

Intro Microeconomics | Homework F

Due Thursday Dec. 8

Homework is designed to both test your knowledge and challenge you to apply familiar concepts in new applications. Answer clearly and completely; show your work so I can understand your thought process for partial credit; you are welcomed and encouraged to work in groups as long as your work is your own.

Luna's Problem

Luna works in the delivery industry and has 100 galleons to spend on pumpkin pasties which cost 2 galleons and chocolate frogs which cost 4 galleons (both normal goods).

Q1 | Budget Constraint

Draw Luna's budget constraint.



Q2 | Indifference

Draw Luna's indifference curve on the graph from Q1.

Q3 | A Blighted Budget

Surprisingly an unusual fungus blight in Columbia causes the price of chocolate frogs to double right before the winter holiday season. On the graph from Q1, draw the effect of the blight on Luna's budget constraint and optimal consumption bundle. Assume the substitution effect outweighs the income effect for pumpkin pasties.

Q4 | Holiday Delivery Surge

The holiday season saw an increase in demand for deliveries (her chosen career). Use a graph to show what happened to Luna's optimal consumption bundle in response to the surge during the holiday season.

