

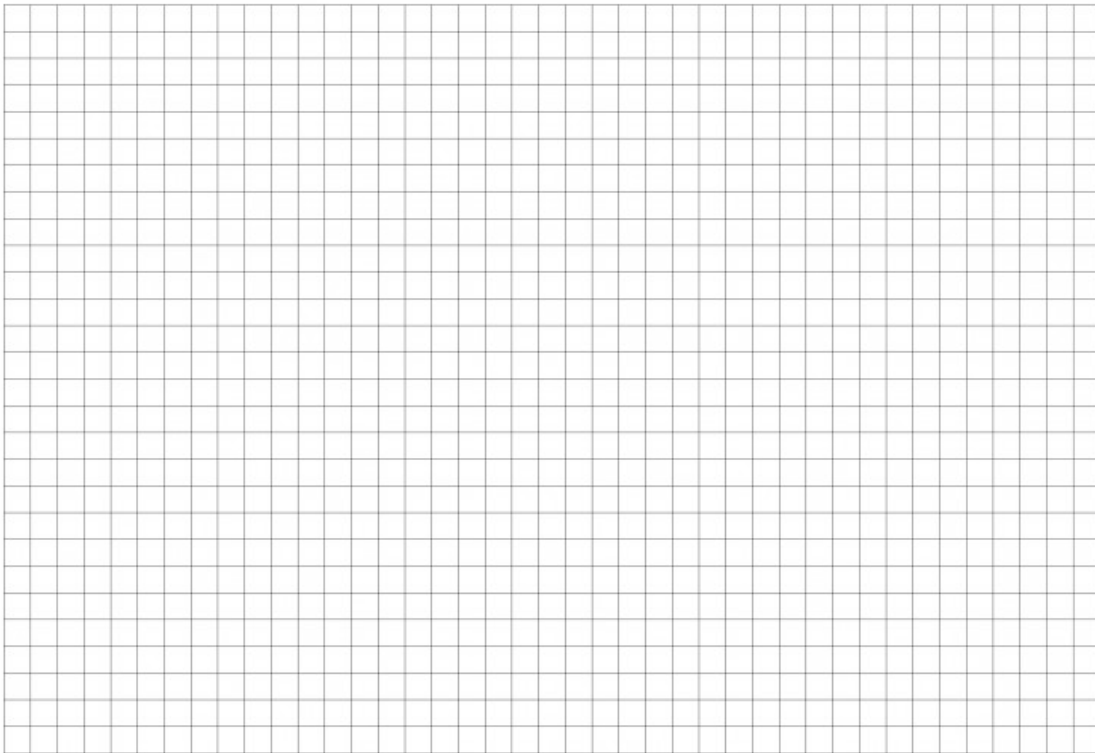
## Econ 101 | Demo F4

### Luna's Other 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 to gets cut in half right before the winter holiday season.

#### Q1 | Budget Constraint

Draw Luna's budget constraint before harvesting improved.



#### Q2 | New Budget Constraint

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

### **Q3 | Indifference**

Draw Luna's indifference curve on the graph from Part A and show the effect of the new harvesting technology on Luna's optimal consumption bundle assuming that the substitution effect outweighs the income effect for pumkin pasties.

### **Q4 | Check in the Mail**

In response to the price increase around the holiday season, the Ministry of Magic sent every wizard and witch a 10 galleon check in the mail to ensure families are able to afford the treat. Show the effect of the 10 galleons on Luna's optimal consumption bundle.

