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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

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

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:

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

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1 Gallon of Gasoline

1 Bag of Apples

Prices Change

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

1 Gallon of Gasoline

1 Bag of Apples

1 gallon of gas cost 1 bag of apples

Relative Prices also change:

1 gallon of gas cost 3 bags of apples

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

1 Gallon of Gasoline

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