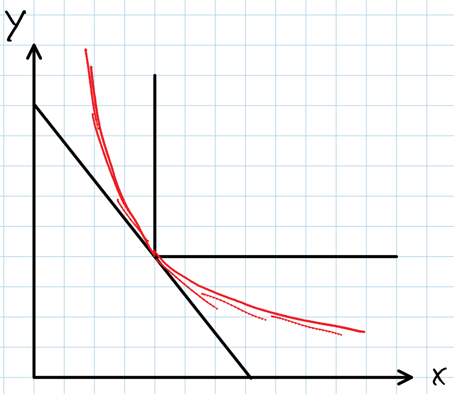
09 November 2012
10:00



THREE IN ONE

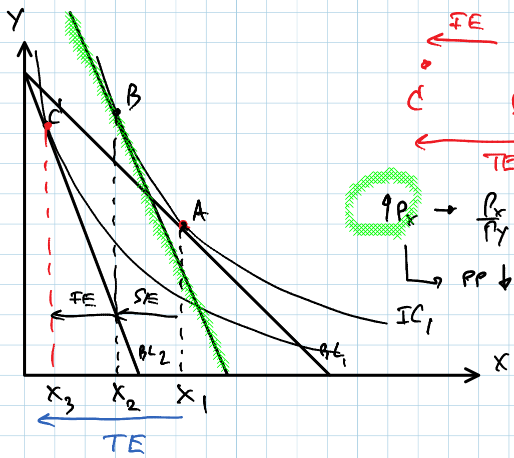
3 CASES

CASE 1 X IS A NORMAL GOOD.

CASE 2 X IS AN INFERIOR GOOD.

CASE 3 X IS A GIFFEN GOOD
(OR WE CAN CALL SUPER INFERIOR GOOD)

CASE 1 WHEN X IS A NORMAL GOOD.



FE SE

C B A

TE (OF AN INCREASE IN P_x ON Q^d_x)

$\uparrow P_x \rightarrow \frac{P_x}{P_y}\downarrow \xrightarrow{SE} Q^d_x \downarrow$

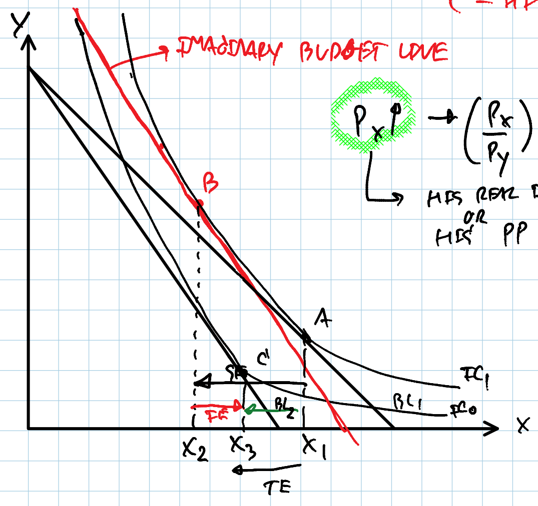
$\rightarrow$ PP $\downarrow \rightarrow$ SINCE X IS A NORMAL $\rightarrow Q^d_x \downarrow$

$\rightarrow Q^d_x \downarrow$

- WHEN X IS A NORMAL GOOD AND WHEN P_x RISES, SE AND FE MOVES INTO THE SAME DIRECTION, INDUCING TO BUY LESS OF X.

CASE 2 WHEN X IS AN INFERIOR GOOD

INFERIOR GOOD : WHEN HE IS RICHER (= HIS REAL INCOME ↑), HE BUYS LESS, AND WHEN HE IS POORER (= HIS REAL INCOME ↓) HE BUYS MORE.



$P_x\uparrow \to \left(\frac{P_x}{P_y}\right)\uparrow \xrightarrow{SE} Q^d_x\downarrow$

HIS REAL INCOME OR HIS PP $\downarrow \xrightarrow{IE} Q^d_x\uparrow$

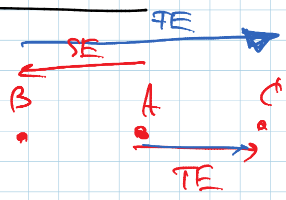
$\to$ BUT SE > IE (= $\downarrow Q^d_x$ VIA SE > $\uparrow Q^d_x$ VIA IE) $\to Q^d_x\downarrow$

B $\xrightarrow{IE}$ C $\xleftarrow{TE}$ A

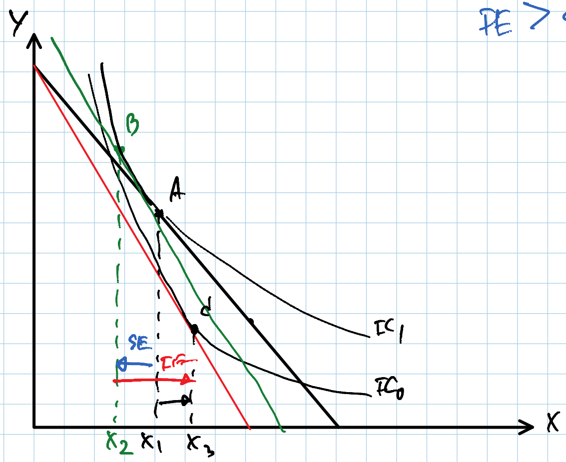
$\xleftarrow{\quad SE \quad}$

- WHEN X IS AN INFERIOR GOOD AND WHEN P_x RISES, HE BUY LESS OF GOOD X FROM X_1 TO X_3.
- HOWEVER, NOTICE THAT SE AND IE WORK AGAINST EACH OTHER:
  - SE INDUCES HIM TO BUY LESS OF X
  - IE INDUCES HIM TO BUY MORE OF X
- BUT SE ~~DOMINATES~~ IE AND AS A RESULT HE (STILL) BUY LESS OF X ($X_1 \to X_3$ AT THE END) WHEN P_x RISES.

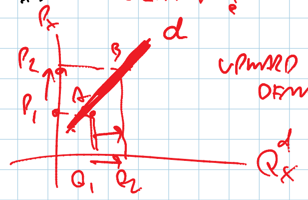
CASE 3 WHEN X IS A GIFFEN GOOD OR SUPER INFERIOR GOOD



IE > SE → BUY MORE OF X WHEN P_x ↑ !

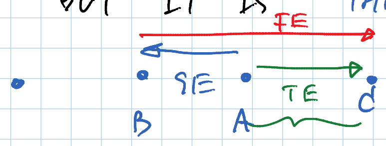


- WHEN P_x ↑, Q^d_x ↑ ???
- IF THIS IS THE CASE, WE CALL GOOD X "A GIFFEN GOOD"
- SO, LAW OF DEMAND IS VIOLATED!



UPWARD SLOPING DEMAND CURVE!

- THIS CASE IS RARE IN THE REAL WORLD BUT IT IS "THEORETICALLY POSSIBLE".



BUYS MORE OF X

IE > SE → BUY MORE OF X AT THE END.