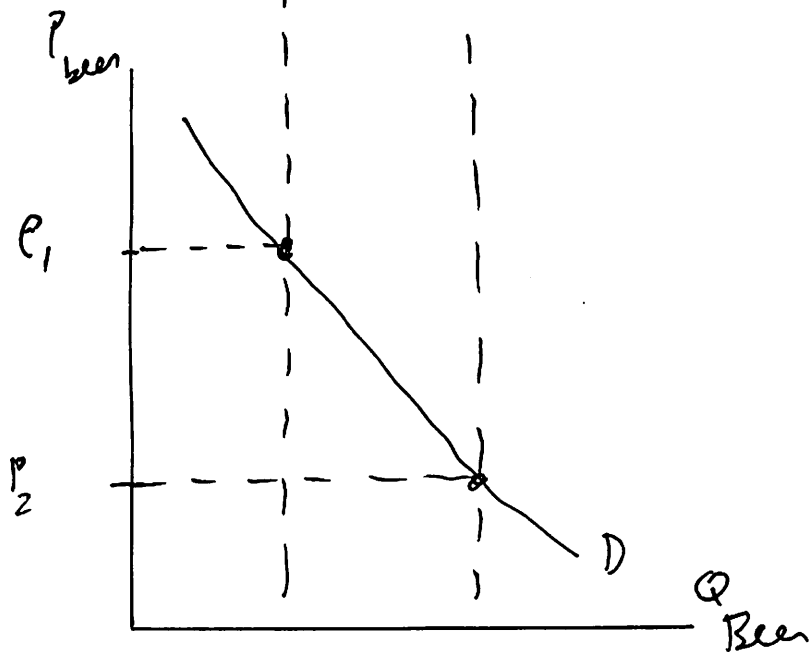
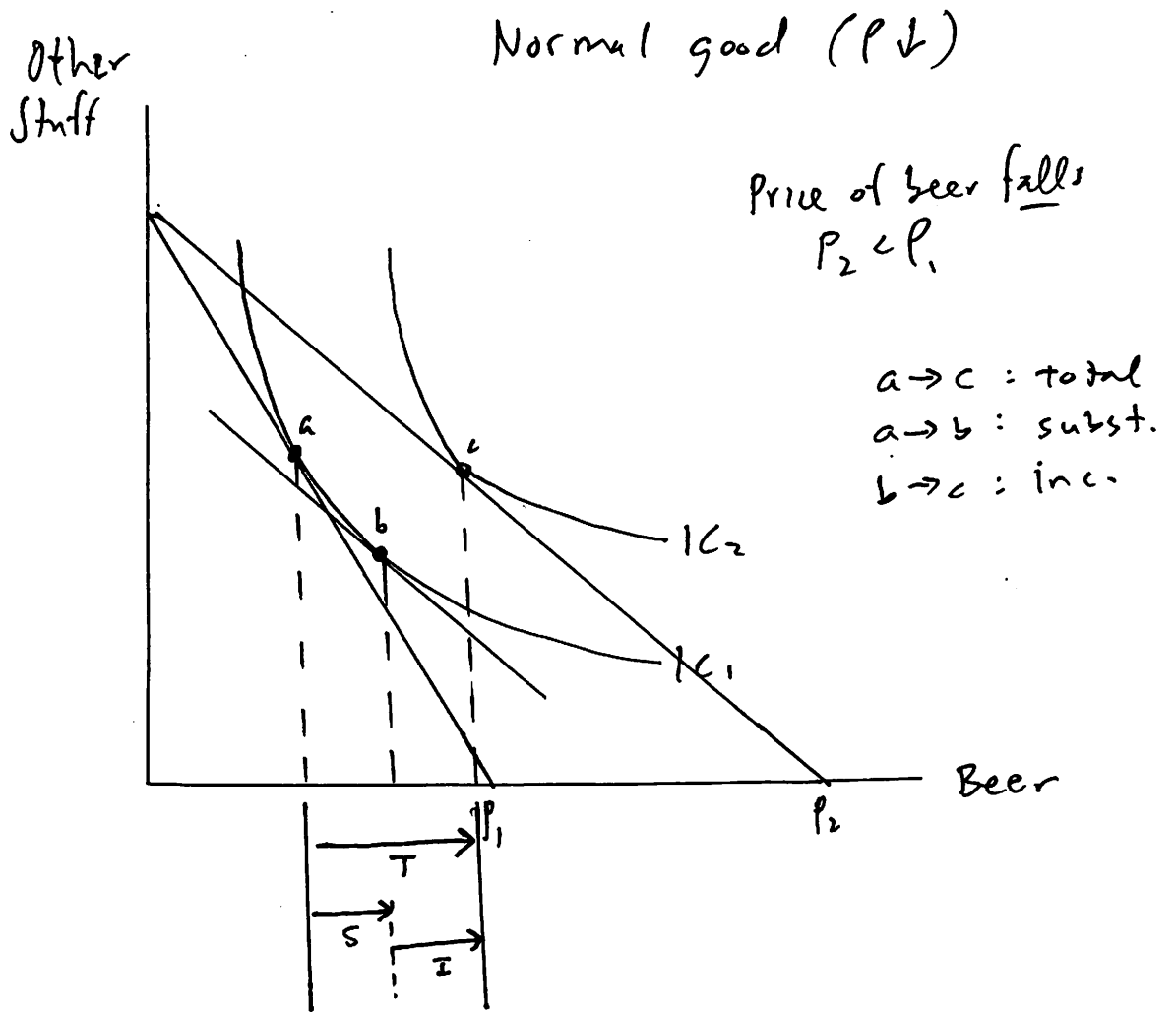


317: Income & Substitution effects, cont.

