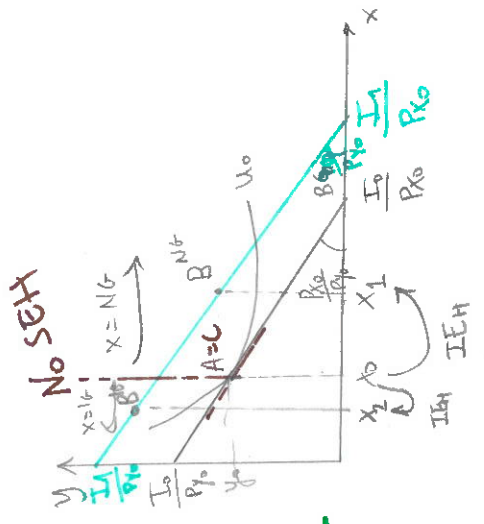


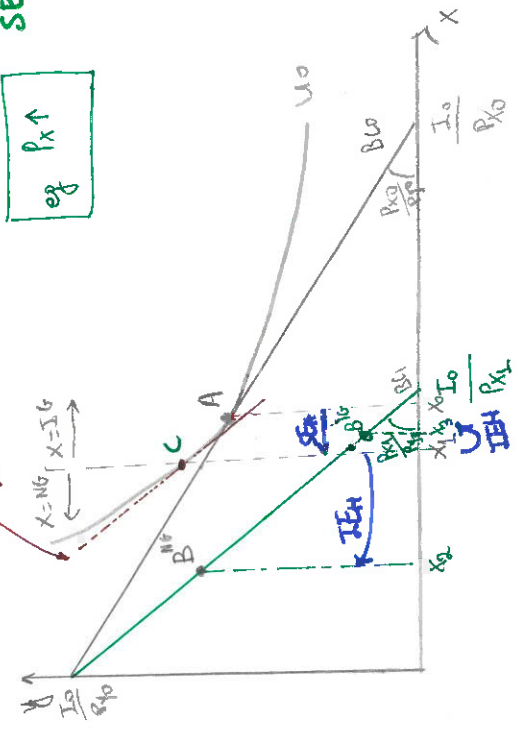
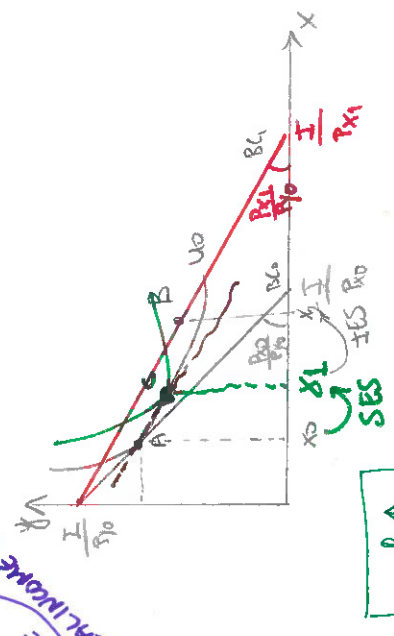
SUBSTITUTION & INCOME EFFECTS

LUMP SUM TAXI SUBSIDY
 A normal
 NO Δ prices
 NO SE



HICKSIAN DEF OF REAL INCOME
 [derived from utility]
 SAME REAL INCOME
 UTILITY

SLUTSKY DEF OF REAL INCOME
 SAME REAL INCOME
 SAME BUNDLE
 POINT A
 SAME REAL INCOME
 SAME BUNDLE
 POINT A



TOTAL EFFECT



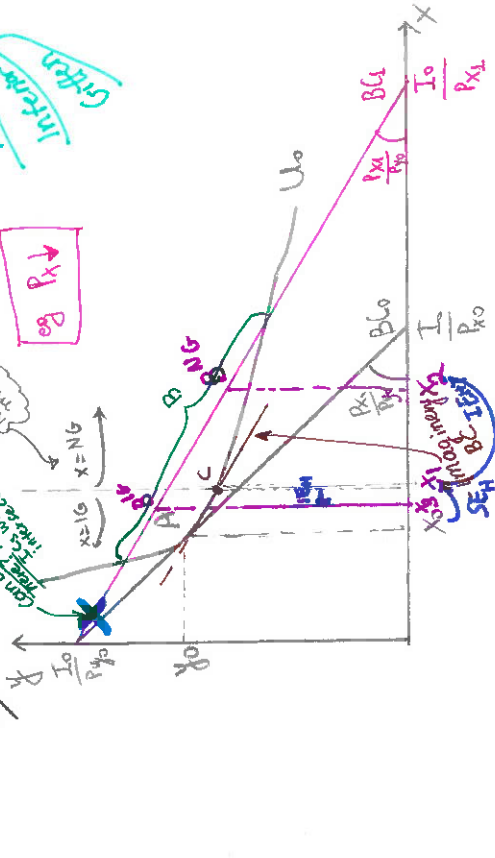
DIRECTION OF S.E.?
 $P_x \downarrow, SE \Rightarrow x \uparrow$
 $P_x \uparrow, SE \Rightarrow x \downarrow$

SUTSKY
 How to determine GIVEN INCOME? SAME REAL INCOME
 real income must be constant
 Utility? or individual must be on well off

Income effect (IE)

REAL INCOME
 NORMAL? inferior?
 DEPENDS ON DIRECTION TYPE OF GOOD X

UTILITY
 SAME U
 NORMAL IEH
 inferior
 GIVEN



QUANTITY
 in substitution reacts-increases
 in income reacts-decreases

REAL INCOME
 NORMAL? inferior?
 DEPENDS ON DIRECTION TYPE OF GOOD X

UTILITY
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QUANTITY
 in substitution reacts-increases
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