

Homework – Week 13

Name: _____

Consumer Choice

1) John only consumes two goods: books and bread. The price of one book is \$10 and the price of a loaf of bread is \$2. John's total income is \$200.

A) Draw John's budget line.

B) The price of books decreases to \$5. On the same graph above draw John's new budget line.

C) Assuming John likes both books and bread. Could 5 books and 5 breads be an optimal allocation for John, with the original budget line? Why?

D) If both books and bread are normal goods, and the price of books decreases from \$10 to \$5. Complete the following table with: positive, negative or unknown.

Good	Income Effect	Substitution Effect	Total Effect
Bread			
Books			

2) Show on the graph below the income and substitution effect of an increase in the price of internet (assume internet is a normal good).

Quantity
of internet

Quantity
of cable



3) For the following questions, circle the correct answer.

A) At any point on an indifference curve, the slope of the curve measures the consumer's

- a) income.
- b) willingness to trade one good for the other.
- c) perception of the two goods as substitutes or complements.
- d) elasticity of demand.

B) Matthew and Susan are both optimizing consumers in the markets for shirts and hats, where the price of a shirt is \$100 and the price of a hat is \$50. Matthew buys 4 shirts and 16 hats, while Susan buys 6 shirts and 12 hats.

From this information, we can infer that Matthew's marginal rate of substitution is ____ hats per shirt, while Susan's is ____.

- a) 2, 1
- b) 2, 2