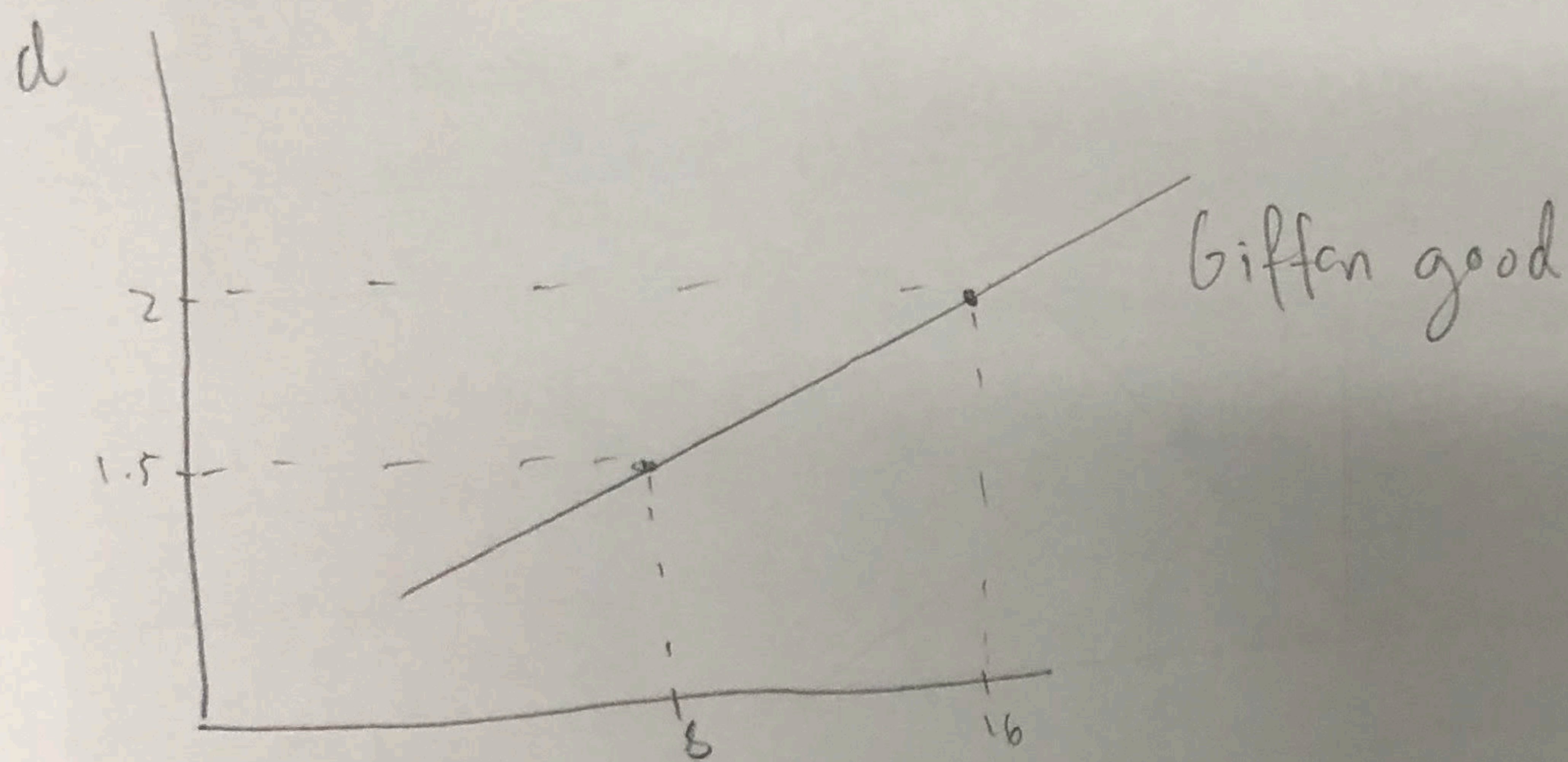
