

Chapter 5

Applying Consumer Theory



© 2004 Pearson Addison-Wesley. All rights reserved.

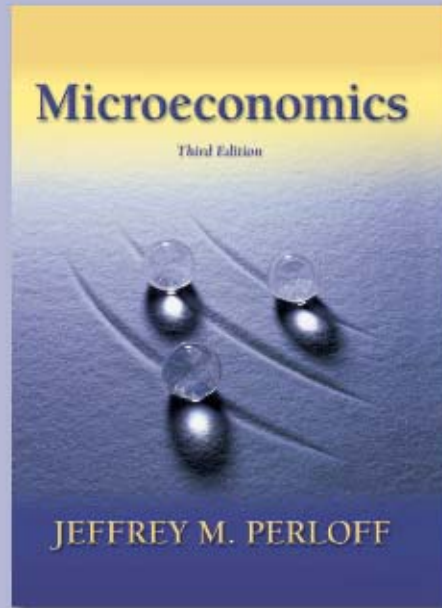


Figure 5.1
Deriving an
Individual's
Demand Curve

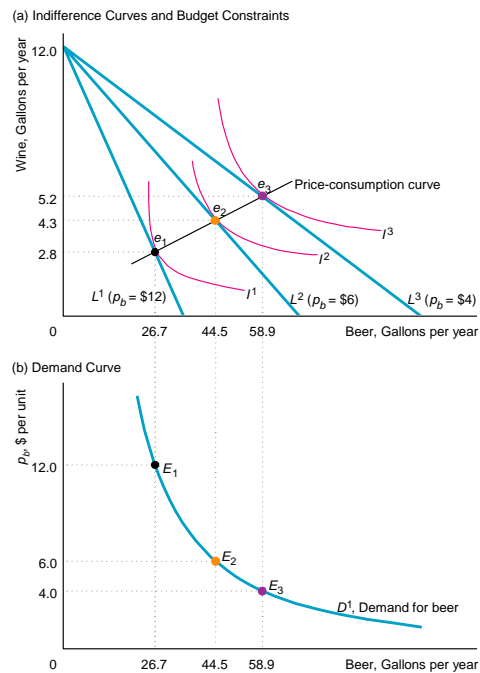
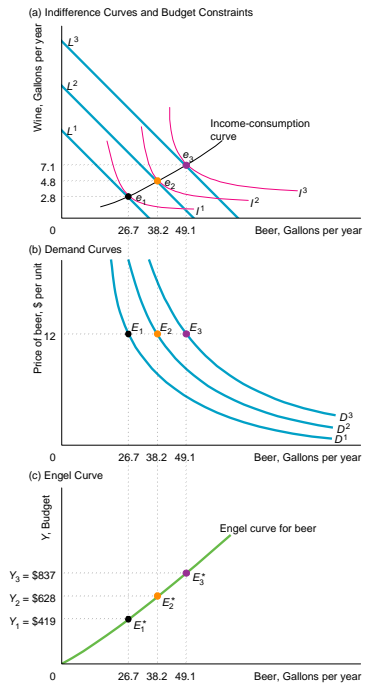
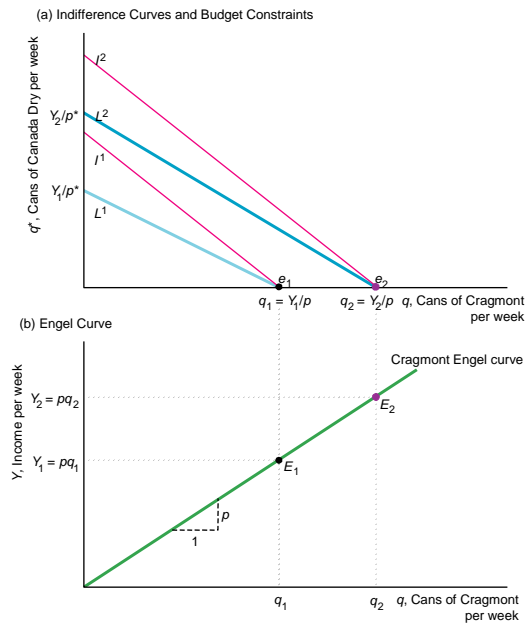


