Engel Curves

Demand and income

• If your income is initially $X_1$, you buy $A_1$ apples.
• When your income rises to $X_2$, you buy $A_2$ apples.
• To make the obvious point, demand is a function of income.

How demand rises with income

• Lets plot the combinations of apples and income ($X$) from the previous graph.
• Connecting all possible points, we get the **Engel curve**, giving demand as a function of income.

The Shape of the Engel Curve

• The shape of the Engel Curve gives us the income elasticity of demand for the good.
• If the Engel Curve is a straight line, the income elasticity is 1.0.
The Shape of the Engel Curve

- The shape of the Engel Curve gives us the income elasticity of demand for the good.
- If the Engel Curve has increasing slope the elasticity is greater than 1.0.

A Qualification

This is how we drew the Engel Curve.
Usually people flip the axes.
And end up with this.
End

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