

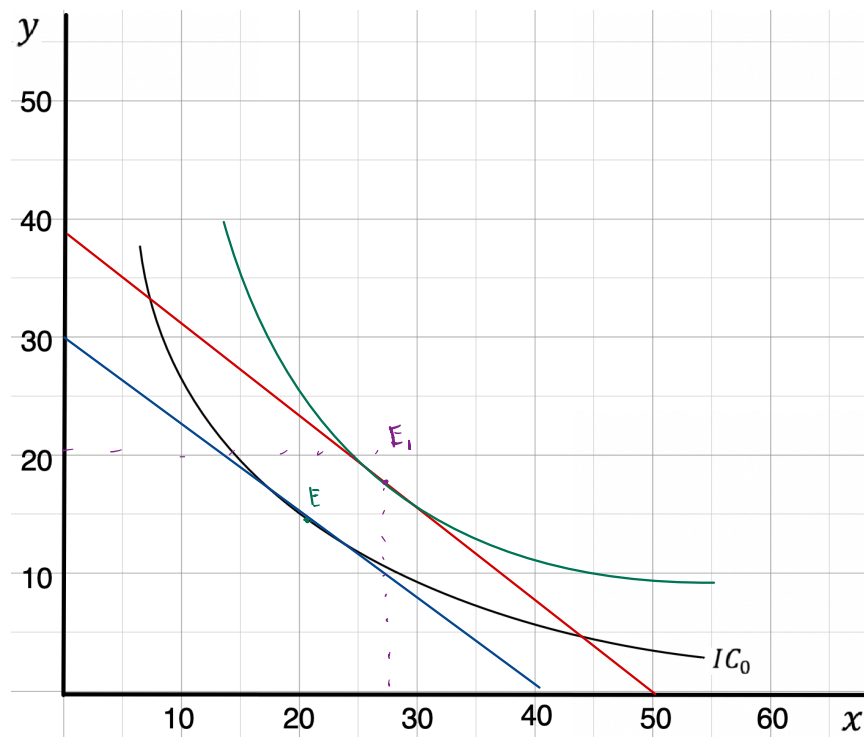
#1

12. Five consumers have the following marginal utility of apples and pears:

| | Marginal Utility of Apples | | Marginal Utility of Pears | |
|--------|----------------------------|---|---------------------------|---|
| Claire | 6 | = | 12 | optimizing |
| Phil | 6 | > | 6 | Not optimizing, For, phil substitute apples for pears |
| Haley | 6 | > | 3 | Not optimizing, For, Alex substitute apples for pears |
| Alex | 3 | = | 6 | optimizing |
| Luke | 3 | < | 12 | Not optimizing, For, Luke substitute pears for apples |

The price of an apple is \$1, and the price of a pear is \$2. Which, if any, of these consumers are optimizing their choices of fruit? For those who are not, how should they change their spending?

#2 Given the price of x = 3, price of y = 4, and budget = 120.



$$\frac{120}{3} = 40$$

$$\frac{120}{4} = 30$$

$$\text{Slope} = -\frac{P_x}{P_y} = -\frac{3}{4}$$

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- Draw the budget line and find the equilibrium with the given indifference curve IC in the diagram below.
- If the income increases from 120 to 150, where will be the new equilibrium so that the change in the consumption of x be such that the Income Elasticity of x is equal to 1. E_1
- With the change of equilibrium you found in (B), what will be the Income Elasticity of y?

Income of y will be 27.5