Figure 5.2 Effect of a Budget Increase on an Individual's Demand Curve



© 2004 Pearson Addison-Wesley. All rights reserved

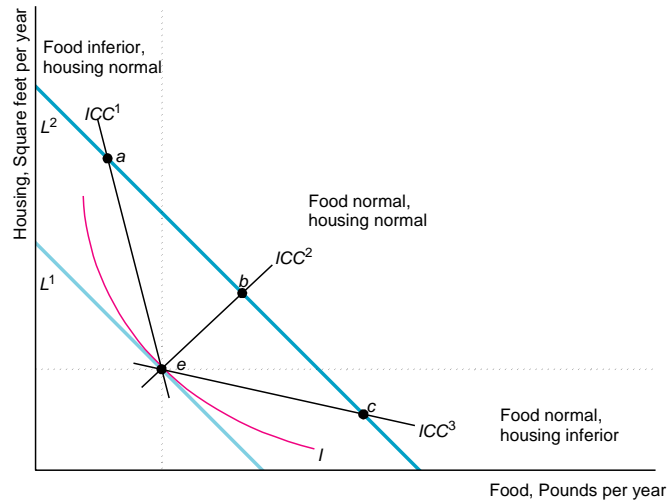
Page 112 Solved Problem 5.1



© 2004 Pearson Addison-Wesley. All rights reserved

5-4

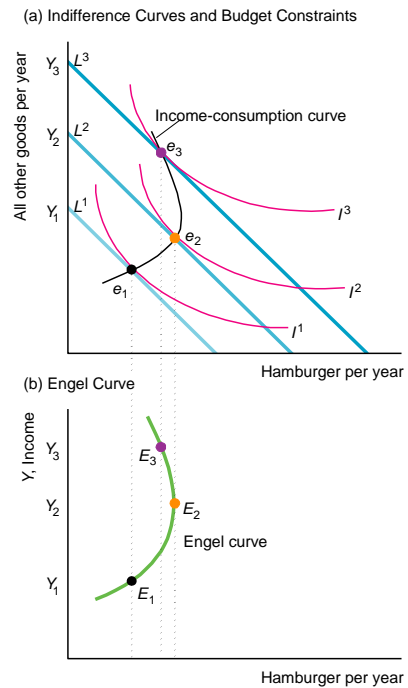
Figure 5.3 Income-Consumption Curves and Income Elasticities



© 2004 Pearson Addison-Wesley. All rights reserved

5-5

Figure 5.4
A Good that is
Both Inferior
and Normal



© 2004 Pearson Addison-Wesley. All rights reserved

Application (Page 117)

Income Elasticities of Demand for Cars

Car Model	Income Elasticity	Car Model	Income Elasticity
Accord	2.2	Jaguar X-Type	4.5
BMW 700 Series	4.4	Jetta	2.1
Buick	2.8	Maxima	2.5
Cadillac	3.3	Mercedes	4.4
Camry	2.3	Mustang	1.9
Chevette	1.2	Olds	2.4
Civic	2.6	Porsche	4.2
Corvette	3.2	Taurus	2.1
Grand Am	1.8	Volvo	3.4

