

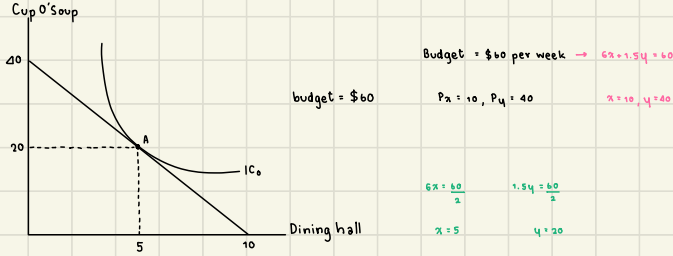
#1 If the price  $P_x$  and  $P_y$  increase 10% at the same time, with income remaining unchanged, show that this is equivalent to a reduction in income.

#2 Demonstrate how PCC with varying price  $P_y$ , ( $P_x$  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

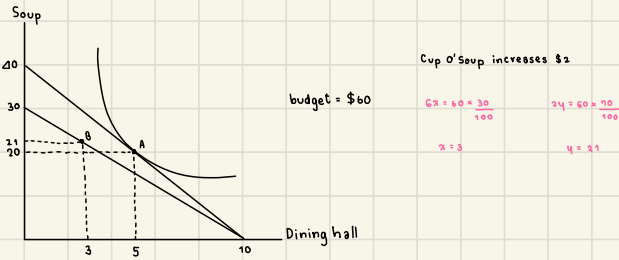
7. A college student has two options for meals: eating at the dining hall for \$6 per meal, or eating a Cup O' Soup for \$1.50 per meal. Her weekly food budget is \$60.
  - a. Draw the budget constraint showing the trade-off between dining-hall meals and Cups O' Soup. Assuming that she spends equal amounts 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?

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- 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.

The Cup O' Soup consumption becomes 1 due to the price change. The consumption increase means the income leads to the increase of consumption.

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

