)

- Total Effect $= x_1 - x_0$

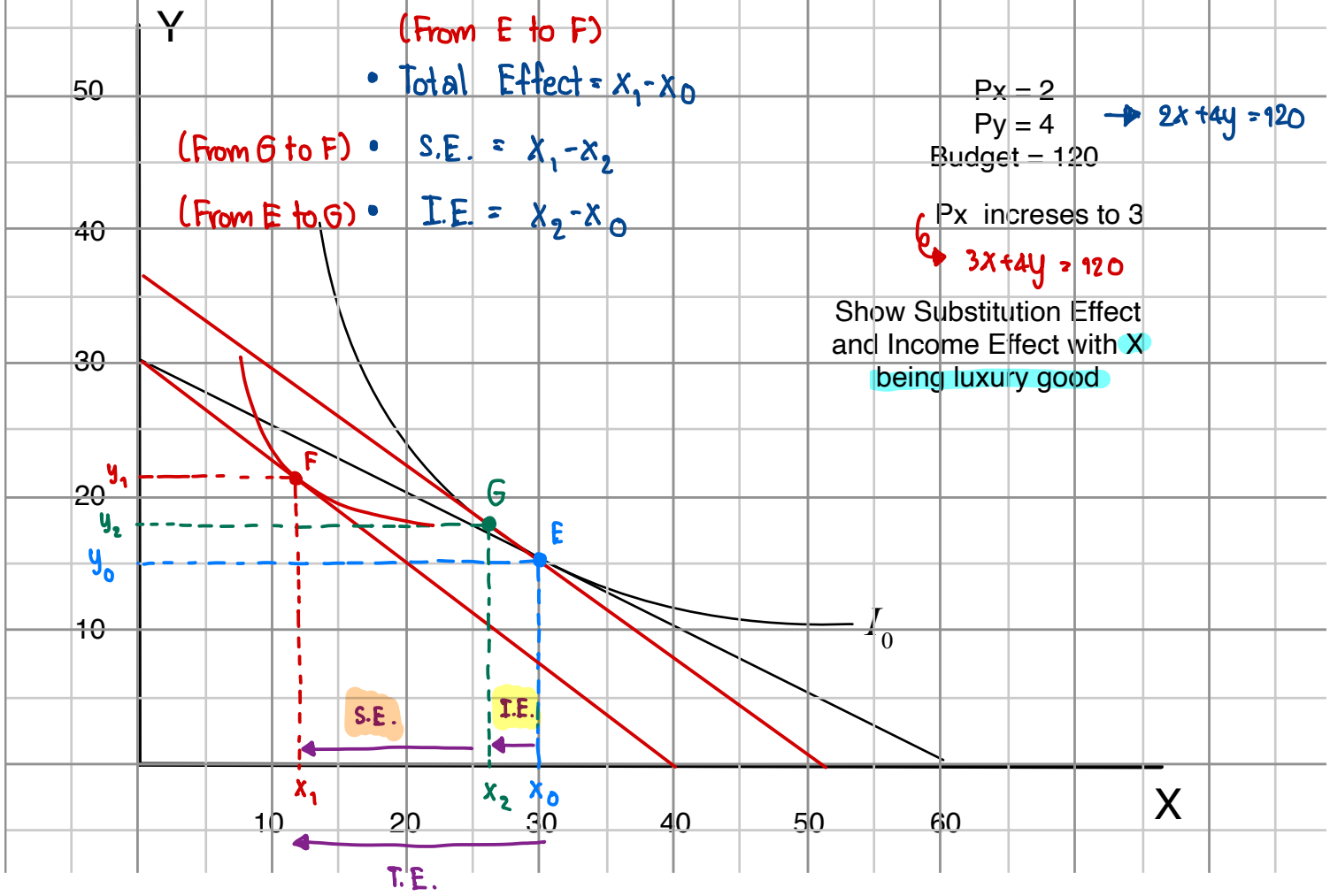
(From G to F) • S.E. $= x_1 - x_2$

(From E to G) • I.E. $= x_2 - x_0$

Px = 2
Py = 4
Budget = 120

$2x + 4y = 120$

Px increses to 3

$3x + 4y = 120$

Show Substitution Effect and Income Effect with X being luxury good