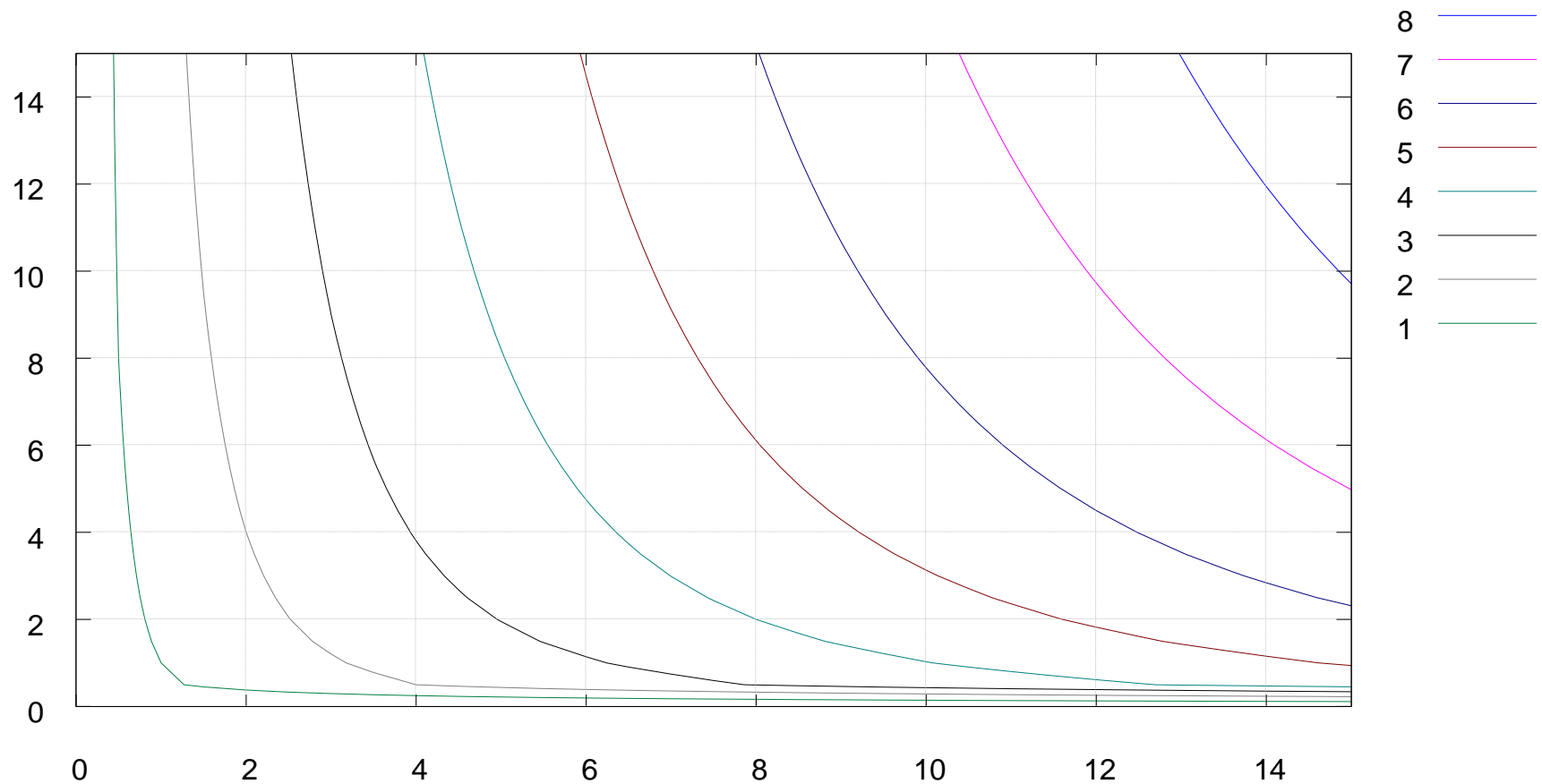


BurkeyAcademy: Discussion of Income and Substitution Effects, Compensating and Equivalent Variation. See next page for my doodles from the video:

Income/substitution effects, compensating/equivalent variation: Interpretation

$U=x^6y^2$ $P_x=20$ $P_y=20$ $B=200$ Then, P_x drops to 15.



Income & Substitution Effects, Compensating and Equivalent Variation: How and why.