Figure 5.5 Substitution and Income Effects with Normal Goods

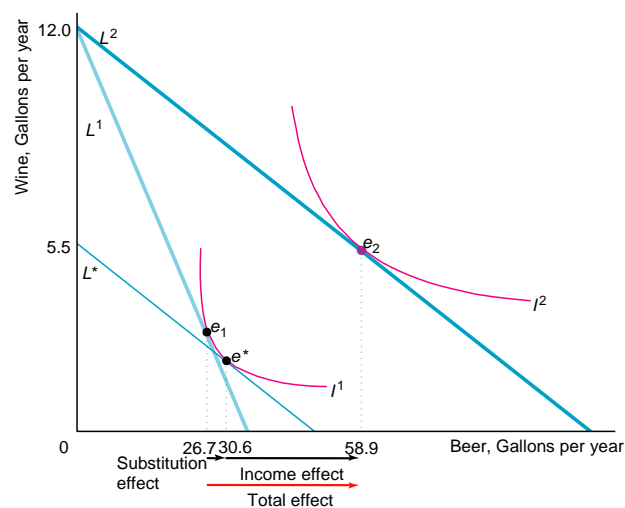
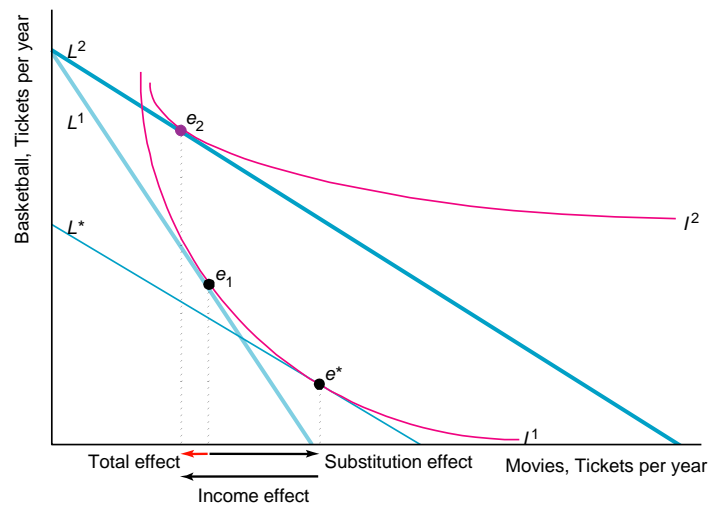


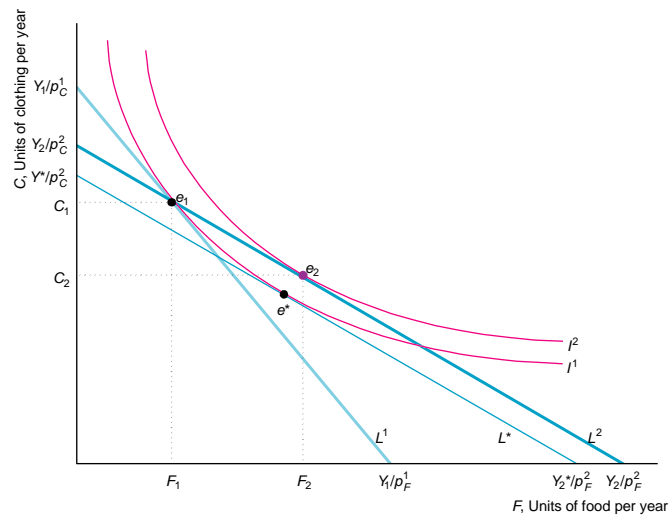
Figure 5.6 Giffen Good



© 2004 Pearson Addison-Wesley. All rights reserved

5-9

Figure 5.7 The Consumer Price Index



© 2004 Pearson Addison-Wesley. All rights reserved

5-10

Table 5.1

Cost-of-Living Adjustments

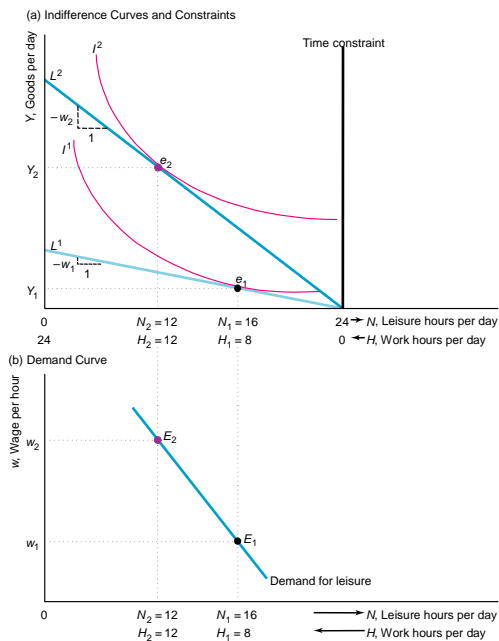
	p_C	p_F	Income, Y	Clothing	Food	Utility, U
First year	\$1	\$4	$Y_1 = \$400$	200	50	2,000
Second year	\$2	\$5				
No adjustment			$Y_1 = \$400$	100	40	$\approx 1,265$
CPI adjustment			$Y_2 = \$650$	162.5	65	$\approx 2,055$
True COLA			$Y^* \approx \$632.50$	≈ 158.1	≈ 63.2	2,000

