





Suppose the Basket has only two goods:



1 Gallon of  
Gasoline

1 Bag of  
Apples

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

**\$1**

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

Prices Change



\$2

\$2

\$3



1 Gallon of  
Gasoline

1 Bag of  
Apples

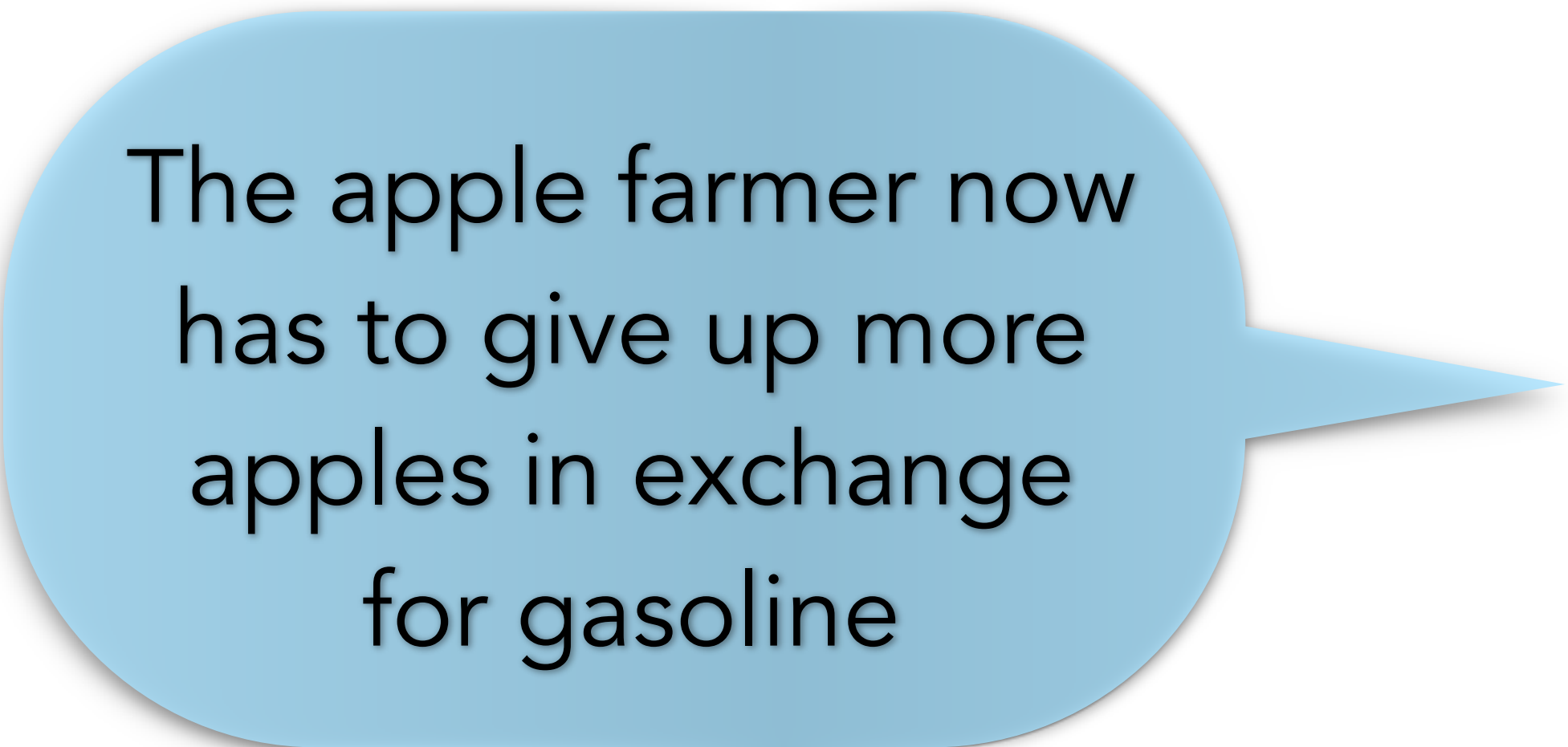
1 gallon of gas cost 1 bag of apples

Relative Prices:

1 gallon of gas cost 3 bags of apples

Relative Prices also change:





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

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