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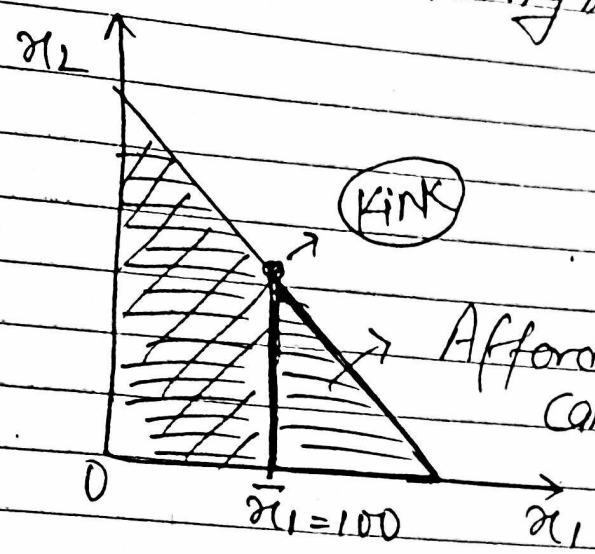
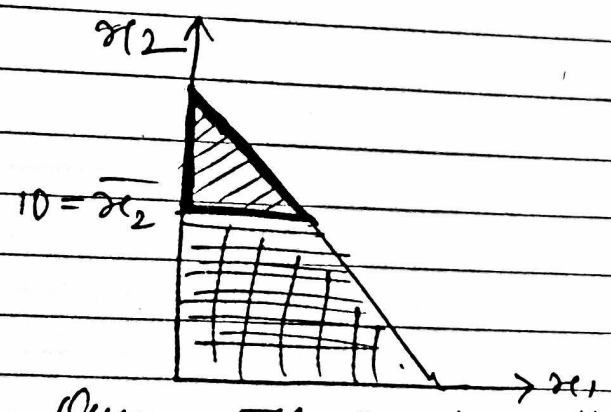
((Rationing))

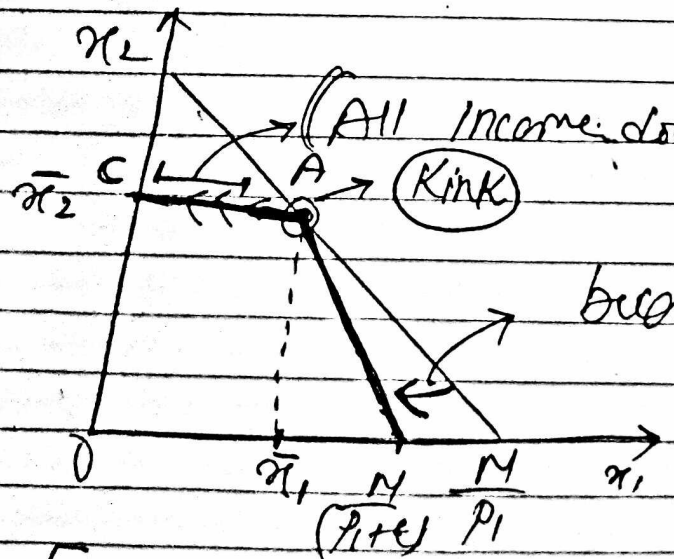


Affordable but can't buy due to govt. restriction on good-x_1



Ques:- If x_2 is rationed at $\bar{x}_2$, also a tax of t is imposed of x_1, $\bar{x}_1$. (Corresponding to $\bar{x}_2$, $x_1 = \bar{x}_1$] Draw new budget Constraint

Ans:-



((All income doesn't get exhausted)) at these points.

become steeper after tax on good-1.

[All the points left to the A all income not]

