Sharp

DIFFERENT SHAPES OF ICC

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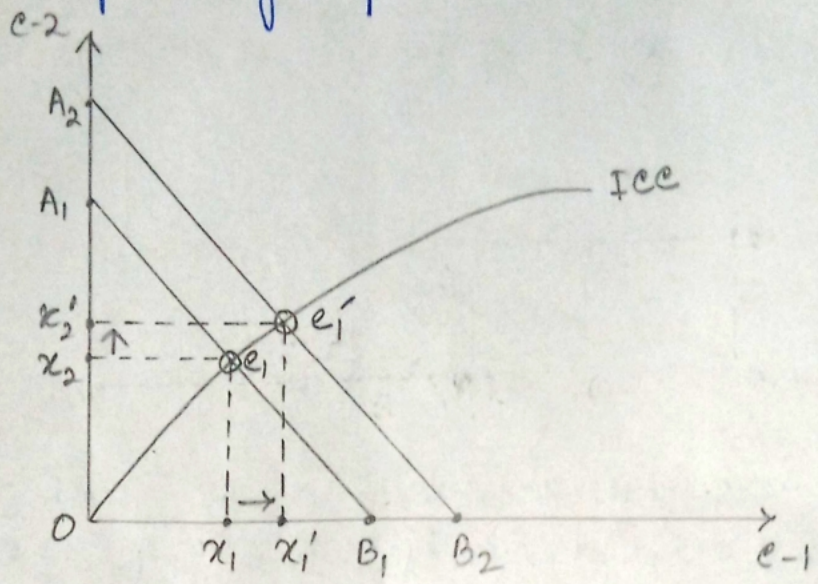
1. ICC is positively sloped.



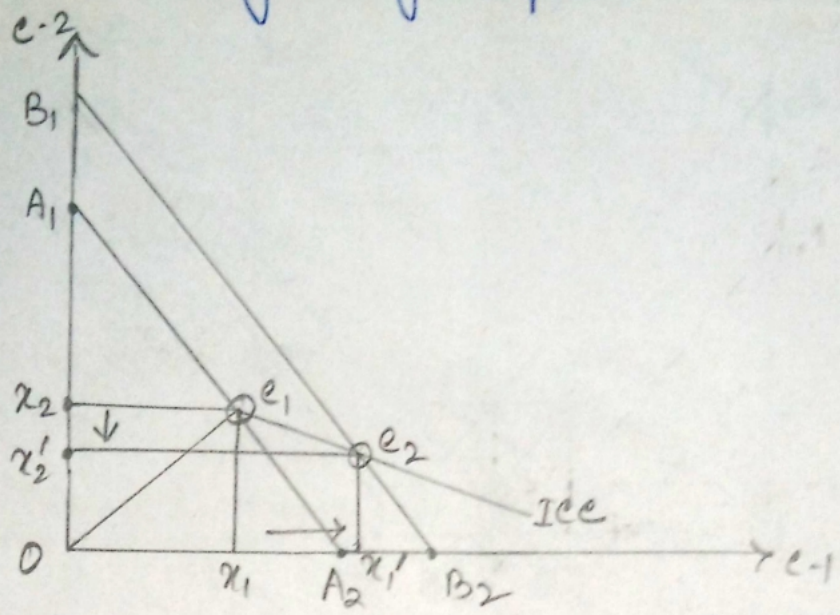
Here, the consumers income level is represented by the budget line A_1B_1 & e_1 is the equilibrium point where, consumer is getting OX_1 units of C_1 and OX_2 units of C2. Now, as consumers income increases the budget line will shift upward to A_2B_2 where, he is getting OX_1' ($>OX_1$) units of C_1 & OX_2' ($>OX_2$) units of C_2. This implies rise in income leads to rise the consumption of C-1, then C_1 is normal good.

Similarily, rise in income leads to rise in consumption of C-2. Thus, C-2 is also a normal good.

