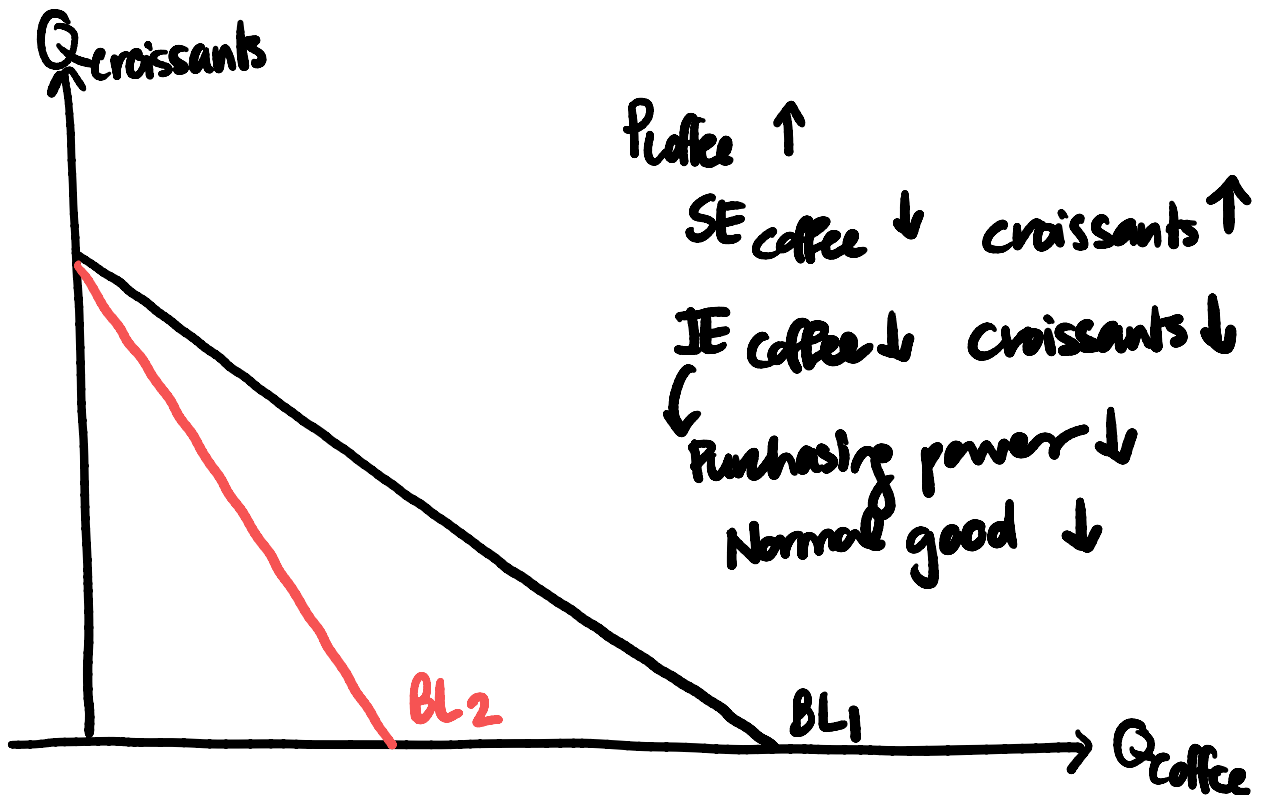


EE211 Section 1 Quiz 4 Answers

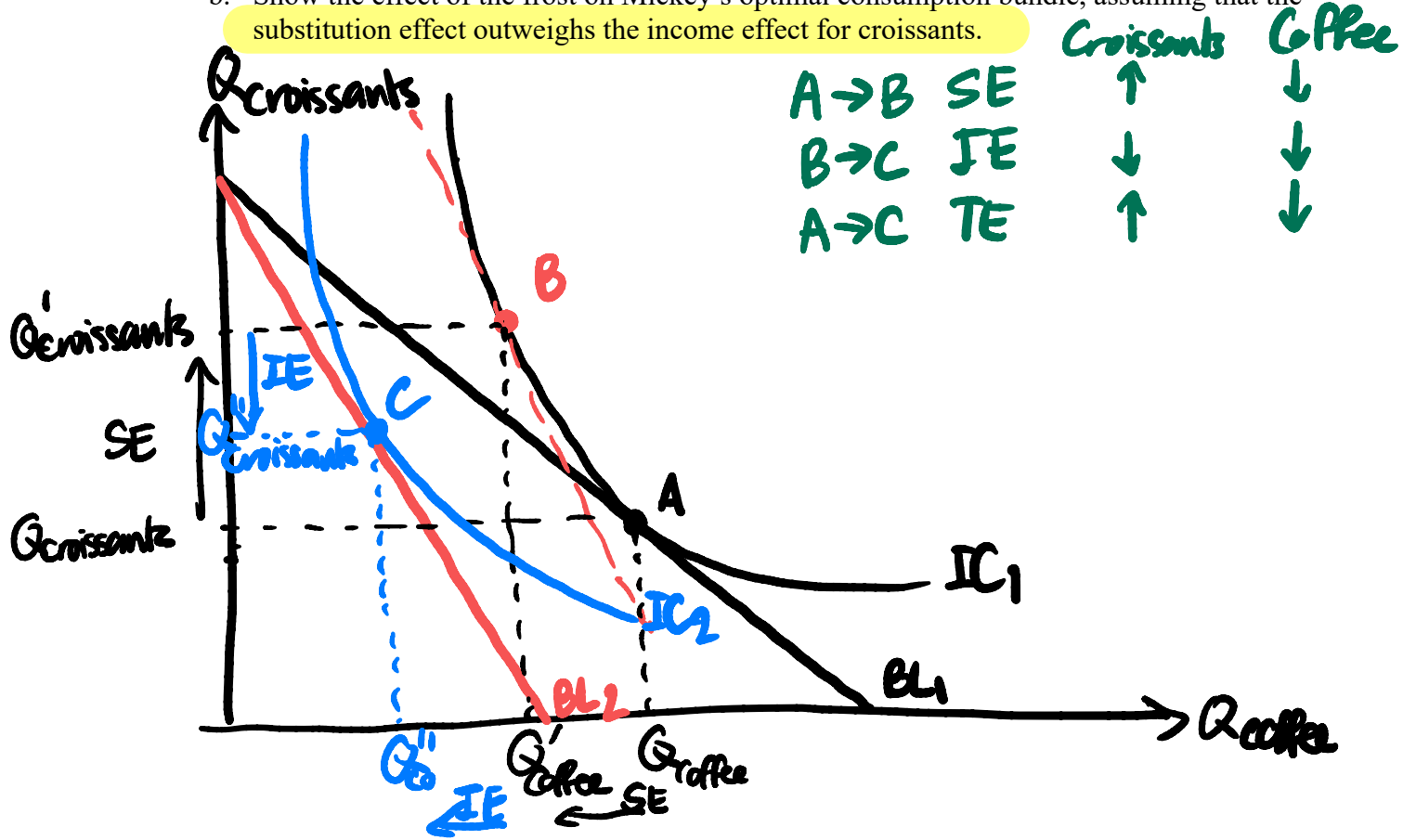
Answers the following questions with full explanation and graphs.

Mickey divides his income between coffee and croissants (both of which are normal goods). An early frost in Brazil causes a large increase in the price of coffee in the United States.