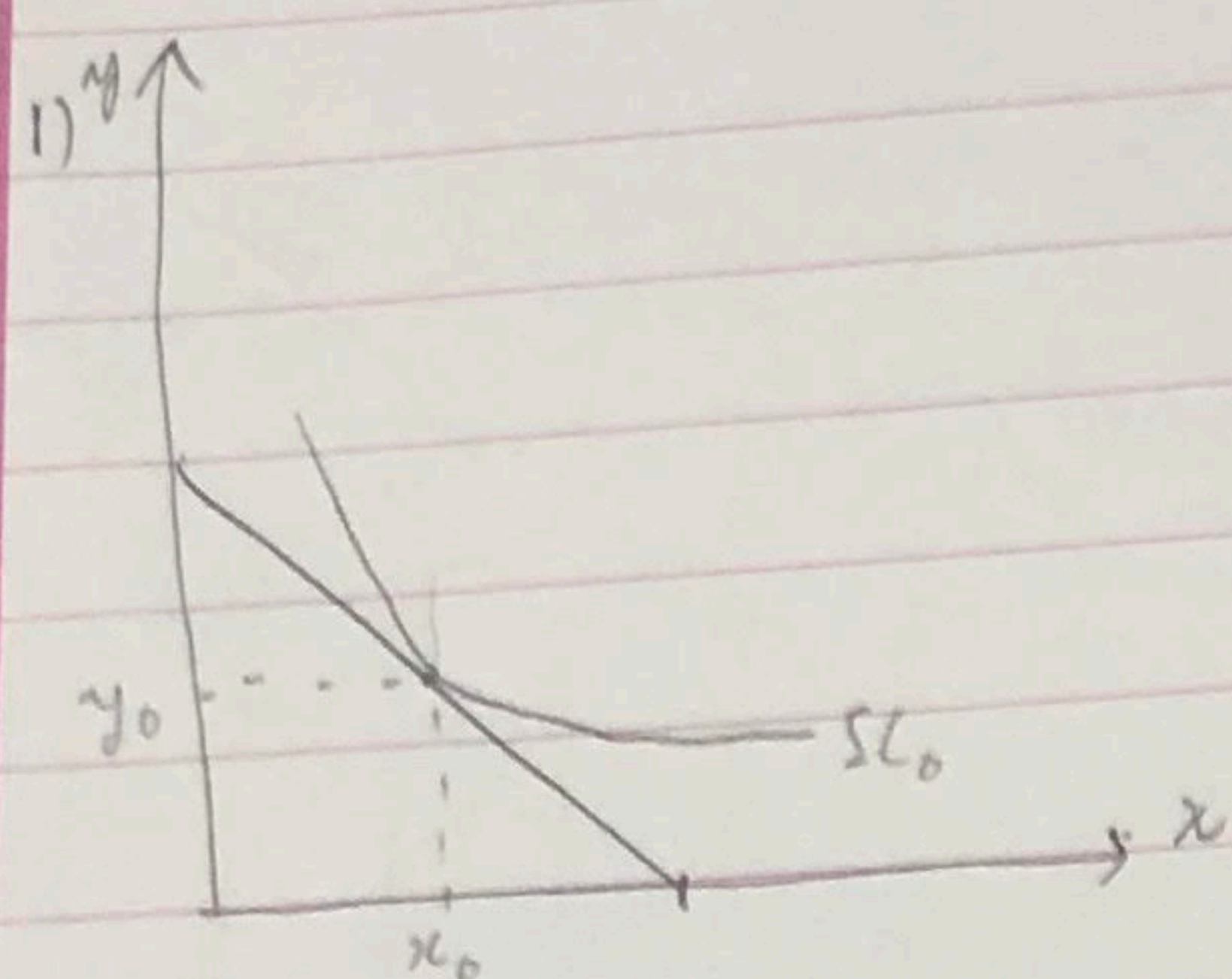


