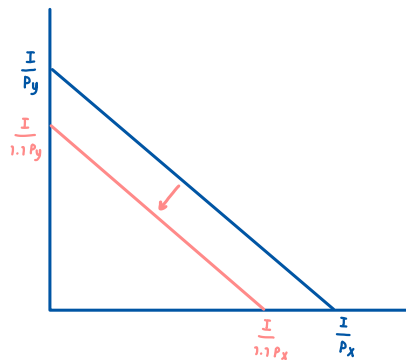


#1 If the price P_x and P_y increase 10% at the same time, with income Remaining unchanged, show that this is equivalent to a reduction in income.

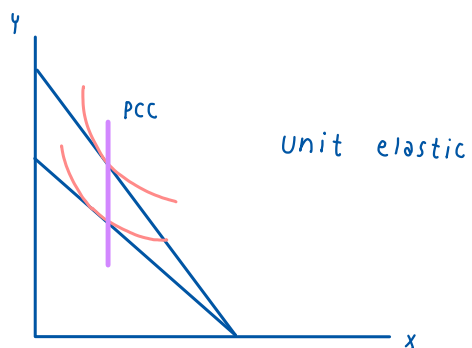
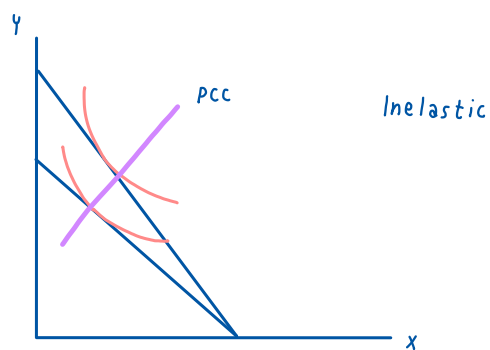
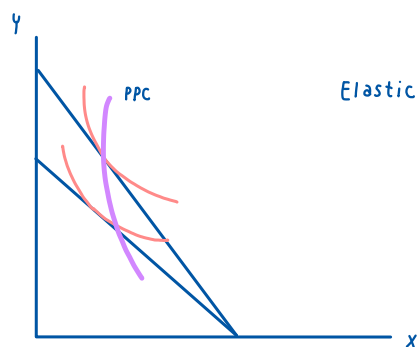
1.)



both x and y are decrease
same as income shift to leftward

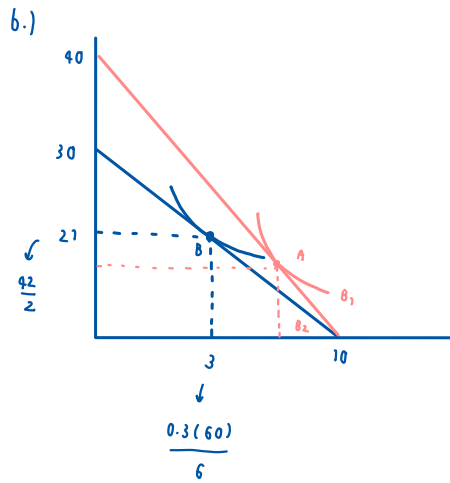
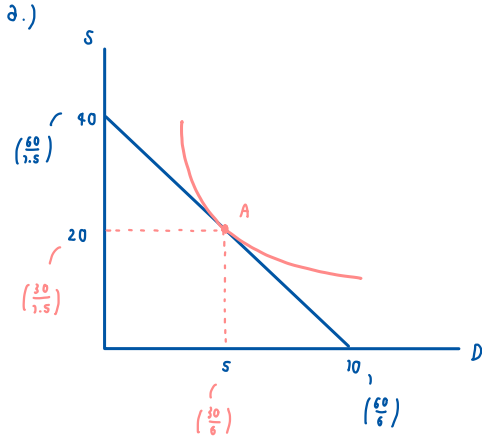
↪ slope

#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

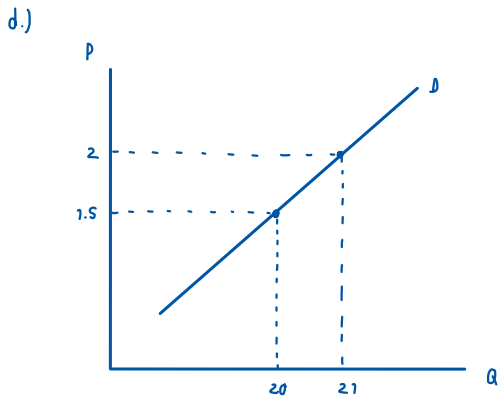


7. A college student has two options for meals: eating at the dining hall for \$6 per meal, or eating a Cup O' Soup for \$1.50 per meal. Her weekly food budget is \$60.

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



c.) Price increase, buy more (20 → 21)
 ∴ Soup is inferior good
 (Income effect > substitution effect)



inferior → demand is positive slope
 which is giffen good