

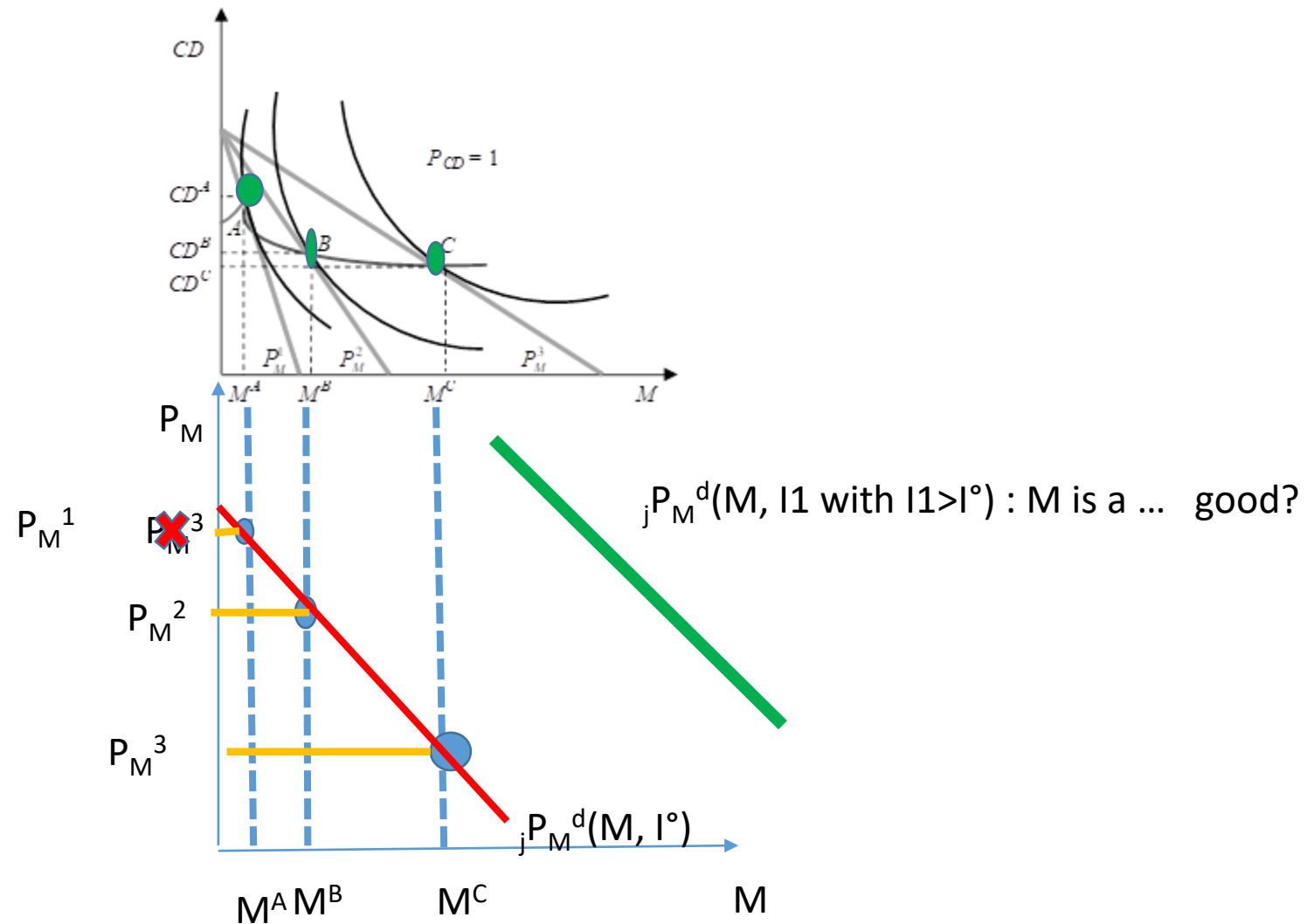


**READY? YOUR FIRST DEMAND CURVE
(WITH RESPECT TO PRICE)**



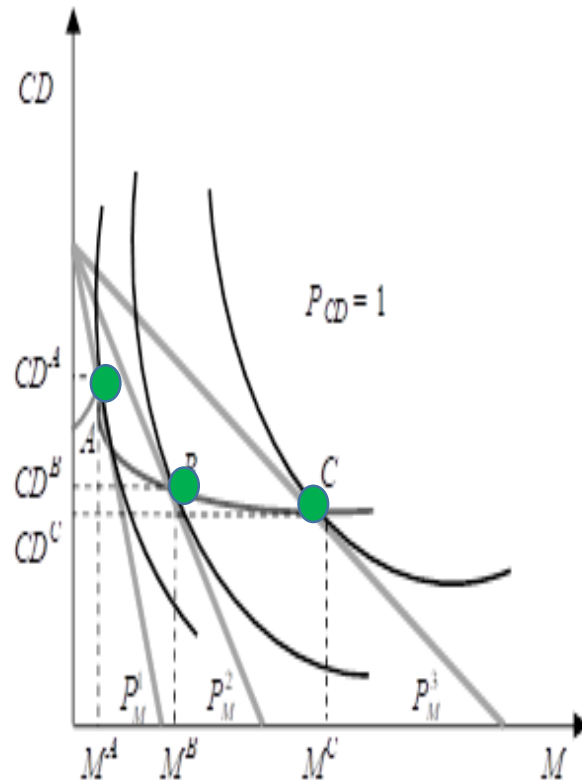
Your first price demand curve! Actually, of John...