$$e_1 = \frac{\Delta x_1}{\Delta M} \cdot \frac{M_1}{M_2} > 0$$

$$e_2 = \frac{\Delta x_2}{\Delta M} \cdot \frac{M_1}{M_2} > 0.$$

2. ICC is negatively sloped.



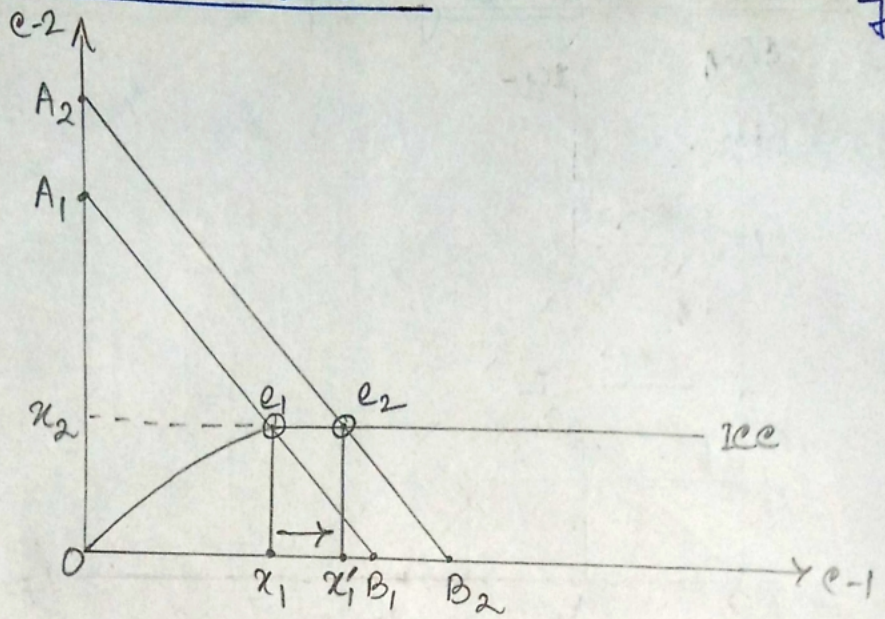
Here, the consumer income level is represented by the budget line A_1A_2 & e_1 is the equilibrium point where, consumer is getting OX_1 units of C_1 and OX_2 units of C-2. Now, as consumer's income increases consumption of C_1 ~~income~~ increases from OX_1 to OX_1' which suggest C_1 is a normal good. It's income elasticity —

$$e_1 = \frac{\Delta x_1}{\Delta M} \cdot \frac{M_1}{x_1} > 0$$

But with the rise in income consumption of C_2 falls from OX_2 to OX_2' which suggest C_2 is an inferior good. It's income elasticity —

$$e_2 = \frac{\Delta x_2}{\Delta M} \cdot \frac{M_1}{x_2} > 0$$

3. <u>ICC is horizontal</u>



Here, the consumer income level is represented by the budget line A_1B_1 & e_1 is the equilibrium point where, consumer is getting OX_1 units of C-1 and OX_2 units of C-2. Now, as income increases, consumption of C-1 rises from OX_1 to OX_1'. Thus, <u>e_1 is Normal Good.</u>

Its income elasticity —

$$e_1 = \frac{\Delta x_1}{\Delta M} \cdot \frac{M}{x_1} > 0$$

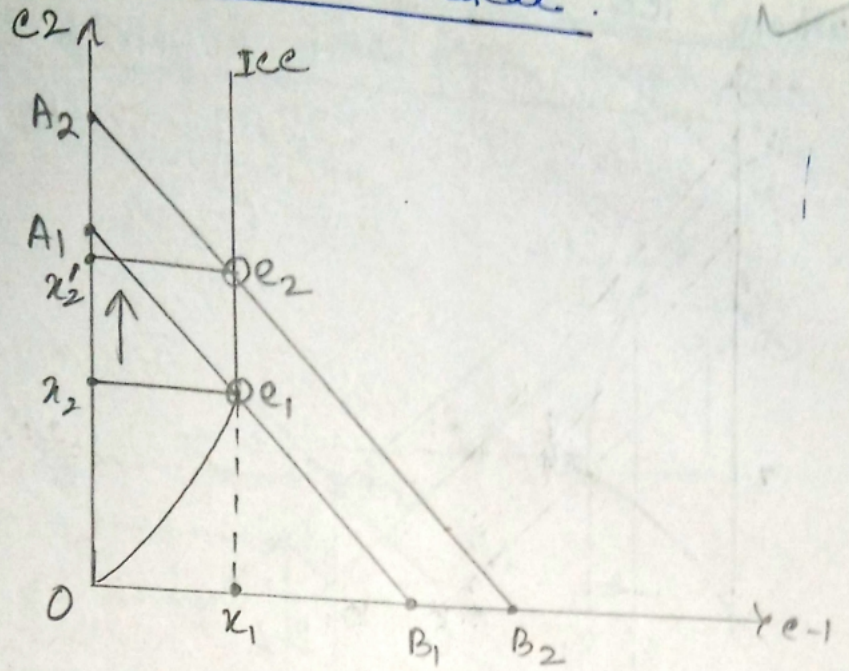
But with the rise in income, consumption of e_2 remains fixed at OX_2. Thus, <u>e_2 is Neutral</u>

Its income elasticity —

$$e_2 = \frac{\Delta x_2}{\Delta M} \cdot \frac{M}{x_2} = 0$$

Q. What will be the implication if ICC looks like a 45° straight line from the origin?

4. When ICC is Vertical.



Here, the consumer income level is represented by the budget line A_1B_1 & e_1 is the equilibrium point, where the consumer is getting OX_1 units of C-1 and OX_2 units of C-2.

