

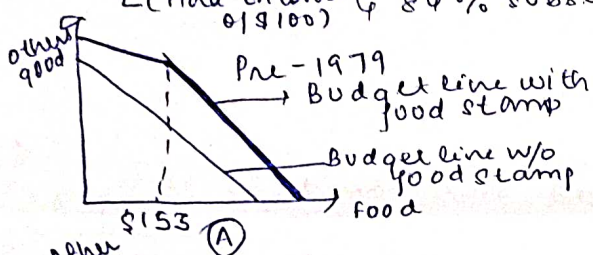
Here the actual consumption slope is $-\frac{(P_1+t)}{P_2} \rightarrow$ Tax on every extra qty

FOOD STAMP PROGRAM (1964) $\rightarrow$ US's subsidy on food for poor

Before 1979 household who were eligible were allowed to purchase food stamps $\rightarrow$ Allowed ppe to buy food at retail outlets $\rightarrow$ Eq. In Jan 1975, family of 4 get max monthly allotment of \$153 in food coupons. 1

Eq. of AD VALOREM SUBSIDY

Rate at which household's food was subsidized depended on income $\rightarrow$ Family of 4 who paid \$83 $\rightarrow$ paid \$1 to receive \$1.84 worth of food $\rightarrow$ Another paid \$25 $\rightarrow$ \$1 for \$6.12 worth of food $\rightarrow$ 84% subsidy at paying \$25 gives \$153 food.



Here price of each good (on x & y axis) is 1 as both are measured in terms of money (Food & other items)

Hence slope $= -\frac{P_1}{P_2} = -1$

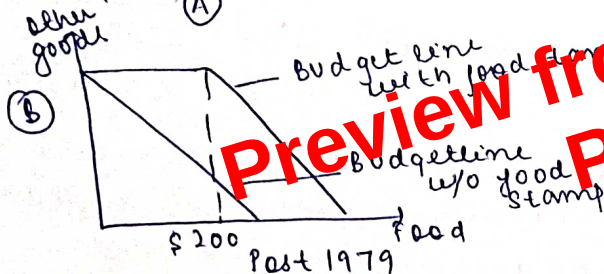
For subsidy of 84% $\Rightarrow$ Actual price $= P_1 - \tau P_1$

$$= (1 - \tau) P_1$$

$$= \tau = \frac{25}{153} = -0.16$$

$$= -\left(1 - \frac{25}{153}\right) = -0.16$$

$$\text{Slope} = -0.16$$



House can consume 200 \$ more worth of food

As food stamps cannot be sold consumption of other goods remain same

Budget line will rotate to right by \$200

Slope has no Δ as other goods consumption remains same.

A perfectly balanced inflation where prices & income rise at the same rate, budget set remains same.

Income $\uparrow$, price fixed $\rightarrow$ Budget line shift right/outward $\rightarrow$ Now they are atleast as rich as they were before if not more rich. $\rightarrow$ They have more purchasing power & choice.

Price 1 $\uparrow$, price 2 same $\rightarrow$ consumer's ability to buy good 1 increase $\rightarrow$ They can also have extra income left through to buy other goods

$\rightarrow$ Both cases make consumers better off by being able to afford at least what could before, if not more.