

ECO135 (05) Quiz 5 Dec. 18, 2017

ID:

Name:

Suppose that $P_x = 10$, $P_y = 20$ and $I = 1000$. Answer the following questions.

Question 1: Draw the budget line by specifying (i) x-intercept and (ii) y-intercept.

Question 2: Let's now suppose that P_y decreased to 15. Draw the new budget line on the figure from Question 1. Clearly specify x and y intercepts. Add necessary curves (2 indifference curves) and a line (one extra budget line) to the figure and show (i) Substitution Effect (ii) Income Effect (iii) Total Effect. Explain if Substitution or Income Effect Dominates.