Quiz 1 - SOLUTION

Attila only consumes two goods, *exes* and *whys*. Let x denote the amount of *exes* and let y denote the amount of *whys* that Attila consumes. The corresponding unit prices are p_x and p_y, and Attila has 90 monetary units to spend.

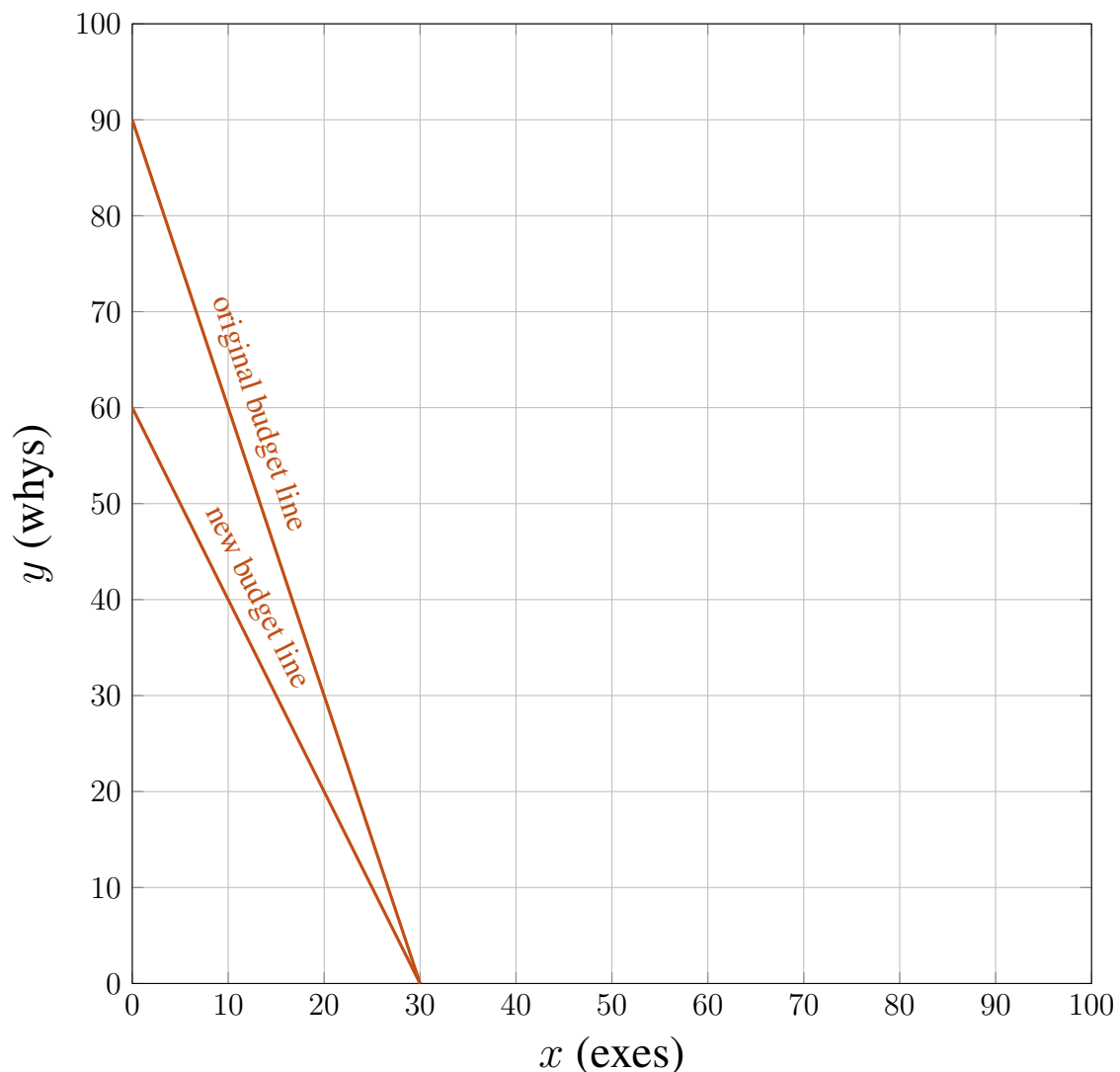- Write a mathematical equation that represents Attila's budget line.

$p_x \cdot x + p_y \cdot y = 90$

From now on, assume that $p_x = 3$ and $p_y = 1$.

- How much is the opportunity cost of *exes*? Remember that it is measured in *whys per exes*.

$\frac{p_x}{p_y} = 3$

- Represent Attila's budget line graphically in the graph below.

- How much is the slope of Attila's budget line? $\frac{\Delta y}{\Delta x} = -\frac{p_x}{p_y} = -3$

- Assume that Attila's income decreases to 60 and (!) the unit price of *exes* decreases to 2, while the unit price of *whys* remains unchanged. Represent Attila's new budget line in the graph above.