

Course
on
HS205: consumer Behaviour and Welfare Economics
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Instructor

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Lecture 5: Substitution effect

Substitution effect means the change in the purchases of a goods as a result of a change in relative prices alone, real income remaining constant

Two type of substitution effect:

- 1. Hicksian substitution effect (Compensating variation in income)**
- 2. Slutsky substitution effect**

Note:

The Less the convexity of the indifference curve, the greater will be the substitution effect.

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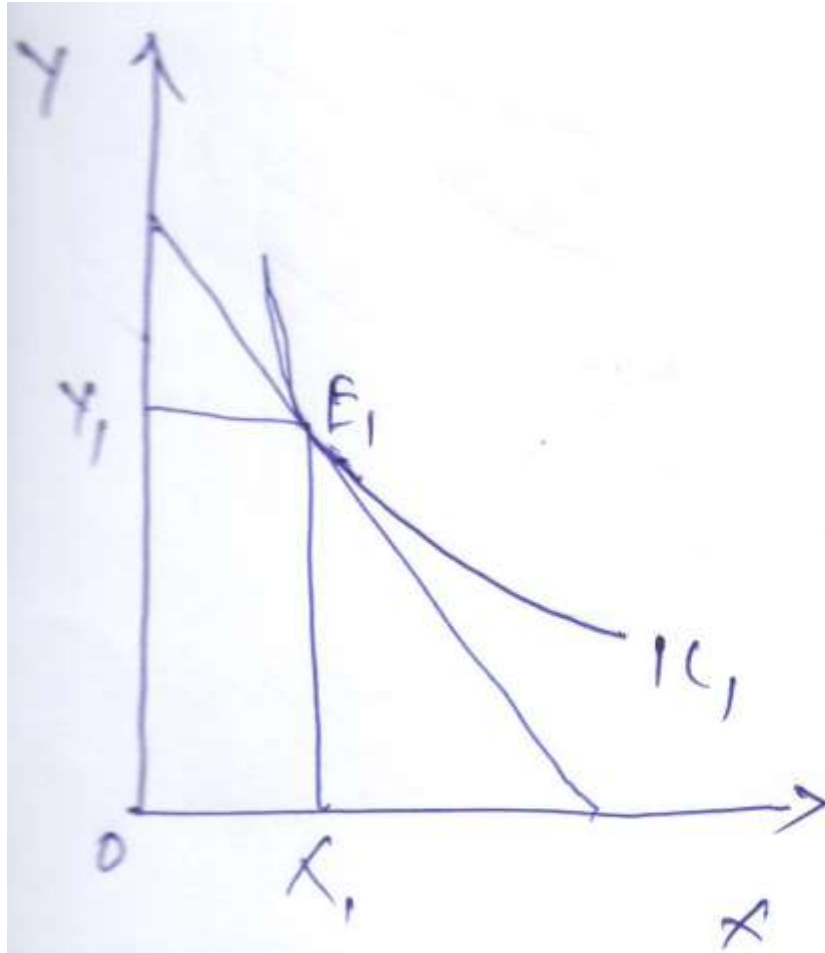


Fig: A

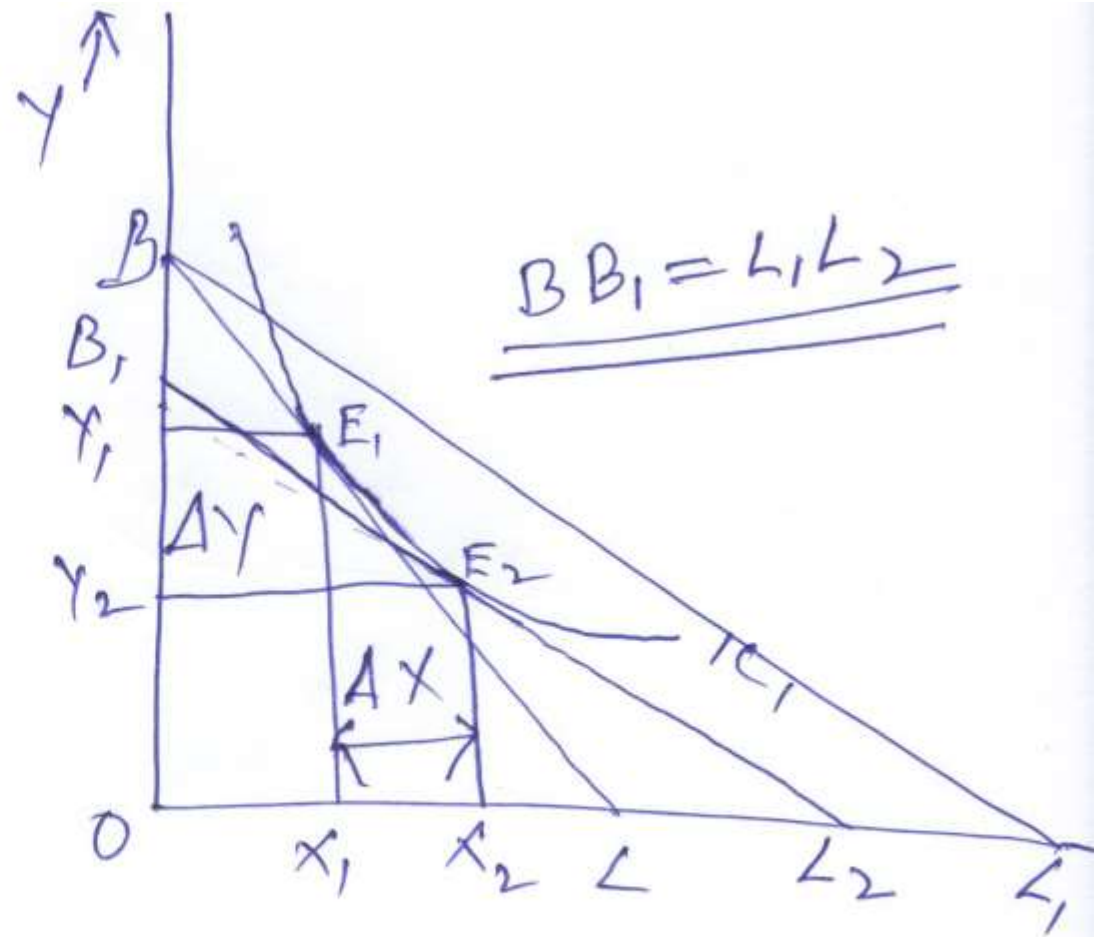


Fig: B

