

Y

Substitution and Income Effect when P_y changes

$P_x = 2$

$P_y = 4$

Budget = 120

P_y decreases to 3

Show Substitution Effect and Income Effect with X being inferior goods

Total effect = $X_1 - X_0$

SE =

A to B = Income

I_0

X_0

X_1

X

Y

$P_x = 2$

$P_y = 4$

Budget = 120

P_x increases to 3

Show Substitution Effect and Income Effect with X being luxury good

$\epsilon > 1$ A to C = S.E

I_0

X_1

X_0

X_2

X

y_1

y_0

y

X_1

X_0

X_2