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| **Question 1. Page 154 ( with some modifications)** **A consumer has $300 to spend on goods X and Y. The market prices of these two goods are Px = $15 and Py = $5.**1. Draw the budget constraint. i.e provide a carefully labeled diagram
2. What is the market rate of substitution? Give an interpretation.
3. Illustrate the consumer’s opportunity set in part a) above.
4. Show how the consumer’s opportunity set changes if income increases by $300.
5. Does the increase of income by $300 in part d) above alter the market rate of substitution between goods X and Y?

**Question 3 (with some modifications to the question)**. On page 155* Bottom of Form

**A consumer must spend $600 between the consumption of product X and Y. The relevant market prices are Px = $10 and Py = 40.**1. Write the equation for the consumer’s budget line
2. Illustrate the consumer’s opportunity set in a carefully labeled diagram.
3. Show how the consumer’s opportunity set changes when the price of good X increases to$20.
4. Does the change in the price of good X in part c alter the market rate of substitution between goods X and Y?

Instructions: For each part of the above question, show your work. Graphs may be useful. Explain and show all steps of how you have reached your answer. Don’t simply state your answer. |
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