

# HW#9 Due April 22, 2021

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

50

40

30

20

10

10

20

30

40

50

60

X

$I_0$

y luxury

I.E.

S.E.

I.E.

x inferior

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

50

40

30

20

10

10

20

30

40

50

60

X

$I_0$

y is necessary

S.E.

I.E.

I.E.

x is luxury