#1 Demonstrate how PCC with varying price Py, (Px and Income are fixed) can give us the price elasticity of Y to be equal to, less than, or greater than 1 in absolute value

#2

7. A college student has two options for meals: eating at the dining hall for $6 per meal, or eating a Cup O' Soup for $1.50 per meal. Her weekly food budget is $60.

   a. Draw the budget constraint showing the trade-off between dining-hall meals and Cups O' Soup. Assuming that she spends equal amounts on both goods, draw an indifference curve showing the optimum choice. Label the optimum as point A.

   b. Suppose the price of a Cup O' Soup now rises to $2. Using your diagram from part (a), show the consequences of this change in price. Assume that our student now spends only 30 percent of her income on dining-hall meals. Label the new optimum as point B.

   c. What happened to the quantity of Cups O' Soup consumed as a result of this price change? What does this result say about the income and substitution effects? Explain.

   d. Use points A and B to draw a demand curve for Cup O' Soup. What is this type of good called?

#3

11. Economist George Stigler once wrote that, according to consumer theory, "if consumers do not buy less of a commodity when their incomes rise, they will surely buy less when the price of the commodity rises." Explain this statement using the concepts of income and substitution effects.

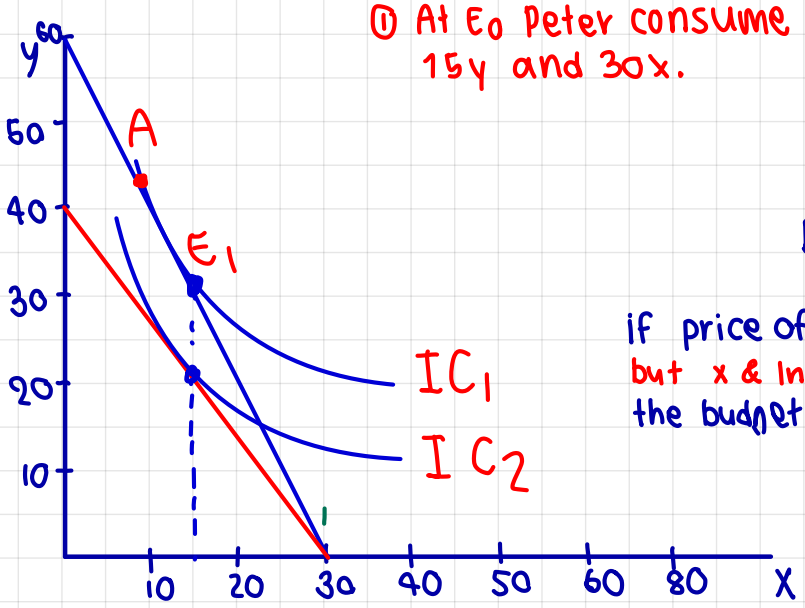
#1 Demonstrate how PCC with varying price Py, (Px and Income are fixed) can give us the price elasticity of Y to be equal to, less than, or greater than 1 in absolute value

We assumed ว่า x and income are constant.

Assumed Peter has a budget of 120 to consume X and Y.
X cost 4 ฿
Y cost 3 ฿

$BL_0 = 4x + 3y = 120$

① At E_0 Peter consume 15y and 30x.



if price of Y decrease 2 ฿
but x & Income remain the same.
the budget line will change to

$\frac{\Delta Q_y}{\Delta P_y} = -1$

$\%\Delta Q_y = \frac{y-20}{\frac{(y+120)}{2}} \times 100 = 40$

$= 30$

Suppose that equilibrium occurs at point A instead E_1

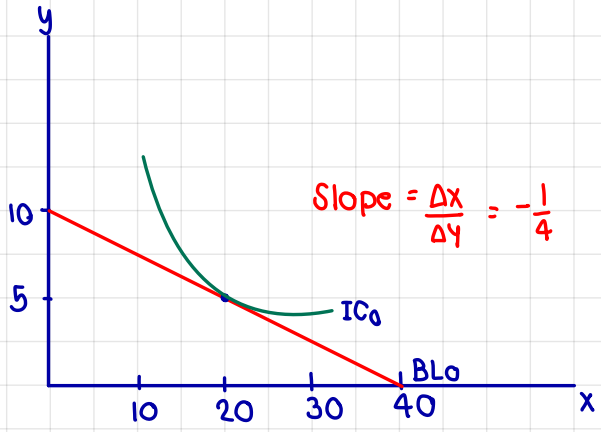
$\%\Delta Q_y$ will be greater than 40%.

$|Ny| = \left| \frac{\Delta\%Q_y > 40\%}{40\%} \right| > 1$

if the equilibrium occurs at point B instead of E_1,

so $|Ny| = \left| \frac{\Delta\%Q_y < 40\%}{40\%} \right| < 1$

※ 2



b)

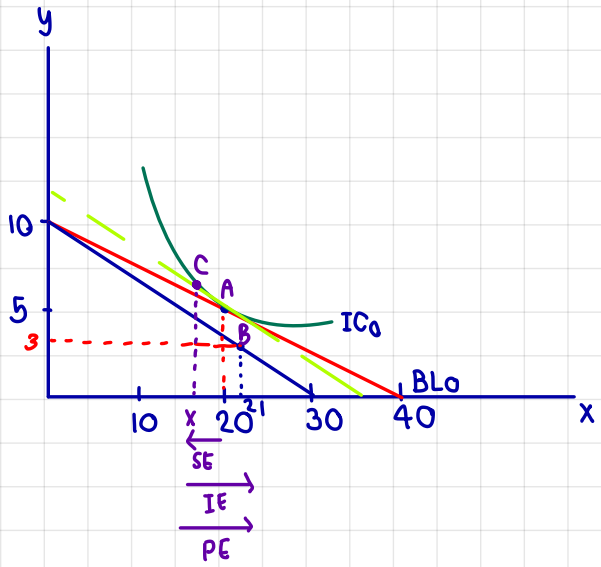
Suppose the student spend only 30% of income

$X_1 : 2X = 60(0.7) \Rightarrow X_1 = 21$

$Y_1 = 6y = 60(0.3) \Rightarrow y_1 = 3$ (30%.)

} B: (21.3)

c) the consumption of x is higher when price of x increases.

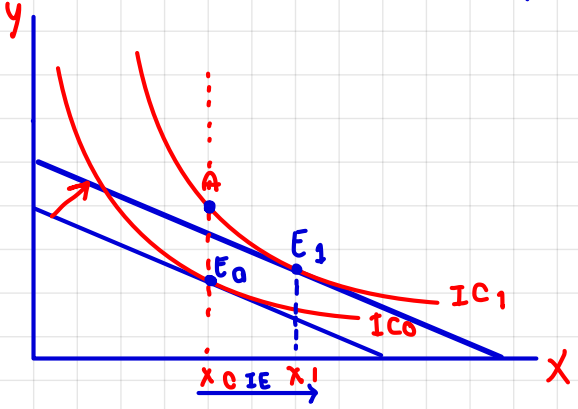


d) its a giffen goods

#3

11. Economist George Stigler once wrote that, according to consumer theory, "if consumers do not buy less of a commodity when their incomes rise, they will surely buy less when the price of the commodity rises." Explain this statement using the concepts of income and substitution effects.

From the first statement its shows that this is a normal good as the income increases people buy more.



here is sub & income effect.