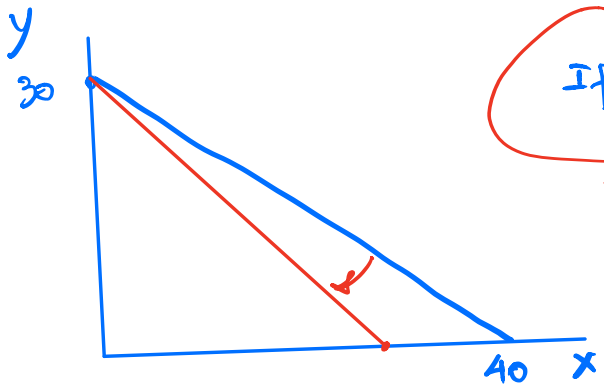
Applications of Consumer's Theory.

1) Government Intervention.

a) Tax on X = t ฿/unit.



$3X+4Y=120$

If $t=1$ ฿/unit

$(3+1)X+4Y$

$= 4X+4Y=120$

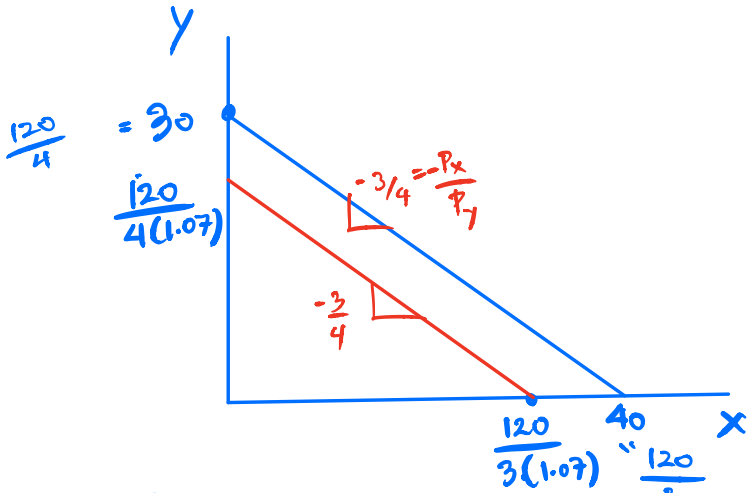
same as price of X increases.

b) Vat 7% on both X+Y

$3X+4Y=120$

$\frac{1}{1.07} = 0.934$

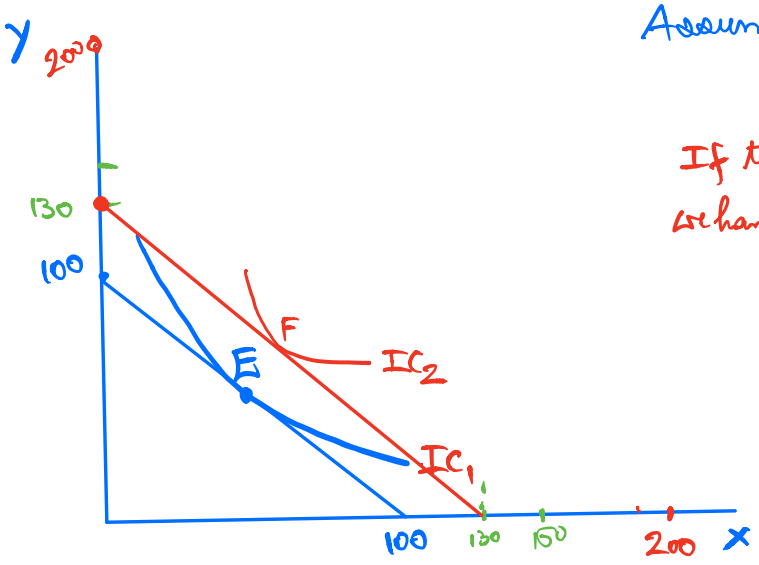
6.6% lower in income.



c) Subsidy = $ ฿/unit. on $X \Rightarrow P_x$ reduces by $

d) 50-50 policy - . $\leq$ 3,000 ฿.

(d.1) can buy both X+Y under this policy.



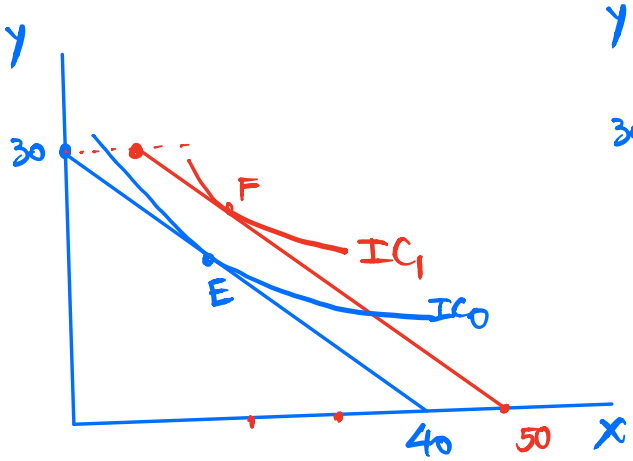
Assume $P_x = P_y = 100$₹

Income = 10,000₹.

