

# Are You Tired of the Slutsky Equation?

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## **Abstract**

The Slutsky equation has been evaluated to a considerable extent on the ground that it can give the rationale for a Giffen good. Since the evidence for such goods is still extremely limited, it is not so helpful from an actual point of view. This paper presents another equation that decomposes the effect of a change in its price on the demand for a good into two effects, the “ratio effect” and the “elasticity effect.” The Slutsky equation and the new one are “complements,” but the latter is much easier to understand intuitively. Examples of application are also provided.

Key words: The Slutsky equation, Price effect, Ratio effect, Elasticity effect

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