© 2004 Pearson Addison-Wesley. All rights reserved

5-11

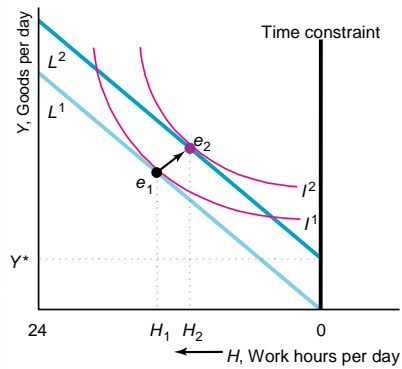
Figure 5.8

Demand for Leisure

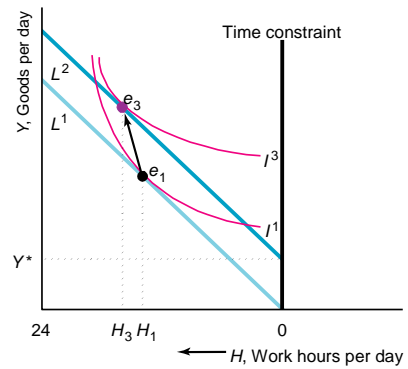


Page 135 Solved Problem 5.3

(a) Leisure Normal

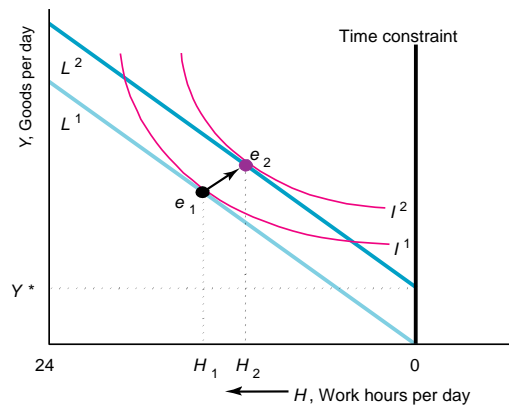


(b) Leisure Inferior



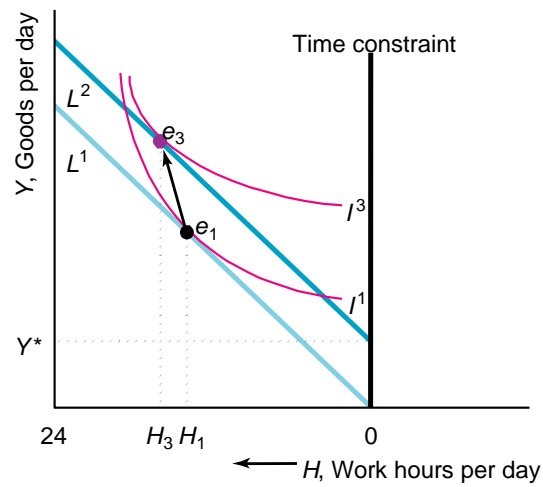
Page 135 Solved Problem 5.3a

(a) Leisure Normal



Page 135 Solved Problem 5.3b

(b) Leisure Inferior

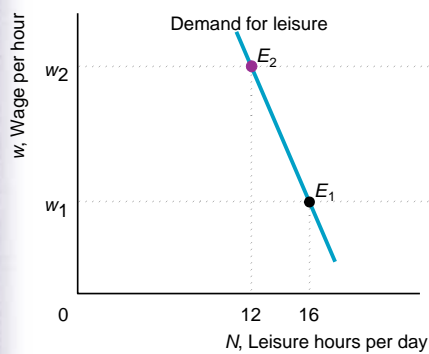


© 2004 Pearson Addison-Wesley. All rights reserved