c) CS effect

- due to an increase P_{CS}
 - Income effect is negative
 - Substitution effect is positive
- the Q_{CS} decreases as a result of price.

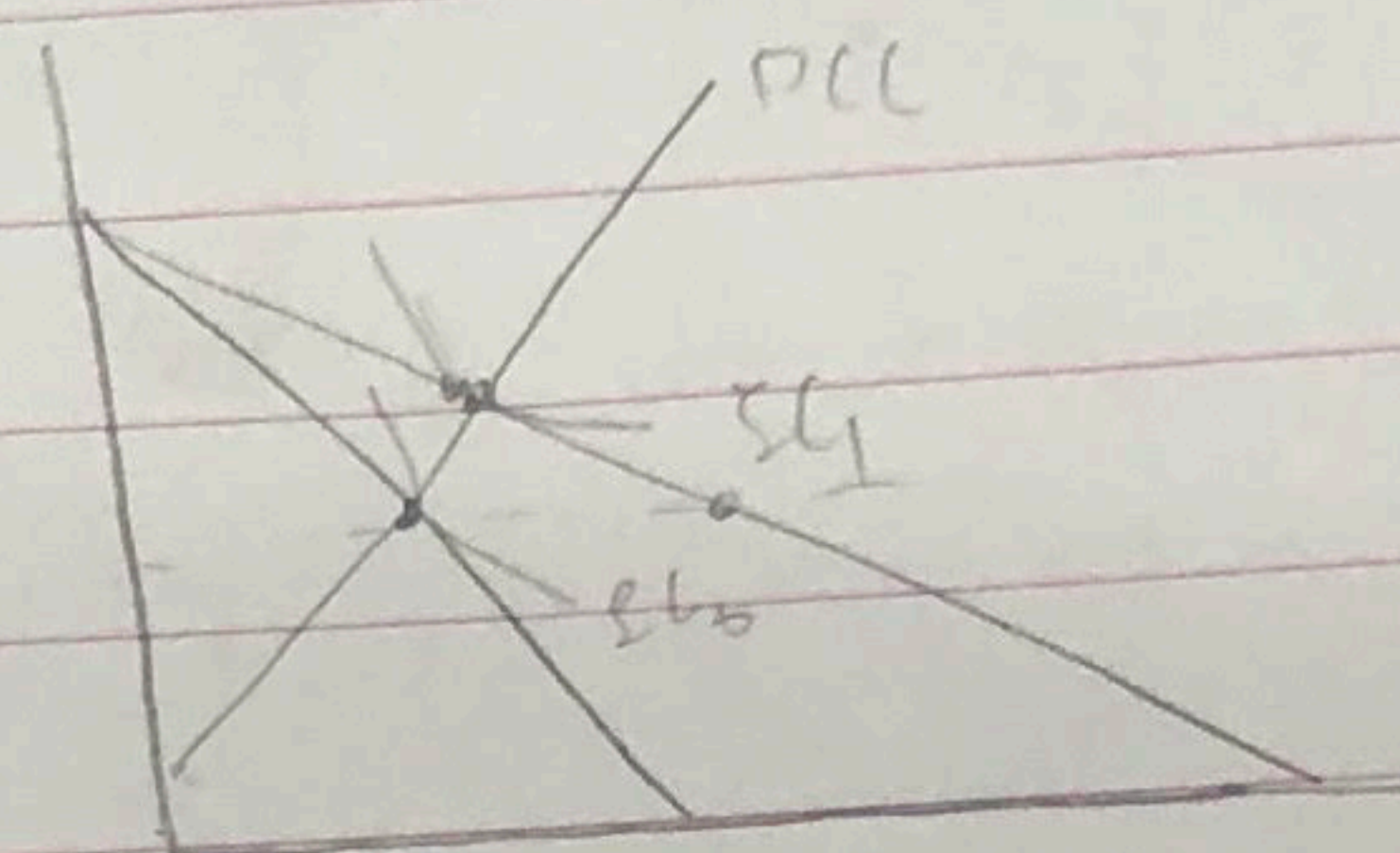
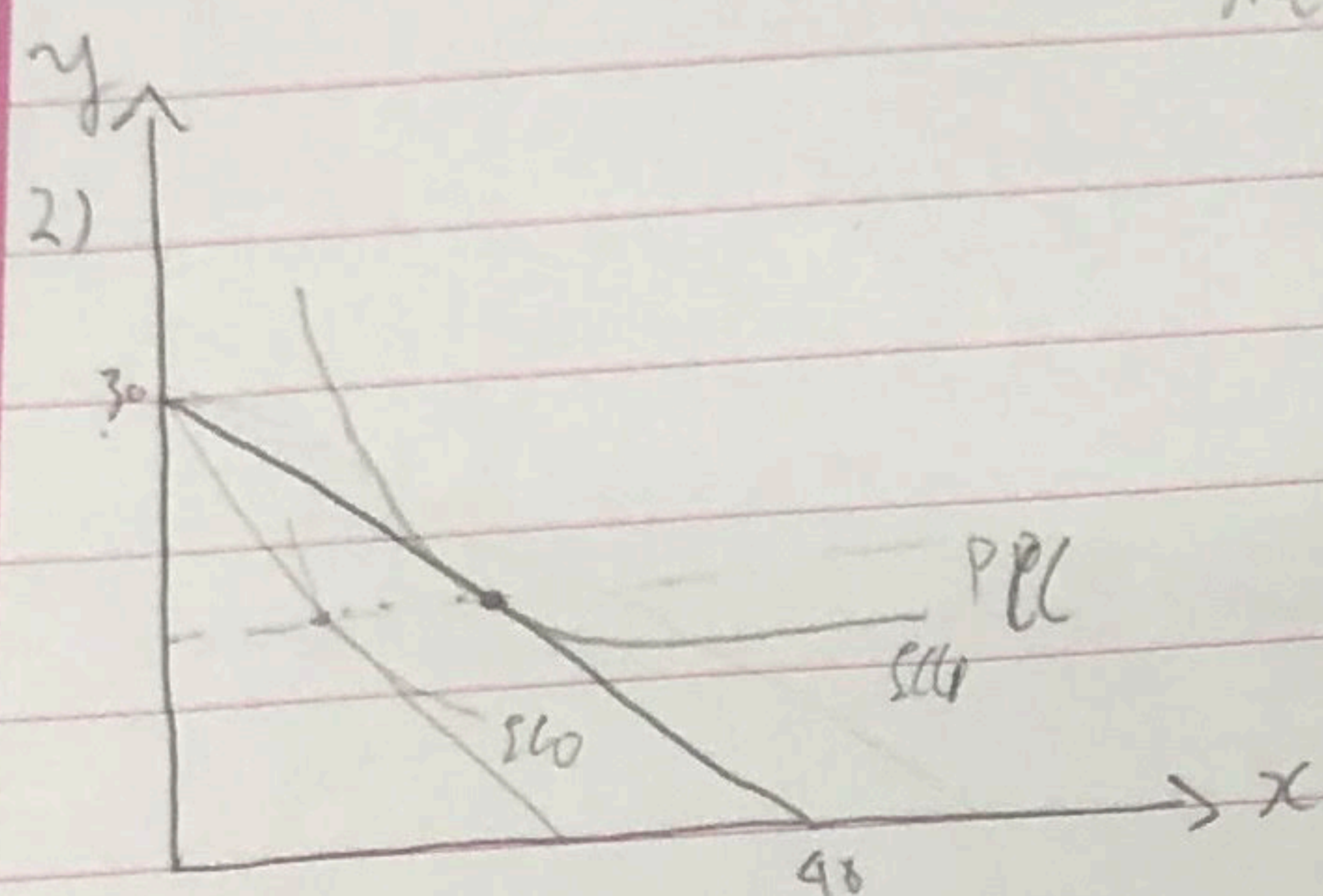


