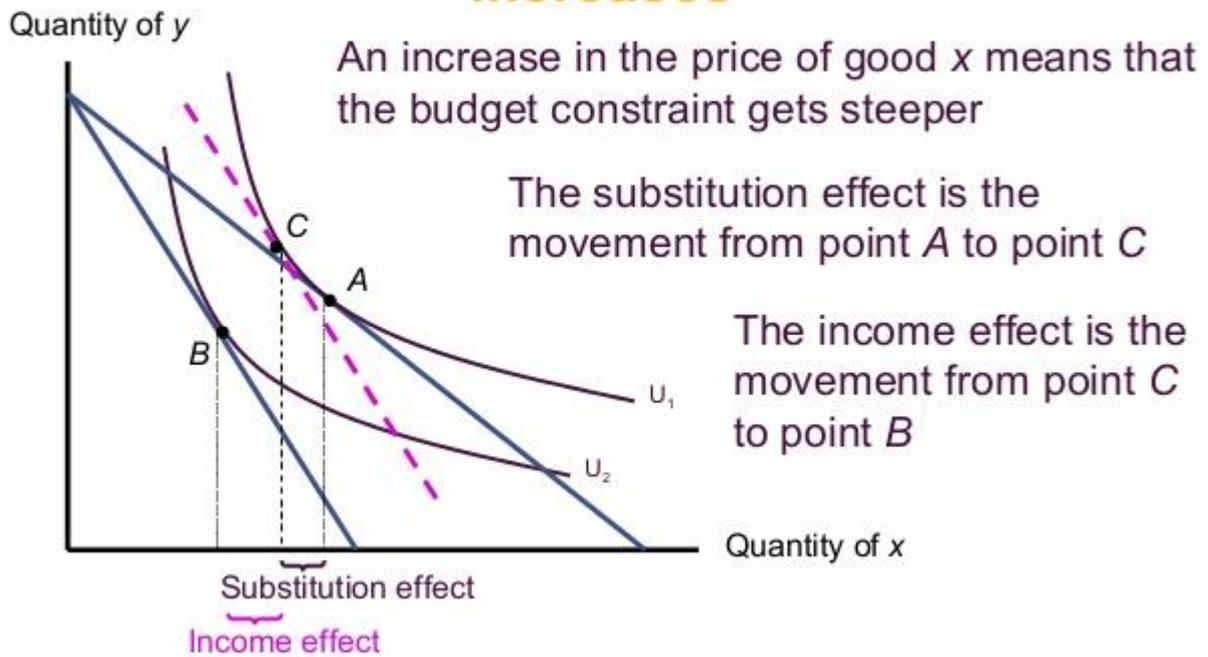


Subs and income effects when a price increases



The substitution effect states that an increase in the price of a good will encourage consumers to buy alternative goods. The substitution effect measures how much the higher price encourages consumers to use other goods, assuming the same level of income.

The income effect looks at how the price change affects consumer income, and how much the rise in income will lead to lower demand.