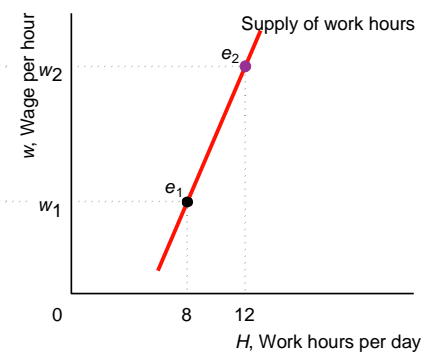
5-15

Figure 5.9 Supply Curve of Labor

(a) Leisure Demand



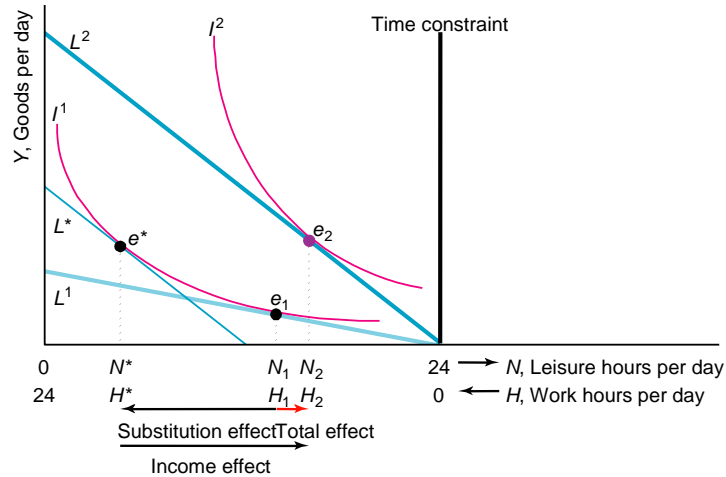
(b) Labor Supply



© 2004 Pearson Addison-Wesley. All rights reserved

5-16

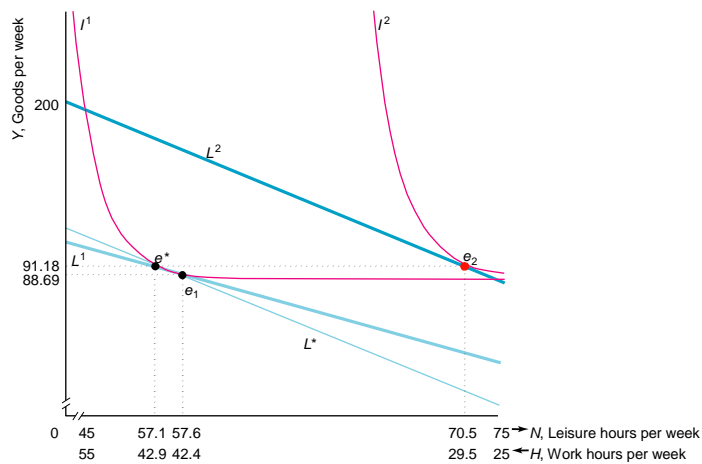
Figure 5.10 Income and Substitution Effects of a Wage Change



© 2004 Pearson Addison-Wesley. All rights reserved

5-17

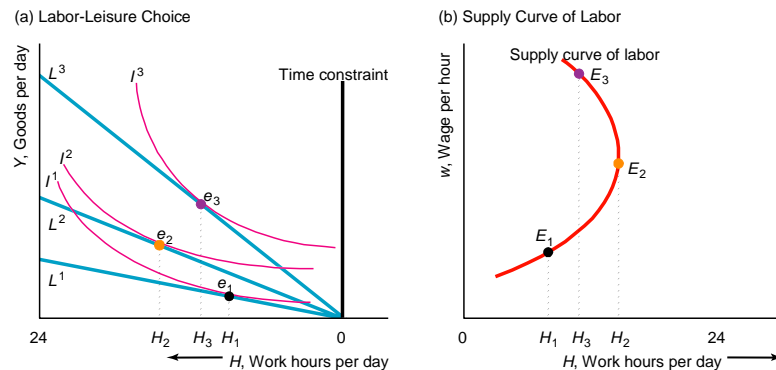
Application (Page 136) Leisure-Income Choices of Textile Workers