A «normal»
good.





Normal Good (M) and goods (M and CD) ...?

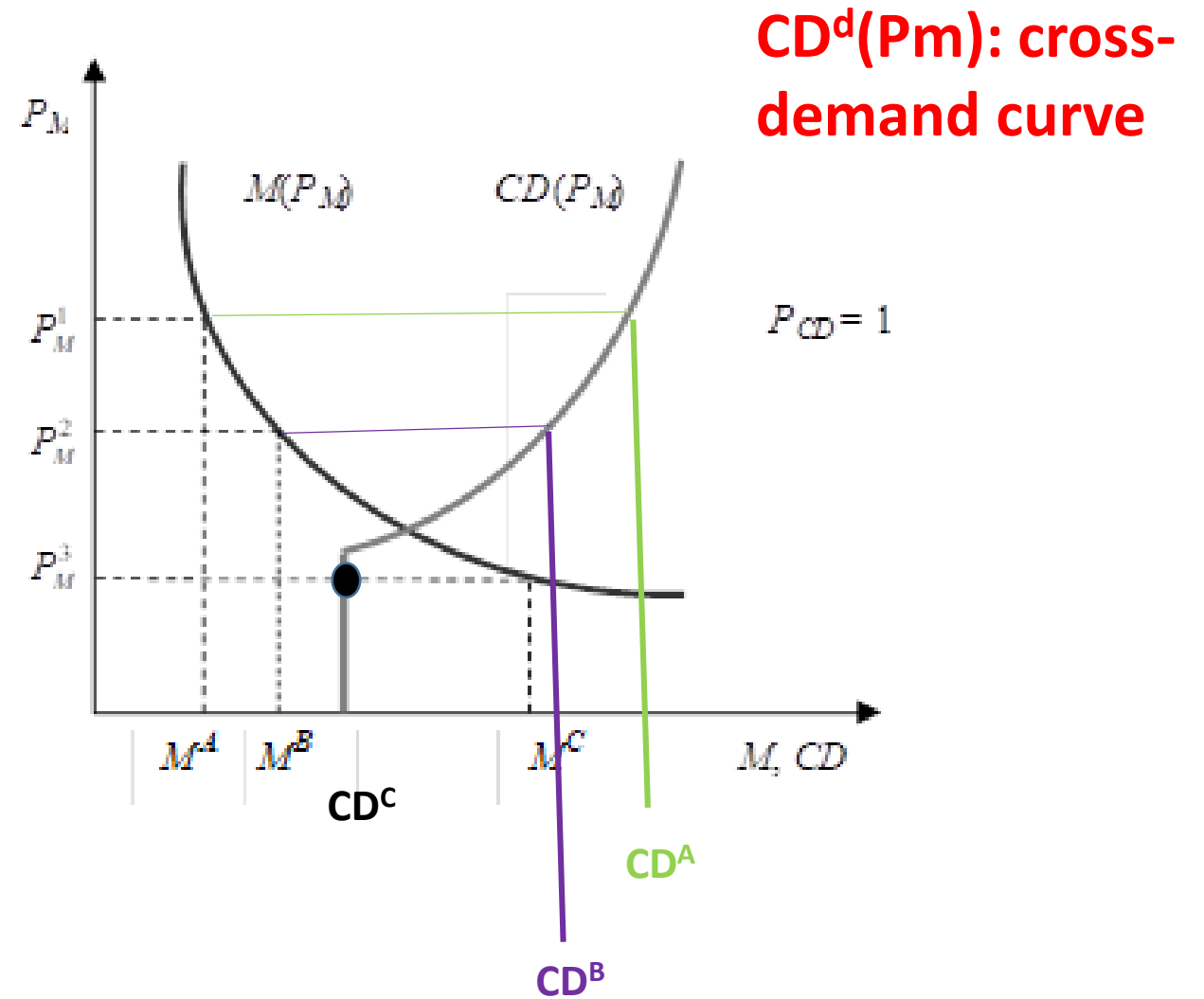
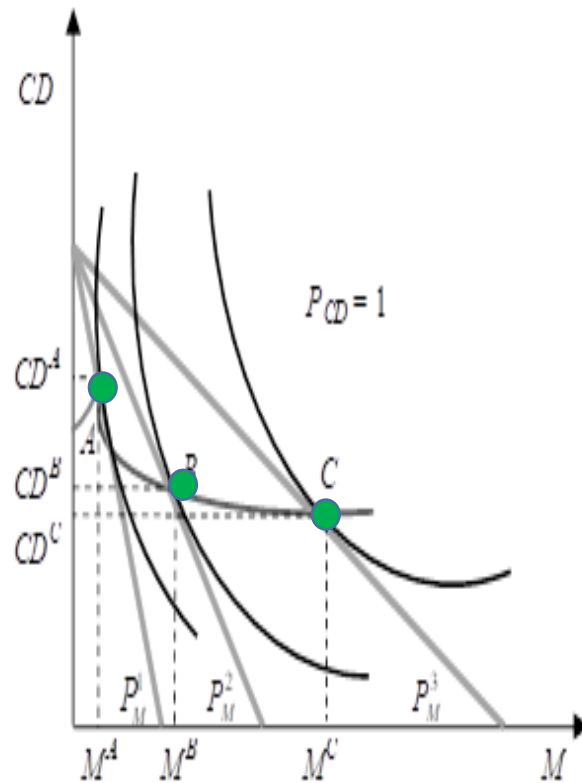