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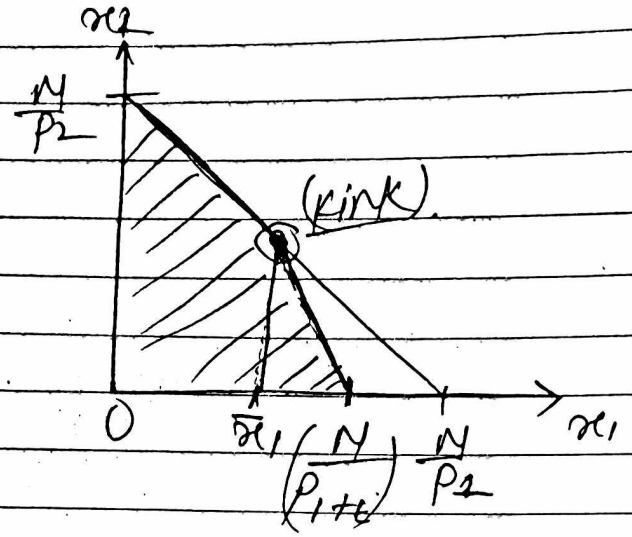
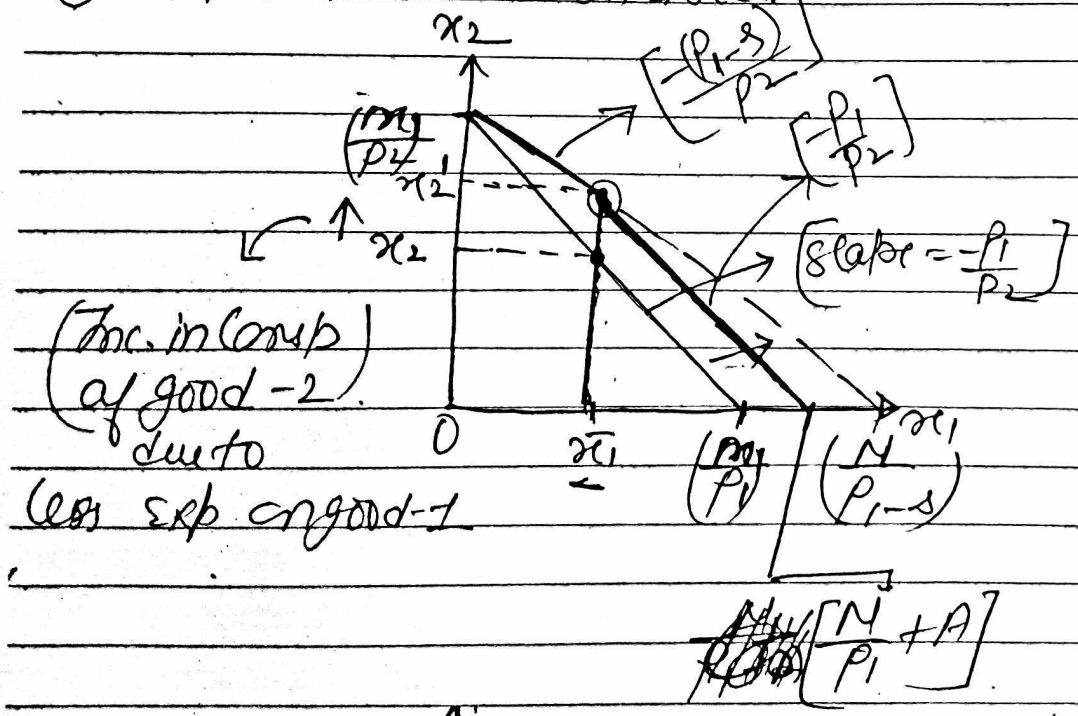
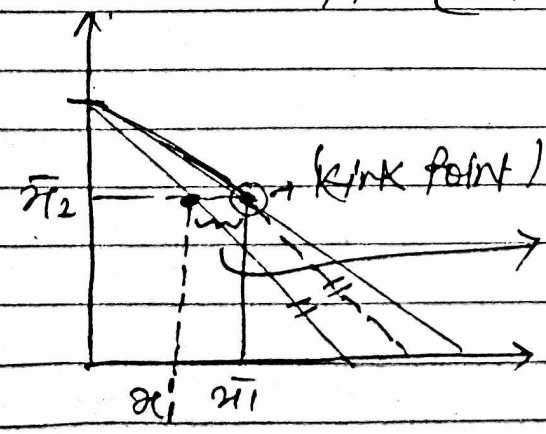
(*) Taxing Higher Consumption or Consumption greater than $\bar{x}_1$.



(*) $x_1 < \bar{x}_1$ is subsidised.





$\boxed{A = \bar{x}_1 - x_1'}$

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Food Stamp programme:- [Before / Pre 1979.] ((Ad-valorem Subsidy))

A maximum of monthly allotment of \$153 of food coupons is being made a family afford with adjusted monthly income of \$300 pay only \$83 for this monthly allotment and family with income \$100 has to pay \$25 for \$153 food coupon.