© 2004 Pearson Addison-Wesley. All rights reserved

5-18

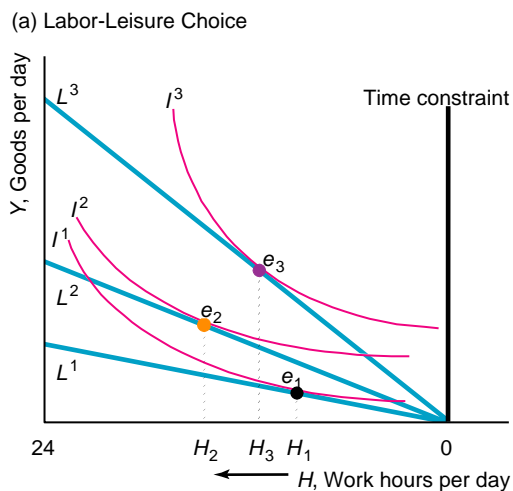
Figure 5.11
Labor Supply Curve that Slopes Upward
and then Bends Backward



© 2004 Pearson Addison-Wesley. All rights reserved

5-19

Figure 5.11a
Labor Supply Curve that Slopes Upward
and then Bends Backward



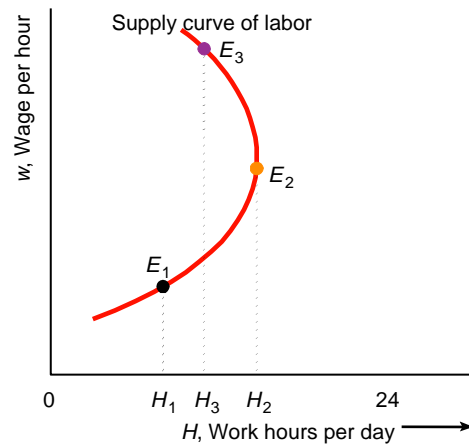
© 2004 Pearson Addison-Wesley. All rights reserved

5-20

Figure 5.11b

Labor Supply Curve that Slopes Upward and then Bends Backward

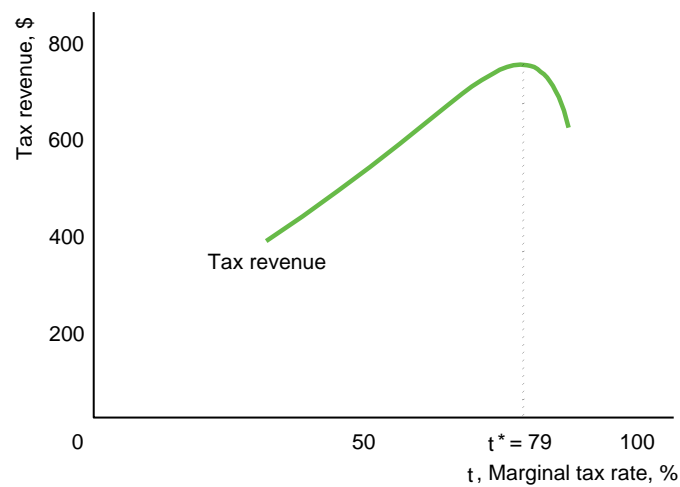
(b) Supply Curve of Labor



© 2004 Pearson Addison-Wesley. All rights reserved

5-21

Figure 5.12 Relationship of Tax Revenue to Tax Rates



© 2004 Pearson Addison-Wesley. All rights reserved

5-22

Cross-Chapter Analysis (Page 146)

Child-Care Subsidies

