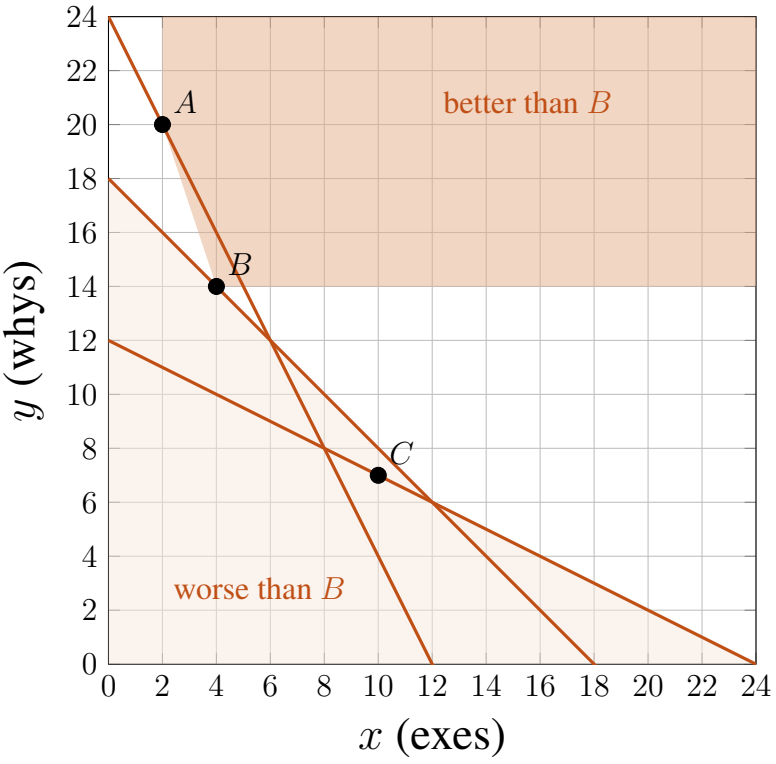
Quiz 5 - SOLUTION

Paula, Attila's distant cousin, likes both *exes* and *whys* too. Just like Attila, she consumes nothing else. Paula **prefers more to less** from both goods, and her preferences are **strictly convex**. Paula lives in a country with ever-changing prices and incomes, but she swears that her preferences are stable.

The graph below illustrates the consumption bundles that Paula has chosen in three different moments in time. The table on the right contains information about prices and income in those three different moments in time.



CHOSEN BUNDLE	PRICES p_x	p_y	INCOME m
A	2	1	24
B	1	1	18
C	1	2	24

- Consider bundles *A* and *B*. Is any of them **directly** revealed preferred to the other? If yes, which one is directly revealed preferred to which one?

  A is directly revealed preferred to *B*

- Consider bundles *B* and *C*. Is any of them **directly** revealed preferred to the other? If yes, which one is directly revealed preferred to which one?

  B is directly revealed preferred to *C*

- Consider bundles *A* and *C*. Is any of them **directly** revealed preferred to the other? If yes, which one is directly revealed preferred to which one?

  none of them is directly revealed preferred to the other

- Now consider bundles *A* and *C* again. Is any of them **indirectly** revealed preferred to the other? If yes, which one is indirectly revealed preferred to which one?

  A is indirectly revealed preferred to *C*

- Suppose that Paula obeys the **strong** axiom of revealed preference. Use the above results along with the properties of Paula's preferences and shade in the areas representing
  - the bundles that Paula weakly prefers to bundle *B*.
  - the bundles that are worse than bundle *B* according to Paula's preferences.