Income	Coupon price	Price	Diff.	Sub. (σ) (%)
\$300	\$83	\$153	\$70	$70/153 \times 100 = 45$
\$100	\$25	\$153	\$128	$128/153 \times 100 = 83.66$

(Paid by govt.)

or

$P_1' = ?$

If $P_1 = 153$

$\sigma = 45.75\%$ or 0.4575

i.e

$$P_1' = P_1 - \sigma P_1 = P_1(1-\sigma)$$
$$= P_1 - (0.4575)(153)$$
$$= 153 - 69.99.$$
$$\boxed{\approx \$83}$$

(*) → \$83 ≈ \$153

→ \$1 ≈ $\frac{\$153}{\$83}$ = \$ 1.84.

⇒ \$1 ≈ \$1.84.

\$1.84 of food item are allocated at only \$1.

(*) → \$25 ≈ \$153

→ \$1 ≈ $\frac{153}{25}$ ≈ \$6.125.

⇒ [\$1 ≈ \$6.12]

∴ \$6.12 of food items are allocated at \$1 only/-.

(*) How much sub- given from amount of food. (Actually pay.)

i) (\$1) = \$ 1.84.

Actually Pay = $1.84 - \left[1.84 \times \frac{45.25}{100}\right]$

≈ 1.84 − 0.84

≈ \$1 → Actual price.

ii) [\$1 = \$6.12] → Actual Price.

Actually Paye = $6.12 − $\left(6.12 \times \frac{83.66}{100}\right)$

= \$6.12 − \$5.12

= \$1.

∴ Price Subsidised = 6.12 − 1

= 5.12

∴ Subsidy = $\frac{5.12}{6.12}$ × 100 = 83.66%.

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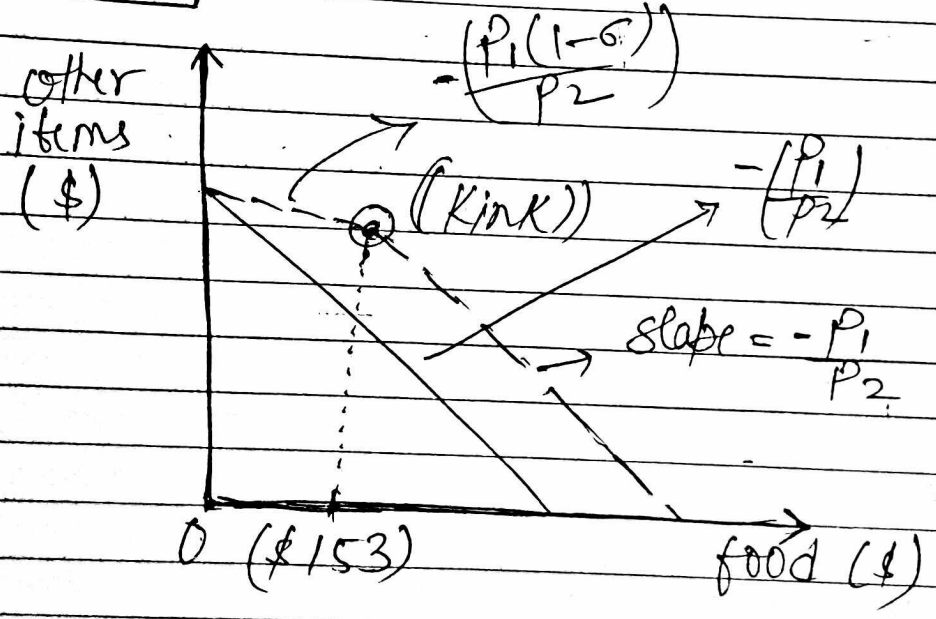
(x) Find New Price, given Subsidy rate.

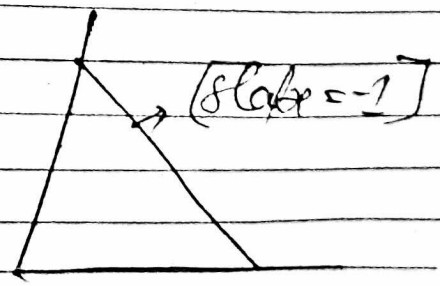
→ $P_1' = P_1(1-\sigma)$
$= P_1(1-0.4575)$
$= 1.84(1-0.4575)$
$= (\$1)$

→ $P_2' = P_2(1-\sigma)$
$= 6.12(1-.8366)$
$= \boxed{\$1}$



Initially assuming that price of each good is equal to 1, since, we are measuring each good in terms of the money spent on it.

→ [Price of $1 is $1]

$P_1x_1 + P_2x_2 = M$
↳ (Horizontal Axis) ↓ (vertical Axis)

$\boxed{P_1 = P_2 = 1}$
⇒ [slope = -1]