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- if $P_x + P_y$ increase 10% at the same time
 -> let say that $P_x = 3$ $MRS = \frac{P_x}{P_y} = \frac{3}{4} \approx 0.75$
 $P_y = 4$
 -> Increase by 10%: $P_x = 3.3$ $MRS = \frac{P_x}{P_y} = \frac{3.3}{4.4} \approx 0.75$
 $P_y = 4.4$

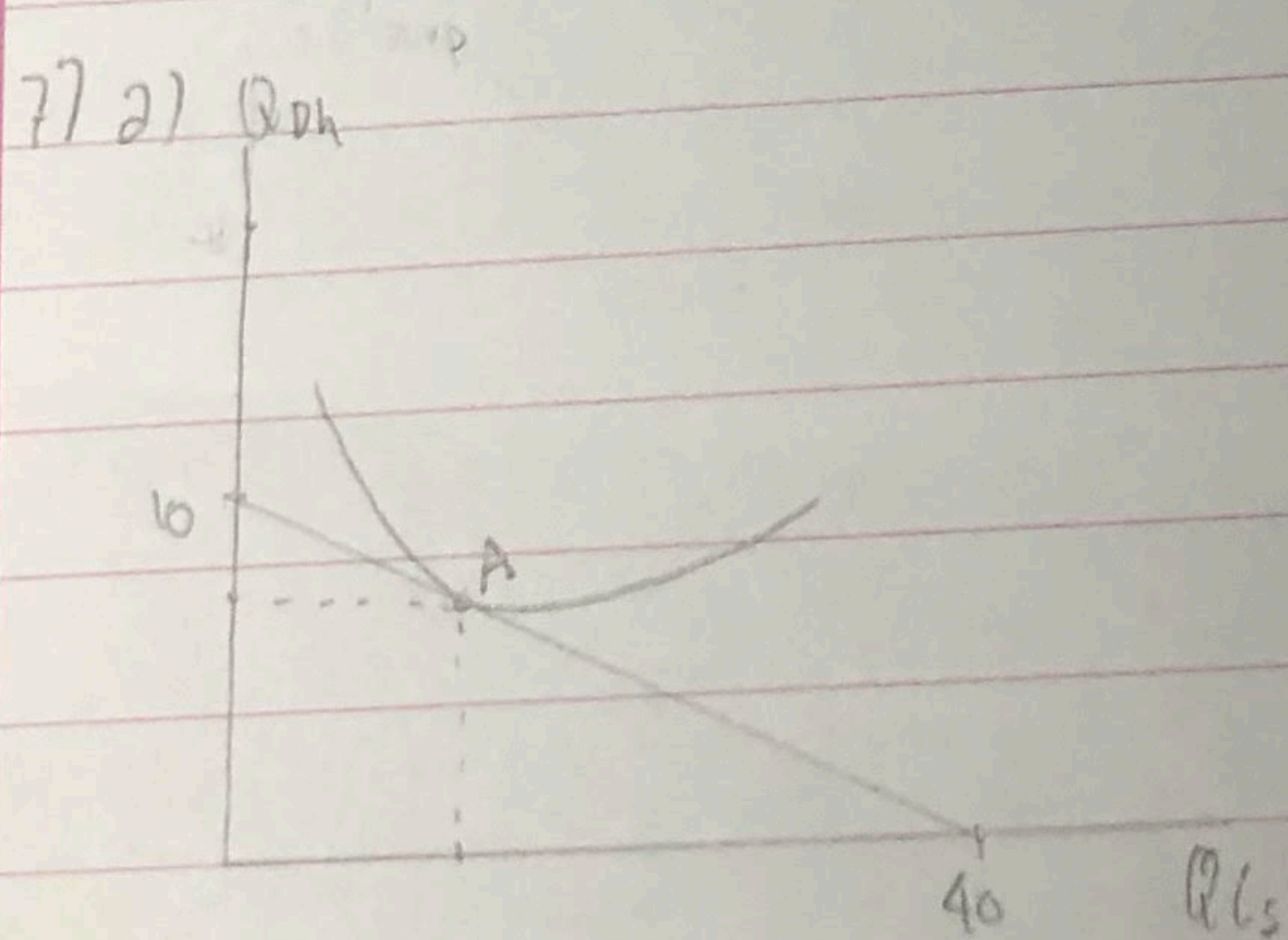
$\therefore$ This means that, as the $P_x + P_y$ increase, the income remains the same which result in a deduction of income. the customer will have to pay more at the same income.



$$| \eta_x | = 1$$

$$| \eta_x | < 1$$

$\therefore$ PCL can gives us the price elasticity of y is absolute.