2 goods are called substitutes when the price of one changes and the quantity desired of the other changes in the **opposite** direction of the quantity desired of the good the price of which has changed.

From A to C: «Price consumption path»

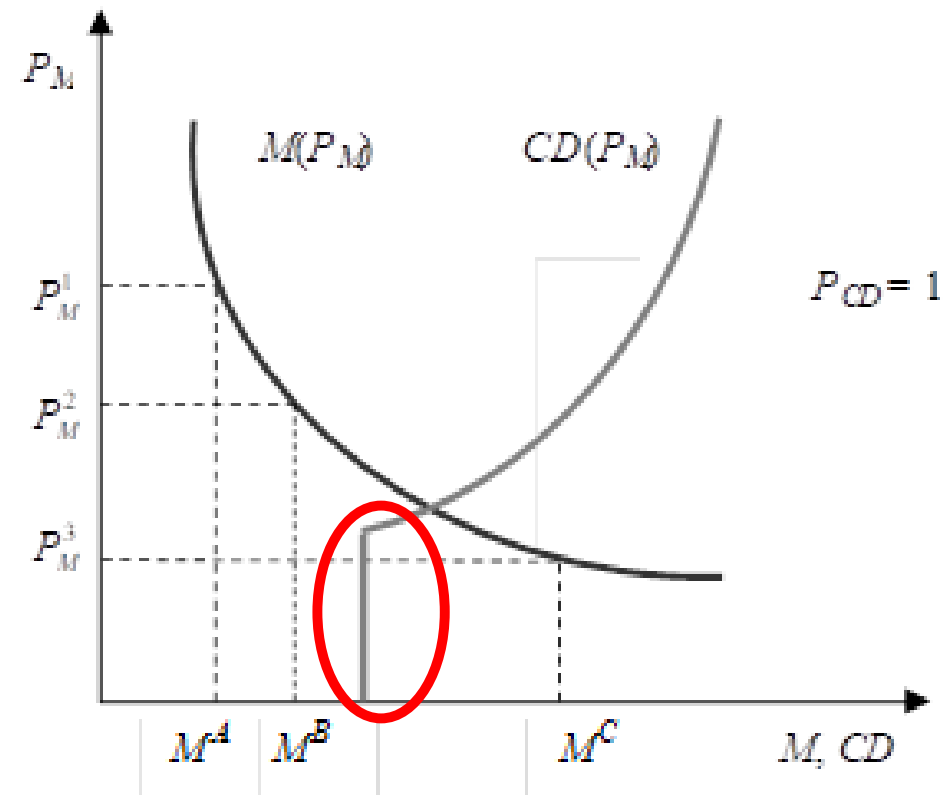
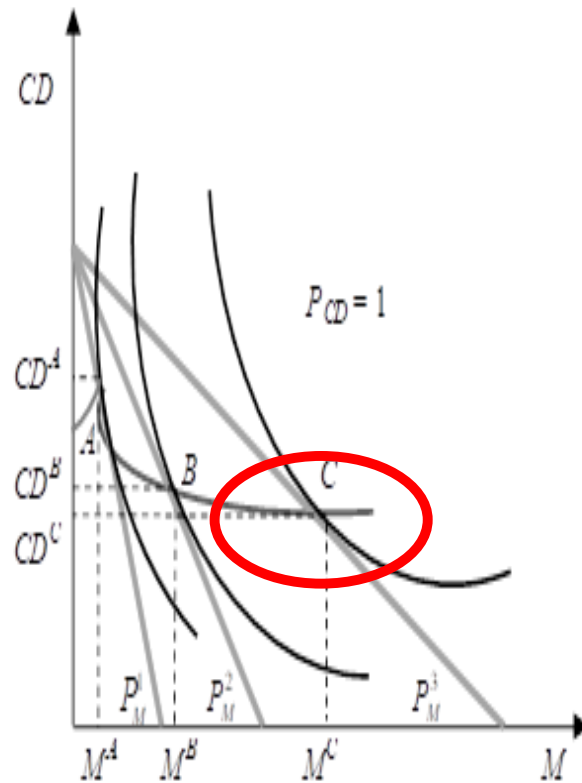