INCSUB Interpret.PDF

$$U = x^6 y^2 \quad \beta = 200$$

$$P_x = 20 \quad P_y = 20$$

$$x = 7.5 \quad y = 2.5 \quad U = 4.02$$

$$P_x = 15$$

$$x = 10 \quad y = 2.5 \quad U = 4.78$$

$$U = 4.02 = x^6 y^2$$

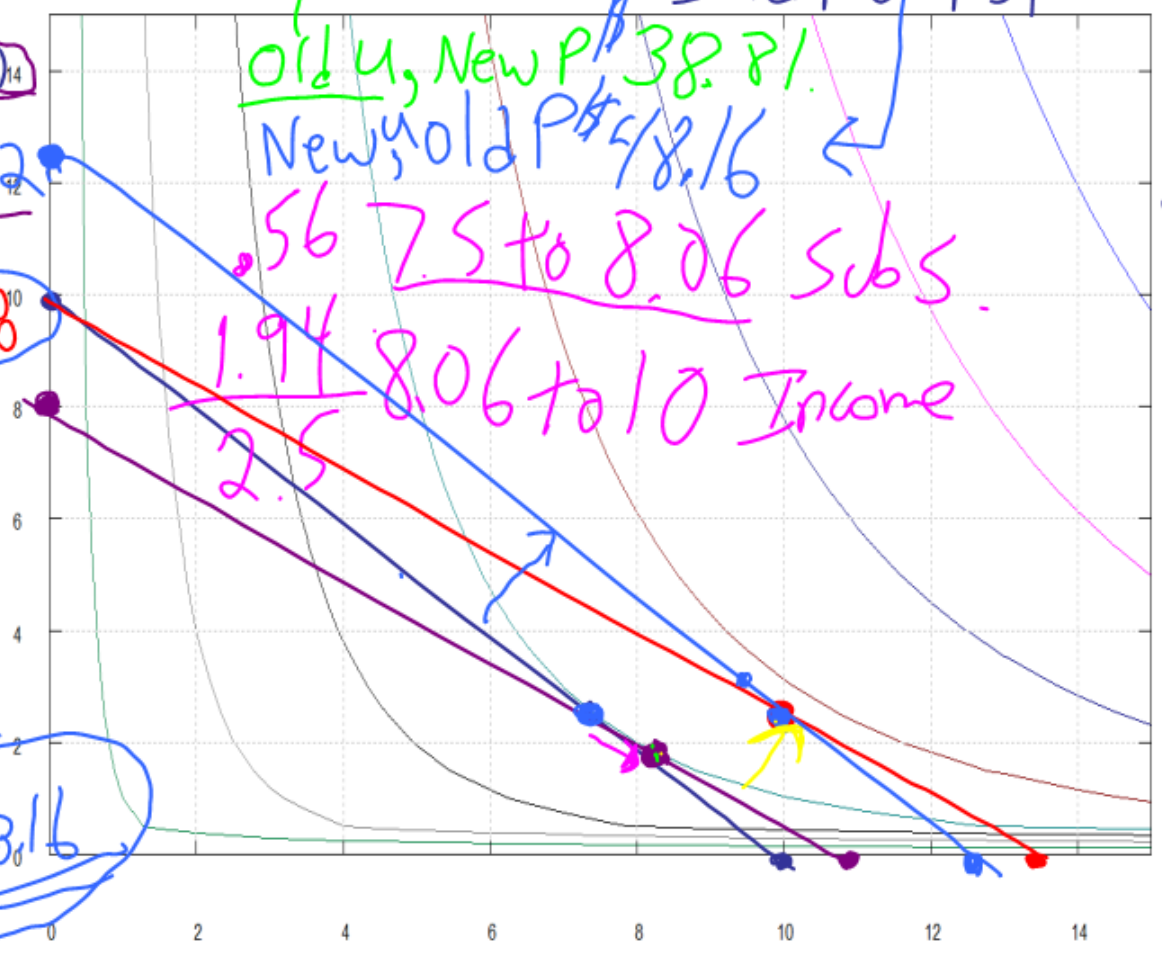
$$MRS = \frac{15}{20} = \frac{3y}{x}$$

$$x = 8.06 \quad 2.01 = y$$

$$\beta = 161.19$$

$$*4.78 = x^6 y^2 \quad x = 9.3 \quad y = 3.1$$

$$\frac{3y}{x} = 1$$



old U, New P 38.81

New, old P 48.16

56 7.5 to 8.06 Subs.

1.94 8.06 to 10 Income

- 8 — blue line
- 7 — pink line
- 6 — blue line
- 5 — brown line
- 4 — blue line
- 3 — black line
- 2 — black line
- 1 — green line