4.2 A Change in Price

A change in price involves two different effects! those happen simultaneously

First effect:

When the price of bananas goes down (from $P_B = 1$ to $P_B = 0.50$), bananas are relatively cheaper now. It follows that more bananas and fewer apples are consumed: $x_B \uparrow$ and $x_A \downarrow$.

This effect is called the **substitution effect**.
start with it

Mankiw definition from the textbook:

Substitution effect = the change in consumption that results when a price change moves the consumer along a given indifference curve to a point with a new marginal rate of substitution.
when you move among indifference curve you get more b and fewer a
until gleiche steigung wie neue budget constraint line (parallelen)

Second effect:

have at same quantity 50€ left
The decline in the price of bananas (from $P_B = 1$ to $P_B = 0.50$) leads to a higher real income. The higher income leads to a change in the quantities consumed => parallel shift outward of the budget line.

This effect is called the **income effect**.

Mankiw definition from the textbook:

Income effect = the change in consumption that results when a price change moves the consumer to a higher or lower indifference curve