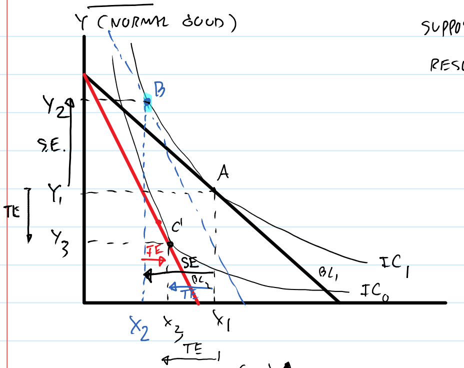
Thursday, March 30, 2017 9:10 AM

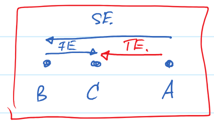
CASE 2 WHEN GOOD X IS AN INFERIOR GOOD



SUPPOSE $P_x \uparrow$ ...

RESULT: • BUY LESS X & BUY LESS Y

• UTILITY FALLS.



WHEN X IS AN INFERIOR GOOD.

NOTICE THAT S.E AND I.E WORK IN THE OPPOSITE DIRECTION.

$P_x \uparrow$

→ $\left(\frac{P_x}{P_y}\right)\uparrow$ ≡ OPP. COST OF X ↑ $\xrightarrow{\text{VIA S.E.}}$ BUY LESS OF X ($Q^d_x \downarrow$) AND MORE OF Y ($Q^d_y \uparrow$)

→ HIS REAL INCOME OR PURCHASING POWER FALLS... $\xrightarrow{\text{VIA I.E}}$ SINCE X IS AN INFERIOR GOOD & Y IS NORMAL GOOD → BUY MORE OF X ($Q^d_x \uparrow$) BUY LESS OF Y ($Q^d_y \downarrow$)

WHEN S.E. > I.E → $Q^d_x \downarrow$.

$\downarrow Q^d_x$ $\uparrow Q^d_x$

LAW OF DEMAND STILL HOLDS.

CASE 3 WHEN GOOD X IS "A GIFFEN GOOD" (OR SUPER INFERIOR GOOD)

$\uparrow P_x$

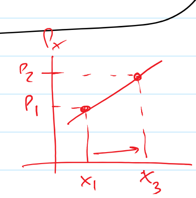
→ $\left(\frac{P_x}{P_y}\right)\uparrow$ $\xrightarrow{\text{VIA S.E}}$ BUY LESS OF X ($Q^d_x \downarrow$) BUY MORE OF Y ($Q^d_y \uparrow$)

→ REAL INCOME OR PURCHASING POWER FALLS & SINCE X IS A GIFFEN → BUY MORE OF X ($Q^d_x \uparrow$) & BUY LESS OF Y ($Q^d_y \downarrow$)

WHEN I.E. > S.E → $Q^d_x \uparrow$

$\uparrow Q^d_x$ $\downarrow Q^d_x$

LAW OF DEMAND IS VIOLATED!!!



WHEN X IS A GIFFEN, DEMAND CURVE IS UPWARD SLOPING!

EX IRISH POTATO SHORTAGE IN 18th CENTURY

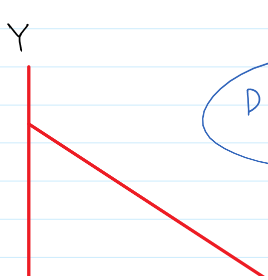
1. POTATOS WAS THE MAIN SOURCE OF CONSUMPTION FOR IRISH FAMILIES
2. IT WAS DIFFICULT TO FIND SUBSTITUTES.
3. THEY SPENT A LARGE PART OF THEIR BUDGET ON POTATOS

WHEN $P_{POTATOS(X)} \uparrow$

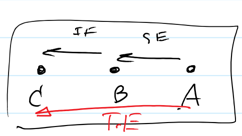
→ $\frac{P_x}{P_y}\uparrow$ → $Q^d_x \downarrow$ (VIA. SE.)

