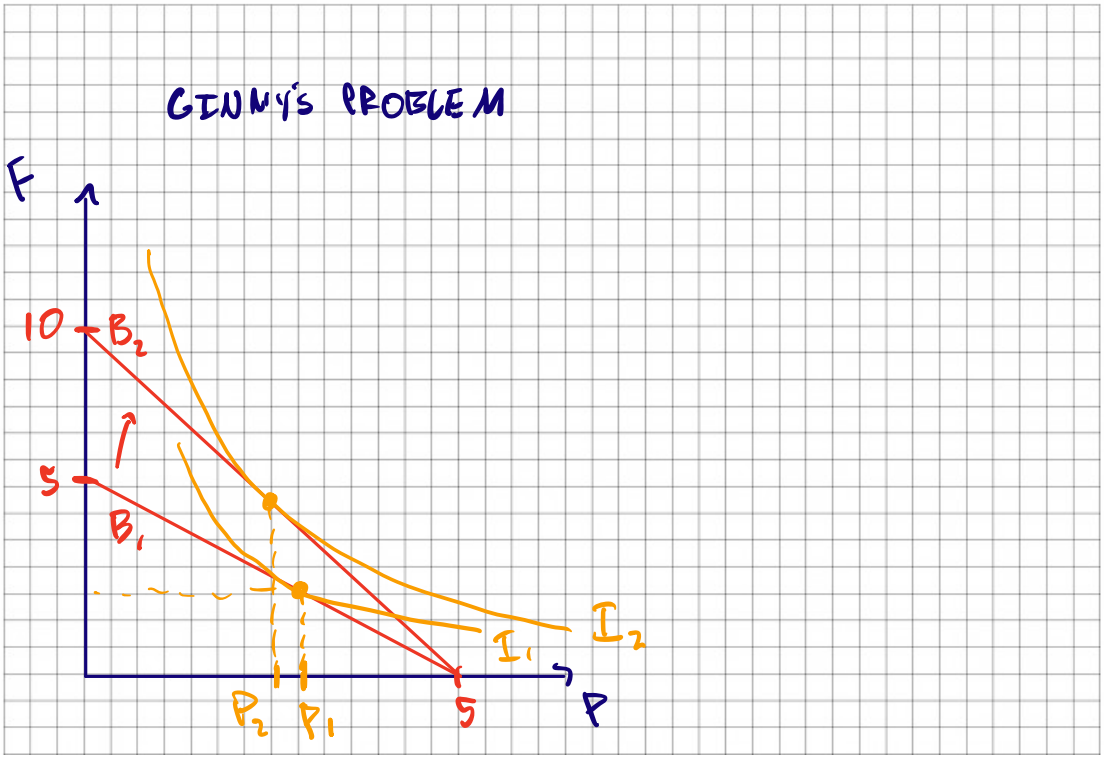
Econ 101 | Demo F2

Luna's Problem

Luna divides her 10 galleons between pumkin pasties which cost 2 galleons and chocolate frogs which costs 2 galleon (both of which are normal goods). But due to an improved harvesting technique for cocoa, the price of chocolate frogs gets cut in half right before the winter holiday season.

Q1 | Budget Constraint

Draw Luna's budget constraint before harvesting improved.



Q2 | New Harvesting Technique

Show the effect of the new harvesting technique on Luna's budget constraint on the graph from Q1.

SHOULD BE B_2

Q3 | New Budget

Use a graph of Luna's indifference curve on the figure in Q1 to show the effect of the new harvesting technology on Luna's optimal consumption bundle. Assume the substitution effect outweighs the income effect for pumkin pasties.

SHOWN as I_2: P_2 is lower than P_1

Q4 | Holiday Tax

In a shockingly tonedeaf move, with questionable intents the Ministry of Magic imposed 'Holiday Tax' on every wizard and witch of ~~10~~ 2 galleons right before the holidays. Use a graph to discuss the effect of the ~~10~~ 2 galleon tax on Luna's optimal consumption bundle.