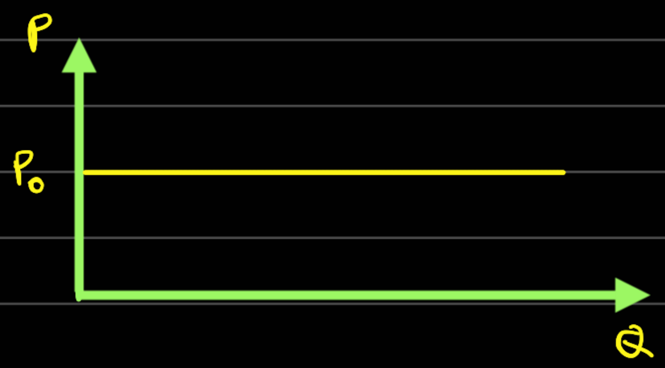
Day – 6

→ $Q_x^D = a + bP_x + \theta$ ($b < 0$; $\theta \rightarrow$ includes all other factors)

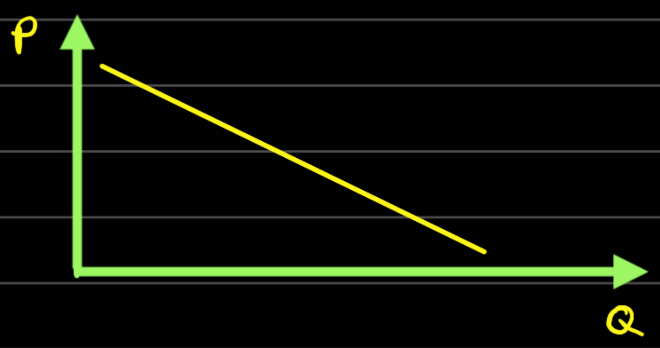
$P_x \rightarrow$ high $\longrightarrow$ other goods are relatively cheaper ; consumer substitutes to cheaper goods This is called **substitution effect.**

→ $\frac{m}{P_x}$ goes down ($m \rightarrow$ money income) ($\frac{m}{P_x} \rightarrow$ real income) $\longrightarrow$ tend to purchase less of every good ; This is called **income effect.**

→ Demand curve for a price-taker firm (small firm)



→ Demand curve for a price-setter firm



→ Change in quantity demanded – movement on the demand curve (Happens for same good)

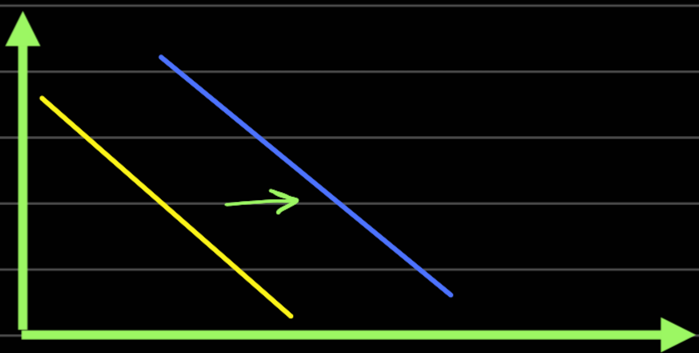
→ Change in demand – P is constant, other

→ Change in demand = P_x is constant, other factors affecting demand changes.

→ Income change
→ Price of related goods

☆ Income change:

For higher income encounter, demand curve shifts parallelly towards right. The good Q_x is called Normal good in such cases



If demand curve shifts towards left then Q_x is called inferior good.

No good can be tagged inferior or normal good everytime; it depends on situation.

→ Total Price Effect = income effect + substitution effect
(For normal goods)

→ For inferior goods, if IE > SE, demand cure will be +vely sloped.

↓

Such goods are giffin goods.