- Substitution effect always conforms to law of demand; it's shown by sliding down an IC, so "flattening" means lower price of X, and will always mean more X consumed.
- Income effect depends, of course on whether it's a normal or inferior good.
 - If it's an inferior good, then P falling means income \uparrow , so consumption will fall. So this effect offsets the substitution effect.
 - When $S_{\text{effect}} > I_{\text{effect}}$, it's still a downward-sloping D curve, just an inferior good.
 - When $I_{\text{effect}} > S_{\text{effect}}$, D is upward-sloping, called a Giffen good. (Potatoes in Ireland during famine)

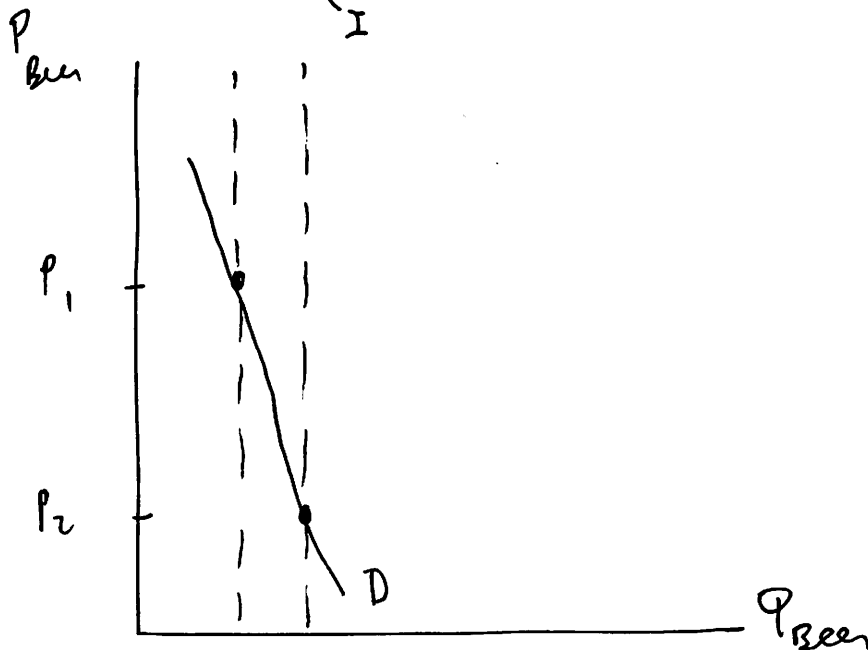
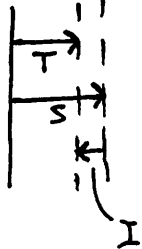
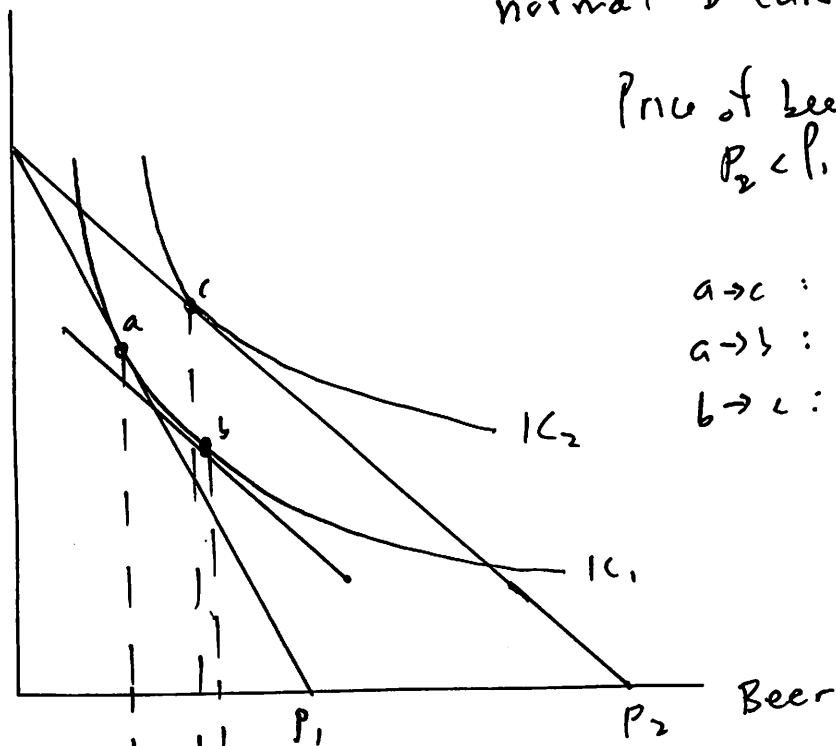


Other
Stuff

Inferior good ($P \downarrow$)
normal D curve

Price of beer falls
 $P_2 < P_1$

$a \rightarrow c$: total
 $a \rightarrow b$: subst.
 $b \rightarrow c$: inc.



Other
Stuff

Inferior (Giffen) good
upward-sloping D curve

Price of beer falls
 $P_2 < P_1$

