

Consumer Choices

1. Sarakan city has many types of consumers who have different preferences toward food and liquor:

- (a) Sanan insists that he must drink one bottle of wine after every meal. He will definitely not consume more of one thing without consuming more of the other.
- (b) John, a heart breaking young man, completely ignores any food and relieves his aching heart with liquor all day long.
- (c) Satis believes that only food is useful to his health. Liquor is hazardous.
- (d) Somchai is happy to consume both goods. But he will feel worse off if he has to choose to consume only one of them without the other.

From the above preferences, draw the indifference curves (plot food on the horizontal axis) for each case and show its corresponding equilibrium.

2. From question 1, analyze the impact of an increase in the liquor excise tax rate on the proportion of food to liquor consumption. Draw pictures and explain.
3. Ms. Somsri earns 10,000 Baht per month. She is planning to choose one of the packages offered by a mobile phone company. The two available packages are shown below:

Package	Monthly fee (Baht)	Free calls (Minutes)	Normal air time rate (Baht/minute)*
Light	1,000	200	5
Professional	2,000	500	4

* This air time rate is charged only when total calls exceed the allowed free calls. Fractions of minutes are charged by the actual seconds.

- (a) Let the horizontal axis (X) be the minutes of calls, while the vertical axis (Y) be a composite good representing all other commodities with the price $P_Y = 1$ per unit. Draw a budget line for each package in the same picture. Mark clearly and describe important bending and end points on each budget line.
 - (b) From your picture drawn in (a) show and explain which package she will choose and how much Y and X will be consumed. Separate your answer into two cases when Somsri is: a “phone addict”, versus a normal phone user.
4. During the recession, between mini-mart and jewelry which business do you think would be affected more? Why?

5. Suchat usually buys only one bottle of soft drink from the mini-mart closed by his house. The mini-mart has just announced that if he buys up to two bottles, the remaining purchase is 10 percent off the regular price.
- (a) Let X be the number of bottles he buys and Y be the other commodities. Show his original consumption point on a graph (assuming that X and Y are imperfectly substitutes).
 - (b) Show and explain the change in his budget line due to the promotion. Mark clearly the important kinked point(s) on the budget line.
 - (c) Will he always buy more bottles of soft drink? If yes, why? If not, why not? Explain.