A Normal good and 2 substitute goods



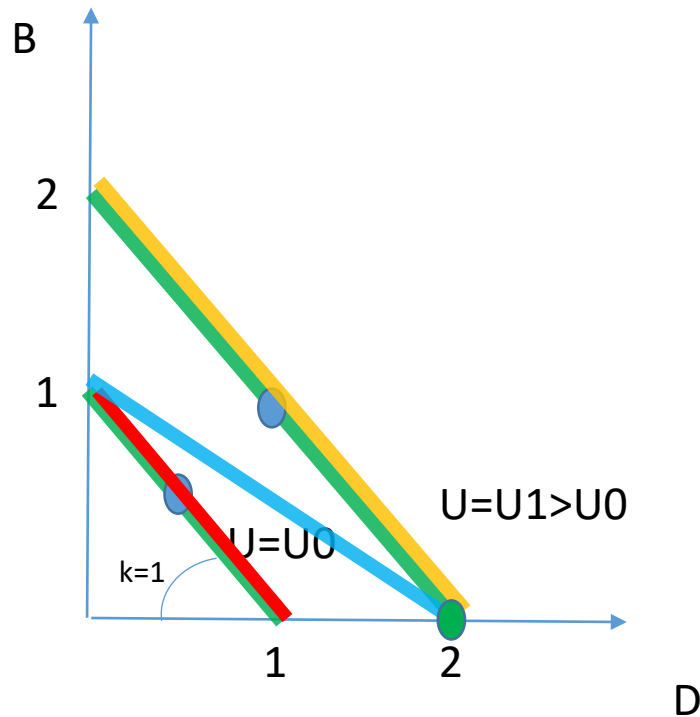


The cross-price demand curve





Perfect substitutes

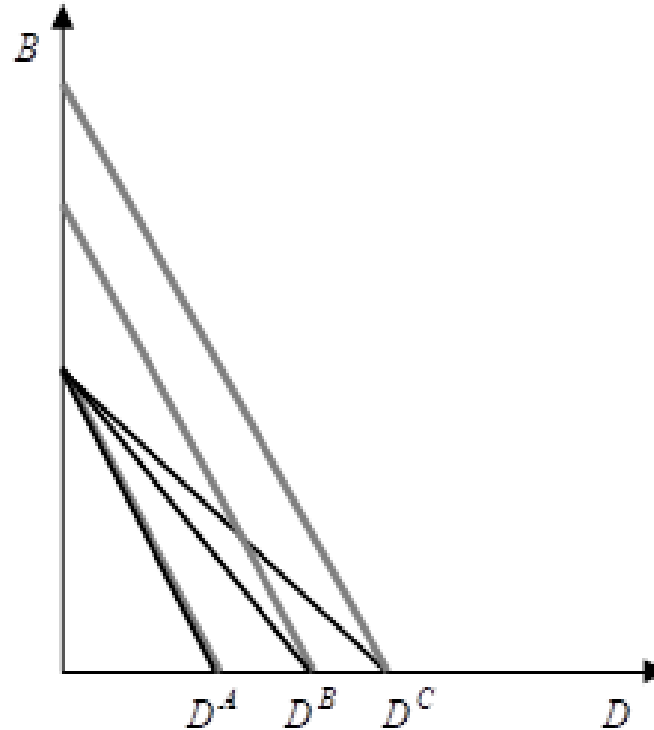


$$P^D = P^B = 1$$

