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

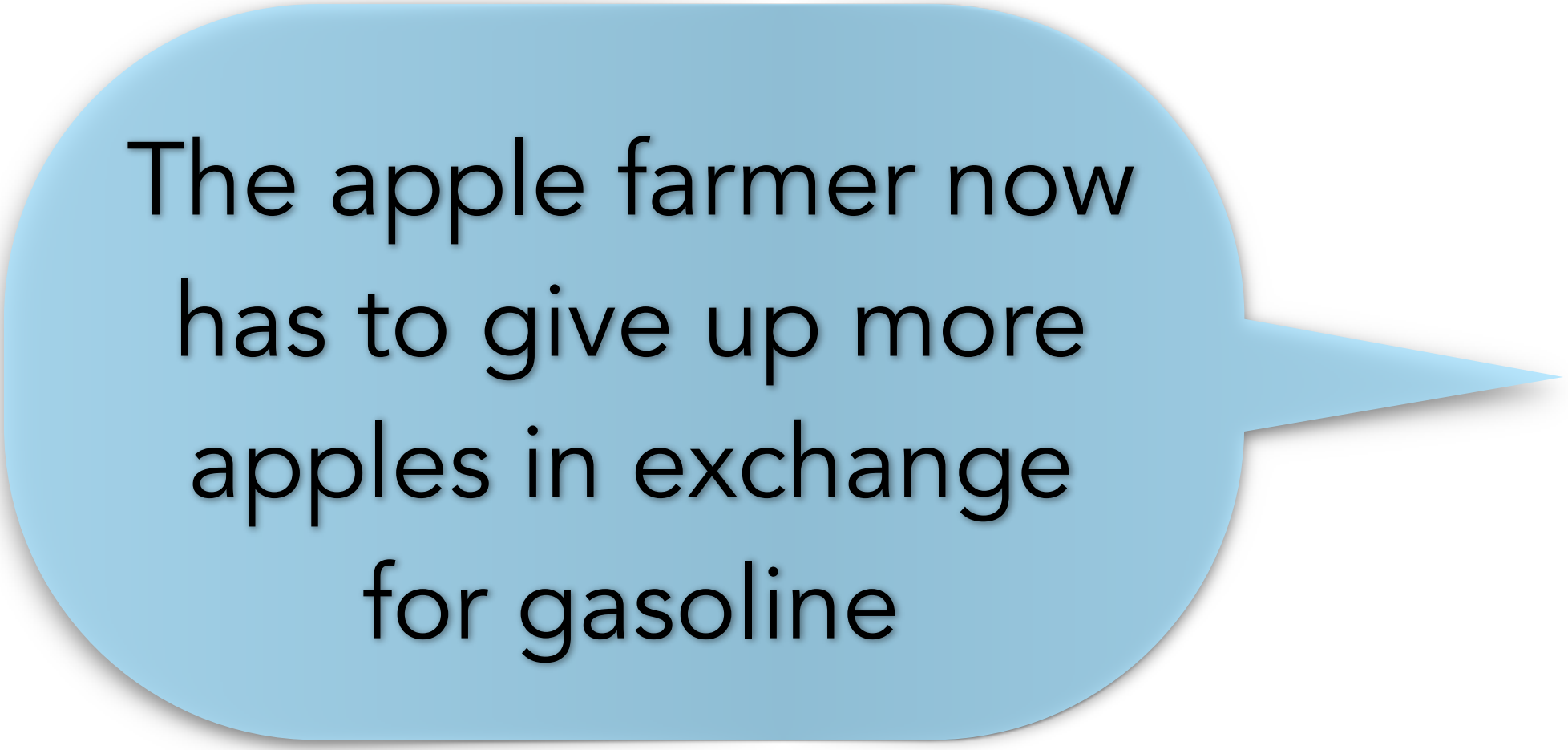
1 Bag of Apples

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:

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

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

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

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

1 Gallon of Gasoline

1 Bag of Apples