→ BECOME VERY VERY POOR (HIGH REDUCTION IN REAL INCOME) → THEY CUT BACK EXPENDITURES ON MEATS AND ETC. AND BUY MORE POTATOS ($Q^d_x \uparrow$)

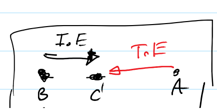
→ $Q^d_x \uparrow$



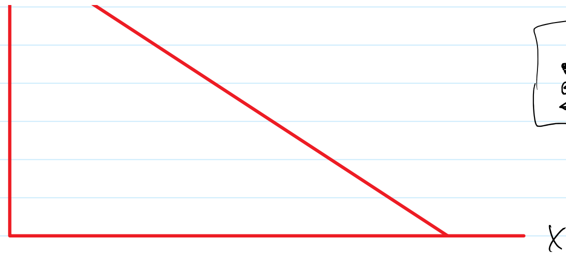
D-I-Y

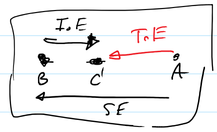


FOR X IS NORMAL

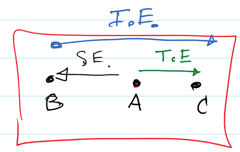


FOR X IS INFERIOR



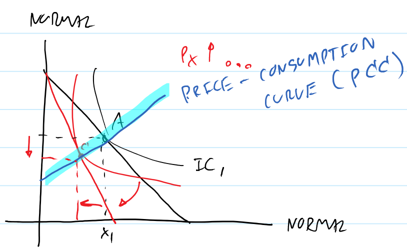


FOR X IS INFERIOR

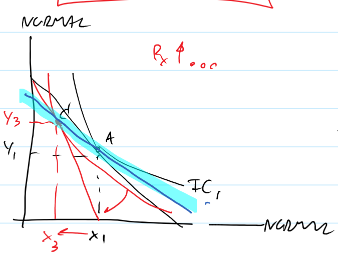


FOR X IS A GIFFEN

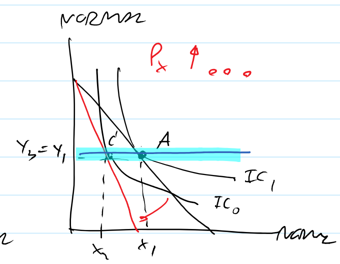
FYI :



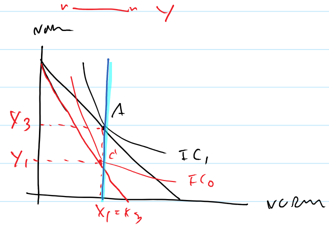
BUY LESS X
" — " Y



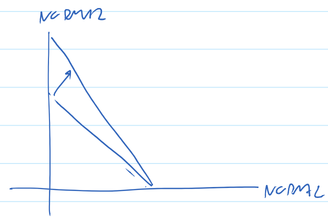
BUY LESS OF X
BUY MORE OF Y

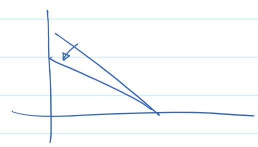


BUY LESS OF X
BUY SAME AMOUNT OF Y



& BUY SAME AMOUNT OF X
BUY LESS OF Y

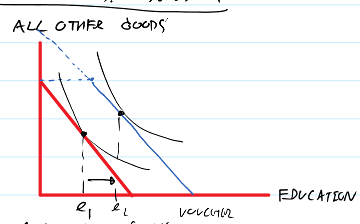


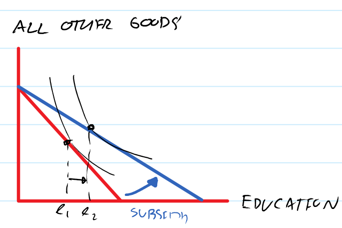


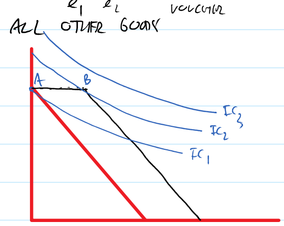
APPLICATIONS

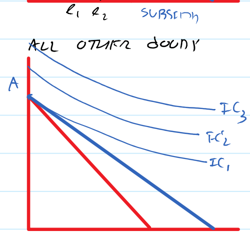
- VOUCHER VS. SUBSIDY
- WORK & LEISURE : DO PEOPLE ALWAYS WORK MORE WHEN THEIR SALARY / WAGE RISE ?
- INTEREST RATE (i) & SAVING : DO PPL ALWAYS SAVE MORE WHEN i RISES ?

VOUCHER VS. SUBSIDY









CONDITIONAL
CASH
TRANSFER
(CCT)