$$I=1$$

$$I=2$$

$$P^D/P^B = (0,5)/1 \text{ with } I=1$$



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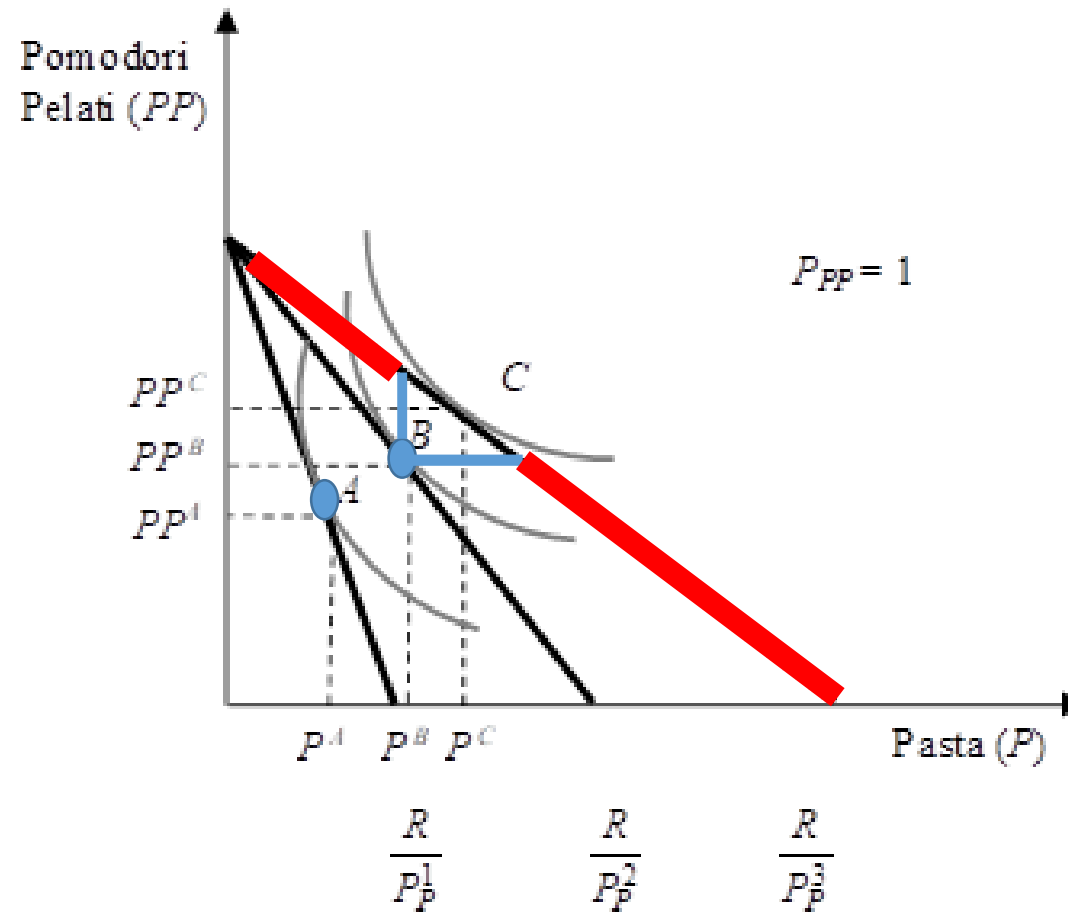
Please draw choice with 2 complementary goods