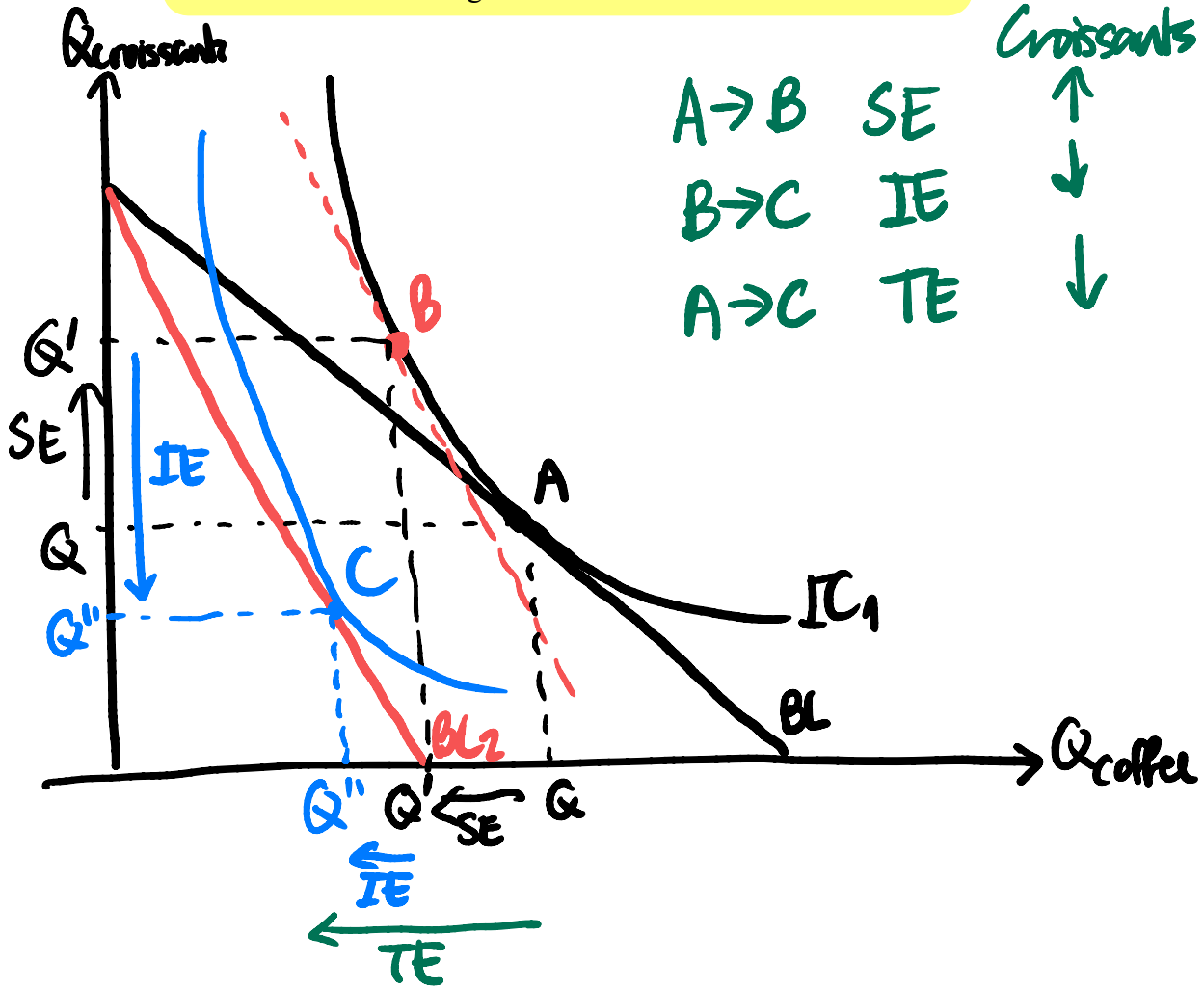
- a. Show the effect of the frost on Mickey's budget constraint.



b. Show the effect of the frost on Mickey's optimal consumption bundle, assuming that the substitution effect outweighs the income effect for croissants.



c. Show the effect of the frost on Mickey's optimal consumption bundle, assuming that the income effect outweighs the substitution effect for croissants.



		Croissants	Coffee
A → B	SE	↑	↓
B → C	IE	↓	↓
A → C	TE	↓	↓