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1. - Claire is the only one who optimized her choice of fruits best when compared to others.

- Phil : should spend all for apples.

Haley : should spend all for apples

Alex : spend whatever because it will fit equally

Luke : should spend all for pears.

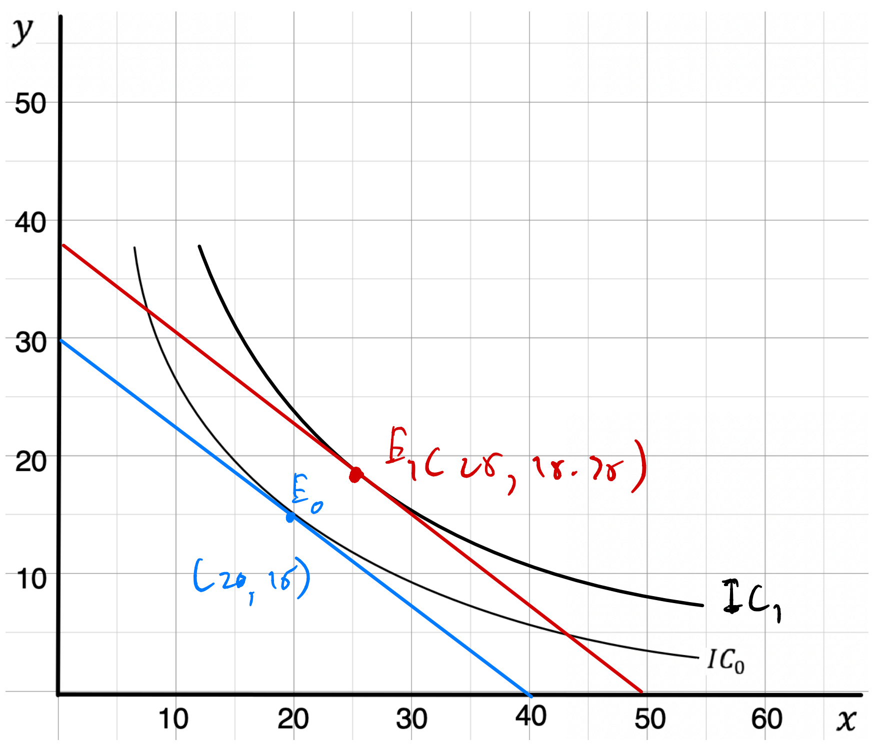
#1

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

	Marginal Utility of Apples	Marginal Utility of Pears
Claire	6	12
Phil	6	6
Haley	6	3
Alex	3	6
Luke	3	12

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.



2. A.) $E_0 = (20, 15)$

B.) (Old) $3x + 4y = 120$

(New) $3x + 4y = 150$

The new equilibrium is $E_0 (20, 15)$ to $E_1 (25, 18.75)$

A) Draw the budget line and find the equilibrium with the given indifference curve IC in the diagram below.
B) 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.
C) With the change of equilibrium you found in (B), what will be the Income Elasticity of y?

C.) $$\frac{\Delta Q_D}{\Delta I} = \frac{\frac{18.75 - 15}{15}}{\frac{150 - 120}{120}} = \frac{0.25}{0.25} = 1$$ #