Complementary Goods

«Please draw a consumer's choice that faces 2 complementary goods»

3 budget constraints, 3 indifference curves, 3 tangency points!



What Goods are those??

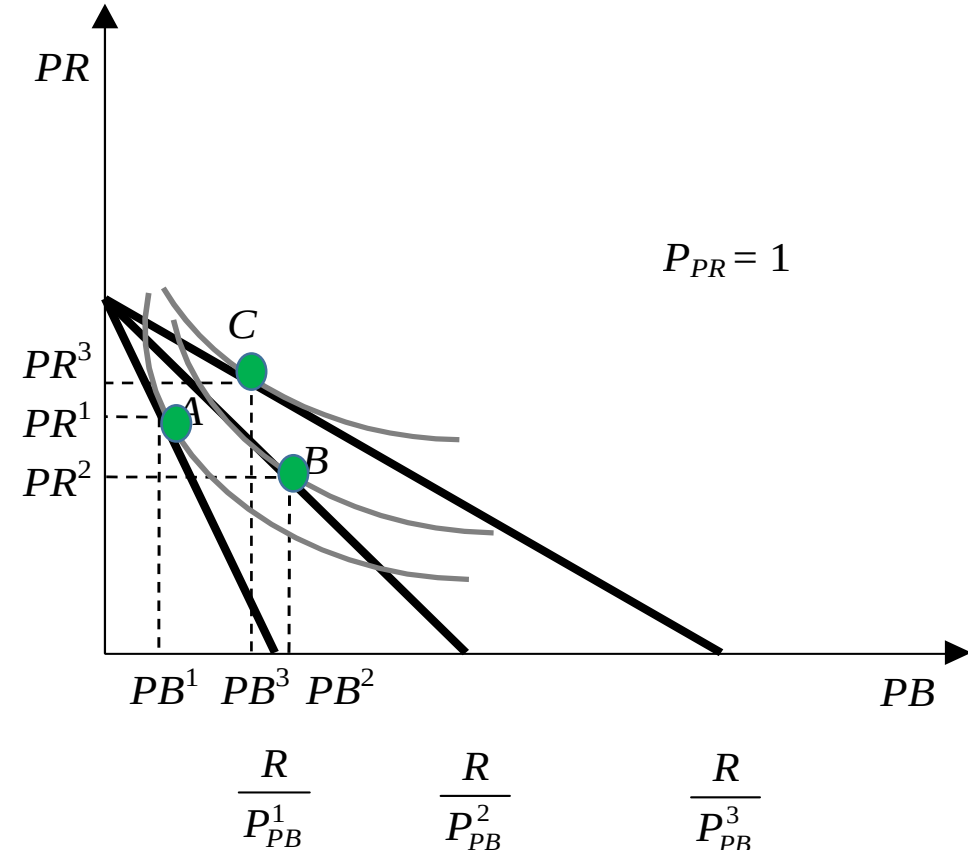


A family with 7 children has an income of 28 euro and must buy 14 diapers over a certain period, 2 diapers each, which it necessarily wants to be the same between children.

Low quality diapers PB cost 2 euro each, high quality ones PR 3 euro each. Not being able to afford to buy 14 high quality diapers, it would prefer 7 low and 7 high. Are they reachable? Check.