If the consumer has IC_2 what new eq. at F.

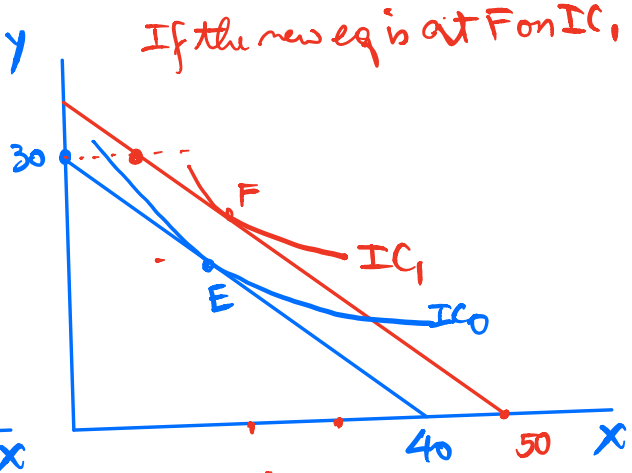
2) Vouchers – consumer is given vouchers for 10 units of X.

Budget line $3X + 4Y = 120$. – can consume max of X = 50



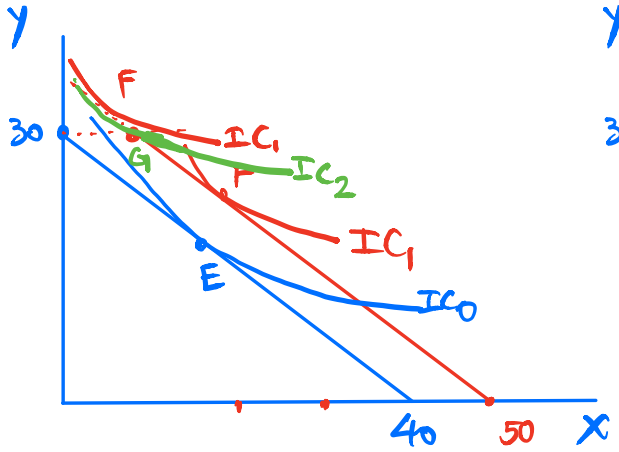
(Vouchers)

If the new eq is at F on IC_1



More income of 30₹

This case, the consumer does not feel any different between having vouchers & 30₹ more income.

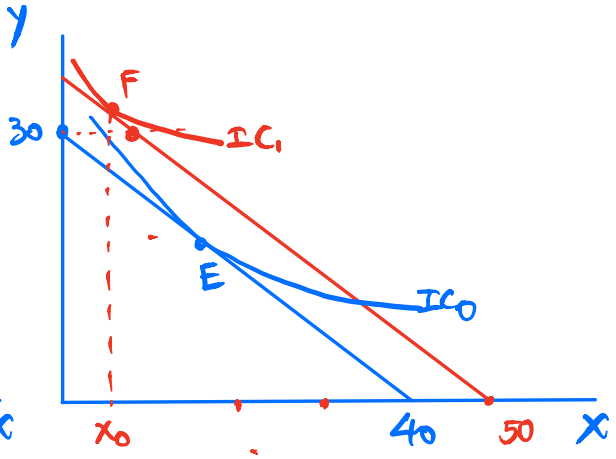


(Voucher)