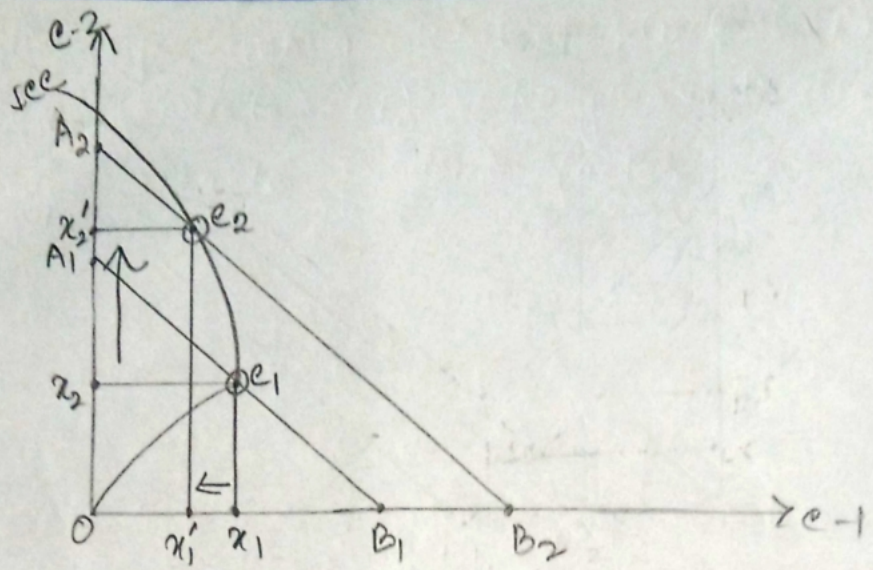
As the income increases, the demand of C_2 increases from OX_2 to OX_2'. Thus, C_2 is normal good. Its income elasticity —

$$e_M > 0 \quad \text{or,} \quad \frac{M}{x_1} \cdot \frac{\Delta x_1}{\Delta M} > 0$$

But with the rise in income, consumption of C_1 remains fixed at OX_1. Thus, C_1 is Neutral. Its income elasticity —

$$e_M = \frac{M}{x_1} \cdot \frac{\Delta x_1}{\Delta M} = 0.$$

5. When ICC is backward.



Here, the consumer income level is represented by the budget line A_1B_1 and e_1 is the equilibrium point where the consumer is getting OX_1 units of C-1 and OX_2 units of C-2.

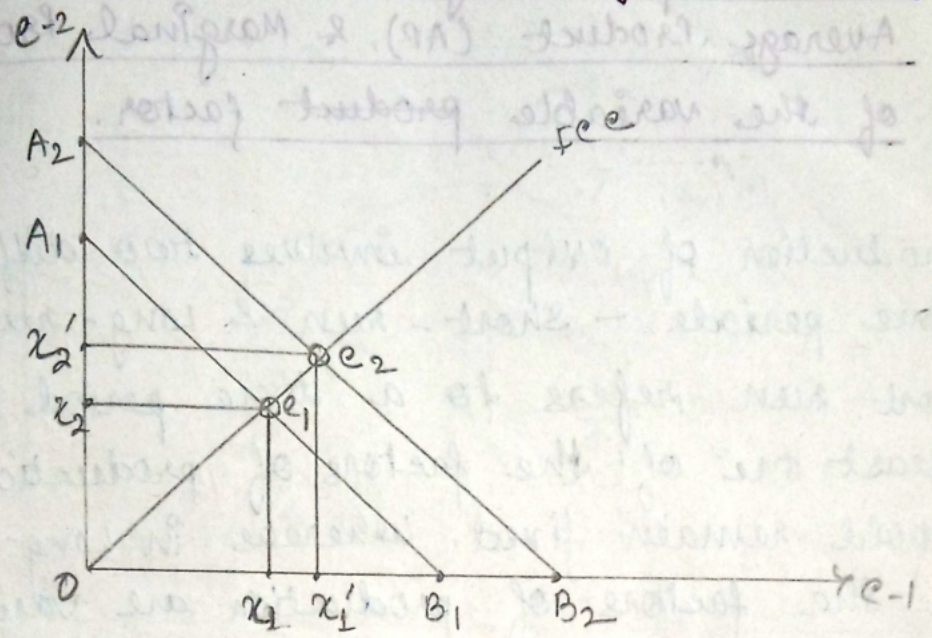
With the rise in income, the consumption of C_1 decreases from OX_1 to OX_1' units. So, C_1 is inferior good. Its income elasticity —

$$e_M = \frac{M}{x_1} \cdot \frac{\Delta x_1}{\Delta M} < 0$$

But the rise in income, the consumption of C_2 increases from OX_2 to OX_2'. So, C_2 is a Normal good. Its income elasticity —

$$e_M = \frac{\Delta x_2}{\Delta M} \cdot \frac{M}{x_2} > 0 .$$

Q. What is the implication of ICC looks like 45° straight line from origin?



i) When the income of consumer zero, then consumption of C_1 and C_2 is also zero.

ii) As the income of consumer increases the consumption of C_1 and C_2 also increases.

iii) The consumption of C_1 = consumption of C_2 because the ICC is the 45° straight line from the origin.

iv) With the rise in income, consumption of both the commodity increases in same amount.