It therefore demands for 14 of low quality.

Now imagine that the price of the latter drops to 1 euro each. Check how if it is possible now that it only buys 7 low quality diapers (Giffen good!) and 7 high quality ones.



Giffen Goods

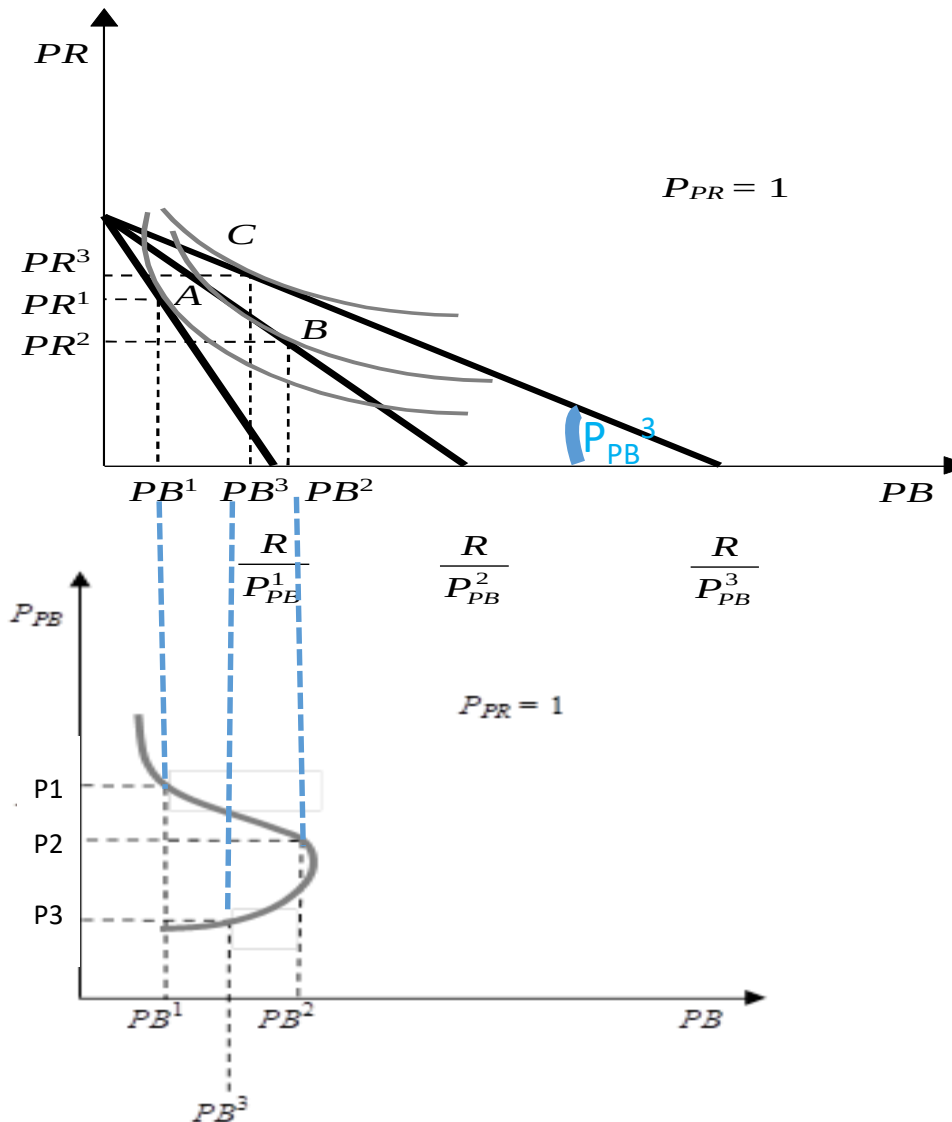


Giffen's goods



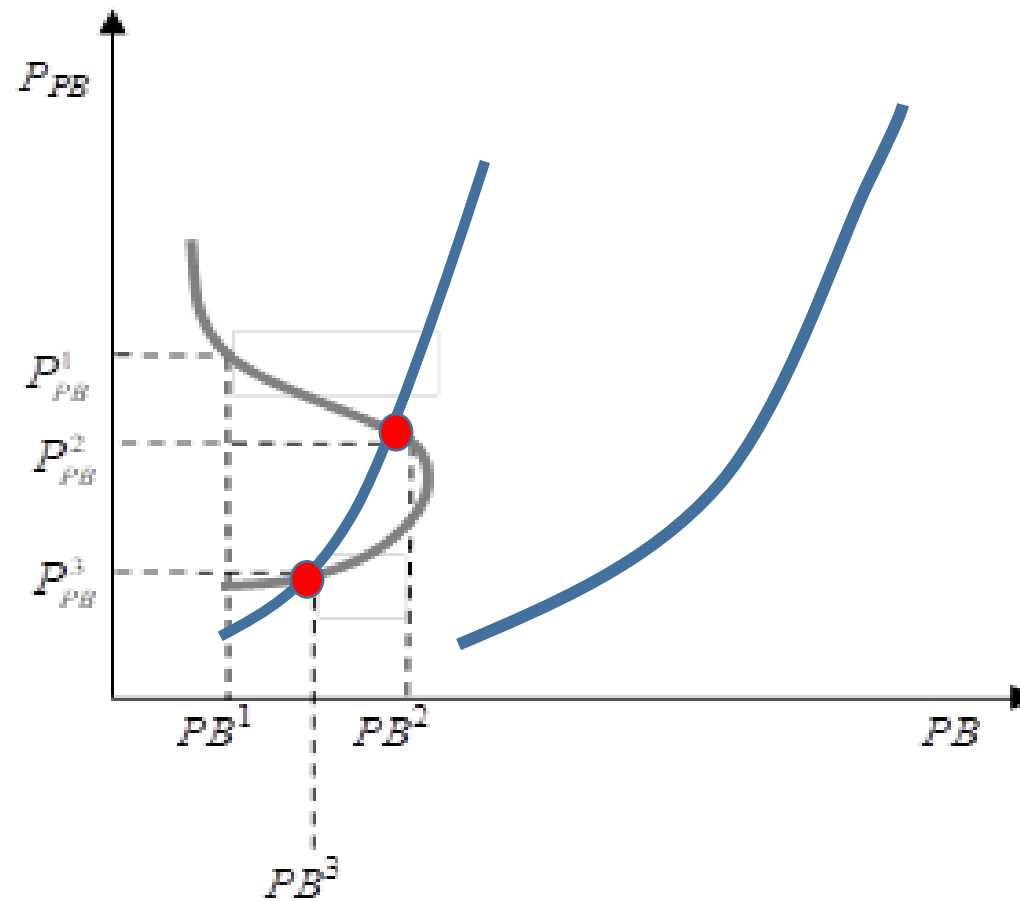
The income effect of
a change in prices

PS: different from
status symbol goods





We don't like them too much!



The income effect of a change in prices.

All Giffen goods are (very) inferior goods; not all inferior goods are Giffen goods.

Recap on prices changes

$\delta Q / \delta P > \text{or} < 0$?

$\delta Q / \delta P < 0$ as we substitute away toward cheaper similar goods (**substitution** effect)

But we also know **that**

$\delta Q / \delta I > \text{or} < 0$

Depending on the type of good and consumer

$\delta Q / \delta I \gg 0$ for superior luxury

$\delta Q / \delta I > 0$ for superior necessary

$\delta Q / \delta I < 0$ for inferior

And that δP make us richer (if < 0) or poorer (if > 0):
a lot ? little?

Income effect of price changes

So $\delta Q / \delta P > \text{or} < 0$?

Imagine **$\delta P < 0$**

1) $\delta Q^S > 0$ as we substitute away from the more expensive similar good (substitution effect)

But **2)...**

If $\delta P < 0$, **I am richer**

So:

If the good is superior, added **$\delta Q^I > 0$** (stronger if luxury)

1+2) $\delta Q \gg 0$ (luxury) $\delta Q > 0$ (necessary)

In both cases: NORMAL GOOD **$\delta Q / \delta P < 0$**

If the good is inferior, counter **$\delta Q^I < 0$**

How much inferior?

1) little? δQ^S dominates, still NORMAL GOOD **$\delta Q / \delta P < 0$**

2) a lot? δQ^I dominates, GIFFEN GOOD **$\delta Q / \delta P > 0$**