Cannot be on IC_1 at F,

But have to be on IC_2 at G with lower satisfaction

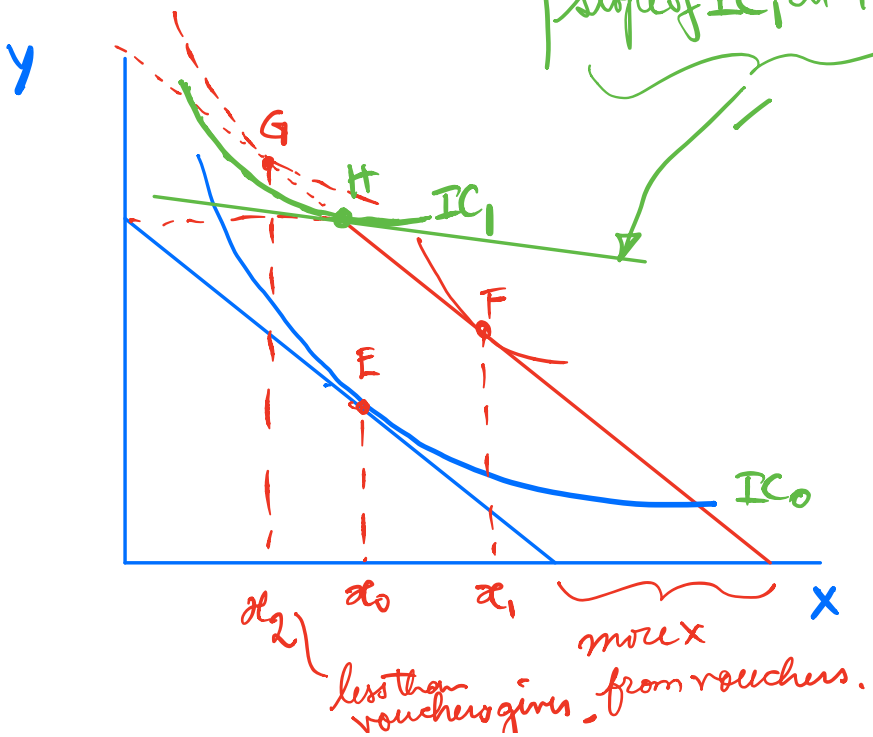
Note. at G, $|\text{slope of } IC_2| < \frac{P_x}{P_y}$



More income of 30 ~~B~~

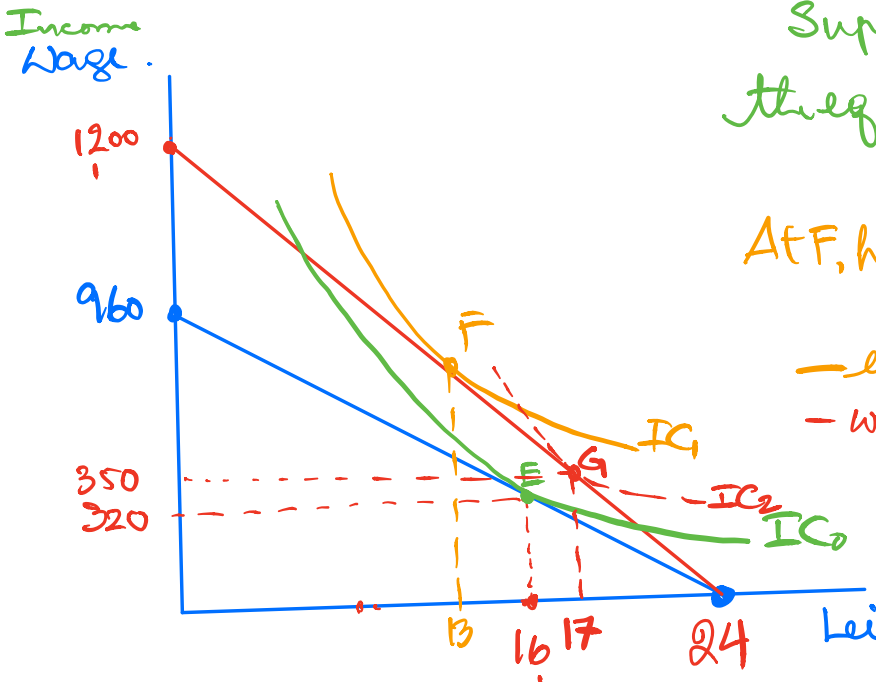
- with more income X is inferior so much that the consumer ends up buying < 10 units of X

$|\text{slope of } IC_1 \text{ at } H| < \frac{P_x}{P_y}$



3 Work & Leisure. how a worker decide how many hours to work (earn wages) and to spend in leisure.

- worker has 24 hours/day.
- wage = 40 ฿/hour.



wage increases to 50 ฿/hr

Suppose at wage = 40 ฿/hr

then is at E; Income = 320

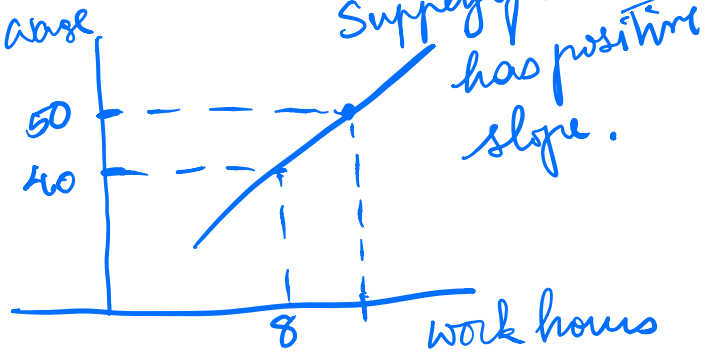
Leisure hr = 16 hr

At F, high wage = more satisfaction

- earn more income.
- work more hours = 24 − 13 = 11 hrs.

work = 8 hours.

wages	work hours
40	8
50	11



Supply of labor has positive slope.

But if the eq is at G, higher wage ⇒ work less.

= 24 − 17 = 7 hours.