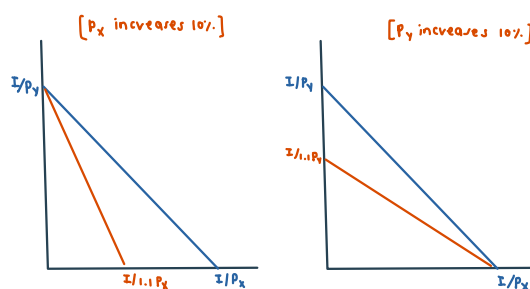
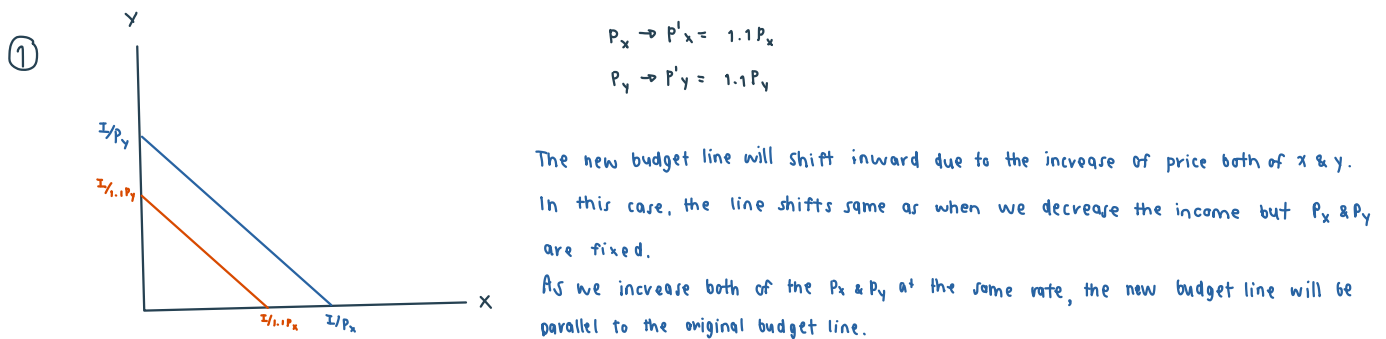


#1 If the price P_x and P_y increase 10% at the same time, with income remaining unchanged, show that this is equivalent to a reduction in income.

#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

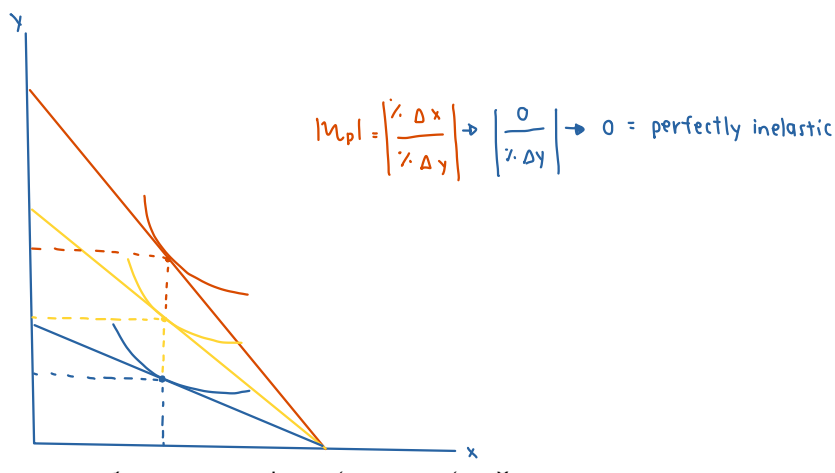
7. A college student has two options for meals: eating at the dining hall for \$6 per meal, or eating a Cup O' Soup for \$1.50 per meal. Her weekly food budget is \$60.

- 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?



These graphs have different condition as you can see how each red line shift

#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

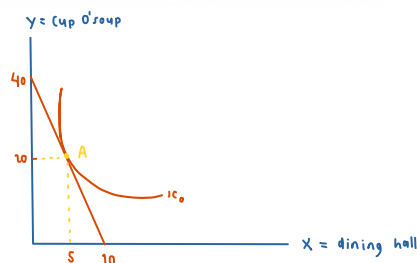


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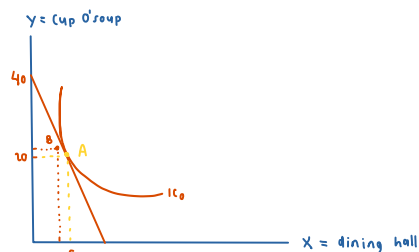
- Draw the budget constraint showing the trade-off between dining-hall meals and Cups O' Soup. Assuming that she spends **equal amounts on both goods**, draw an indifference curve showing the optimum choice. Label the optimum as point A.
- Suppose the price of a Cup O' Soup now rises to **\$2**. Using 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?

① Budget = \$60/week $\rightarrow 6x + 1.5y = 60$
 $P_x = 10$ $12x + 3y = 120$
 $P_y = 40$ $x = 10, y = 40$

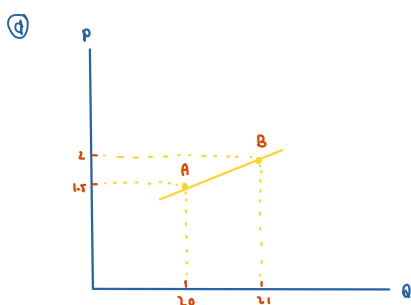
$6x = \frac{60}{2}$ $1.5y = \frac{60}{2}$
 $x = 5$ $y = 20$



② Cup O' soup increases 2\$ $\rightarrow 6x = 60 \cdot \frac{30}{100}$ $2y = 60 \cdot \frac{70}{100}$
 $x = 3$ $y = 21$



- ③ As a result of this price change, the Cup O' soup consumption becomes 1. In this case, the consumption increase means that the income effect leads to the increase of consumption, which the Cup O' soup is inferior goods, and it outweighs the substitution effect



$A = (20, 1.5)$
 $B = (21, 2)$

As the increasing of the graph, it shows that even though the price is higher, the people still consume more which is a Giffen good.