$$P_{dh} = 6 \quad x = y$$

$$P_{ls} = 1.5$$

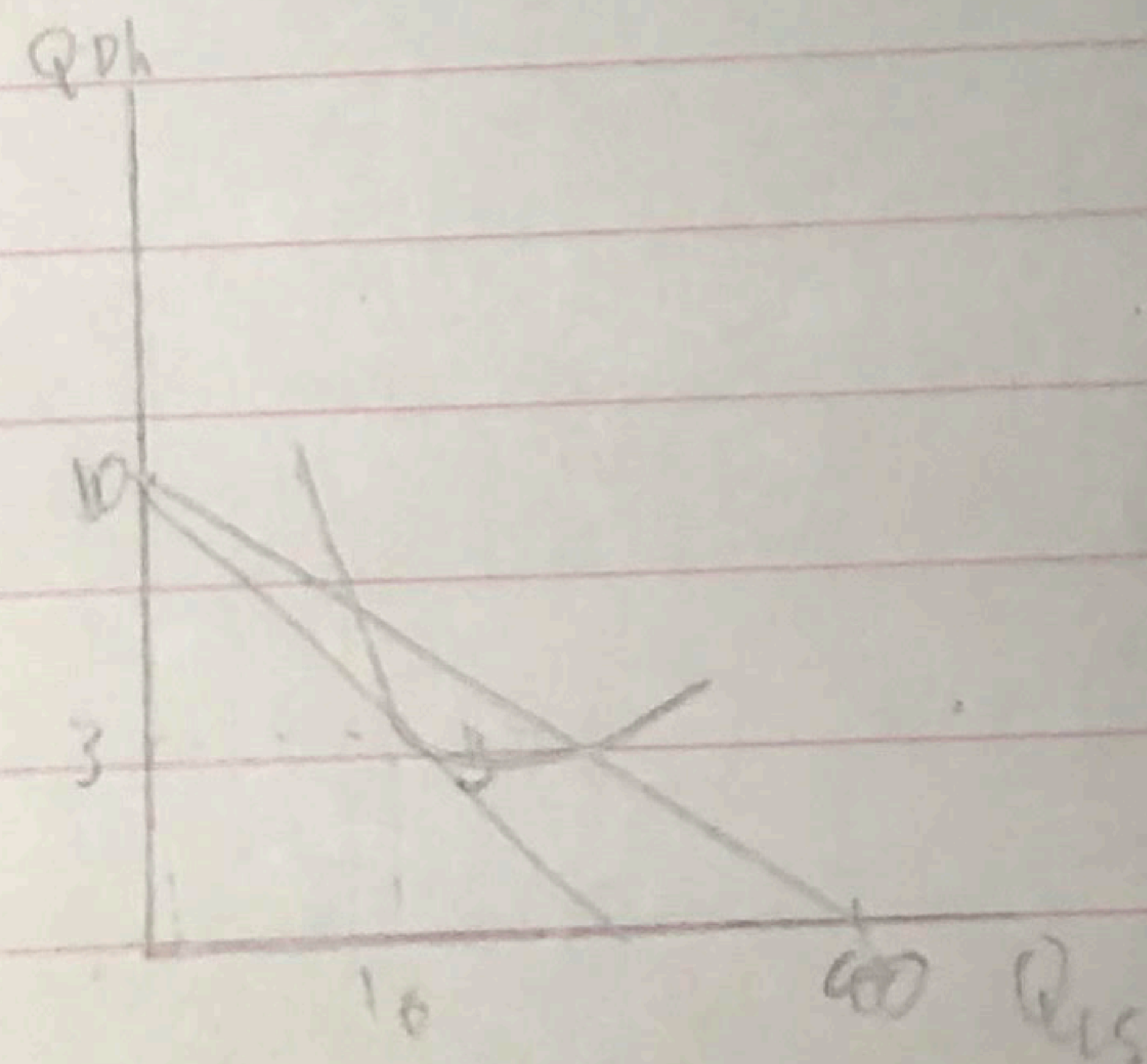
$$\Sigma = 60$$

$$6x + 1.5y = 60$$

$$6x + 1.5x = 60$$

$$7.5x = 60$$

$$x = 8$$



$$P_{dh} = 6 \quad 60 = 6 \cdot 3 + 7 \cdot Q_{ls}$$

$$P_{ls} = 2 \quad 7 Q_{ls} = 32$$

$$\Sigma = 18 \quad Q_{ls} = 16$$

$$P_{dh} = 6 \quad 6 Q_{dh} = 18$$

$$Q_{dh} = 3$$