



Suppose the Basket has only two goods:



1 Gallon of
Gasoline

1 Bag of
Apples

Price_{gas} = Price_{apples} = \$2

\$1

$$P_{\text{gas}} = 3 P_{\text{apples}} = 1$$

Prices Change

\$2

\$2

\$3



1 Gallon of
Gasoline


1 Bag of
Apples

1 gallon of gas cost 1 bag of apples

Relative Prices:

1 gallon of gas cost 3 bags of apples

Relative Prices also change:

A black and white speech bubble with a tail pointing to the right. The bubble is oval-shaped with a thin black outline. Inside the bubble, the text is written in a black, sans-serif font, centered and arranged in four lines.

The apple farmer now
has to give up more
apples in exchange
for gasoline

Suppose the Basket has only two goods:

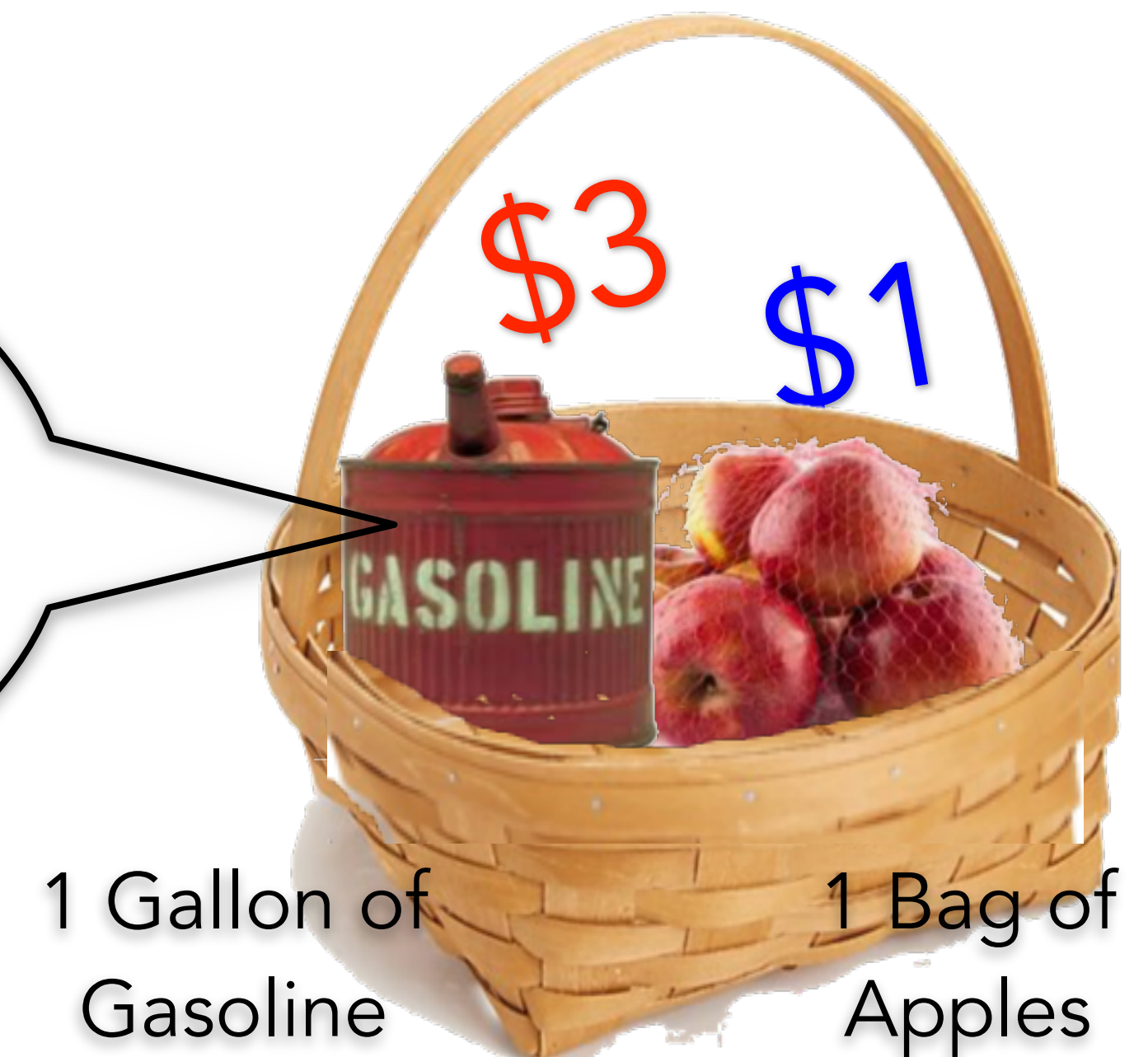
$\text{Price}_{\text{gas}} = \text{Price}_{\text{apples}} = \2

$P_{\text{gas}} = 3 \quad P_{\text{apples}} = 1$

Prices Change



The apple farmer now has to give up more apples in exchange for gasoline



1 gallon of gas cost 1 bag of apples

Relative Prices **also change**:

1 gallon of gas cost 3 bags of apples

$$\text{Price}_{\text{gas}} = \text{Price}_{\text{apples}} = \$2$$



1 Gallon of
Gasoline

1 Bag of
Apples