Econ 0100 | Classwork F1

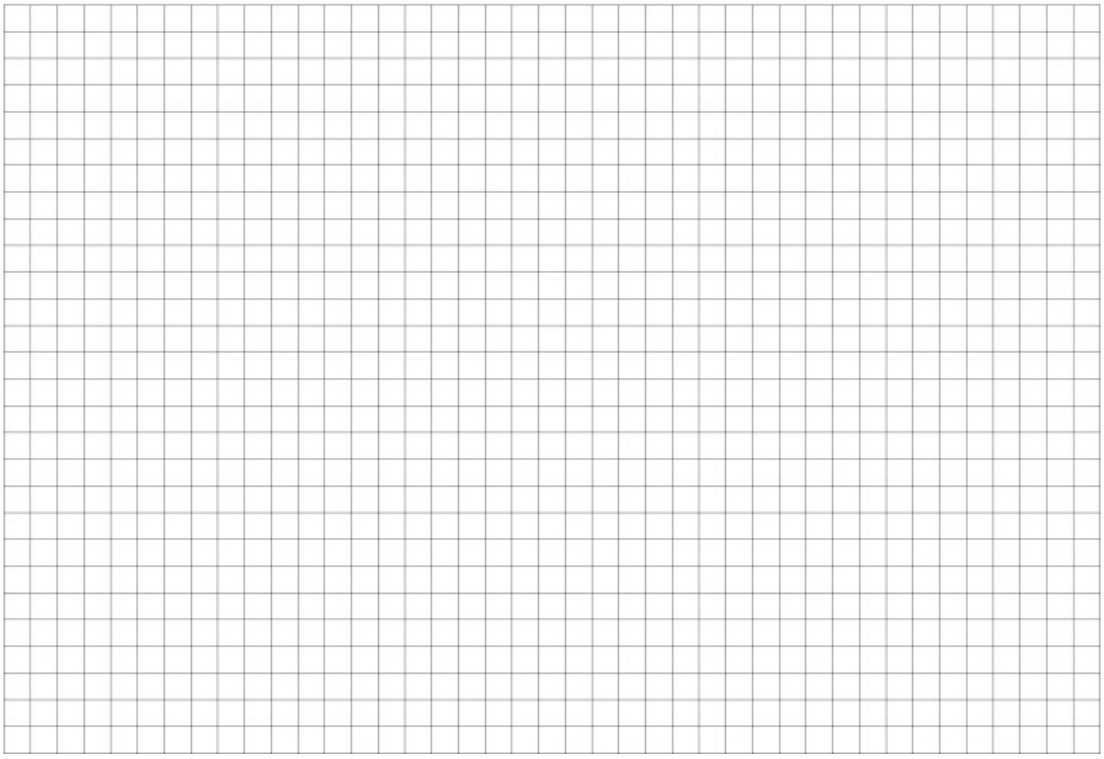
Due in Recitation

Neville's Problem

Neville works in the delivery industry and has 100 galleons to spend on pumpkin pasties which cost 4 galleons and chocolate frogs which cost 2 galleons.

Q1 | Budget Constraint

Start by drawing Neville's budget constraint with pumpkin pasties on the vertical axis and chocolate frogs on the horizontal axis. Be sure to clearly label the axes and intercepts.



Q2 | Indifference

Add to the budget constraint graph from Q1 by drawing the highest indifference curve Neville can achieve. Be sure to label the solution to his Consumer's Problem.

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 Neville's budget constraint.

Show on the horizontal axis what happens to his optimal quantity of chocolate frogs. *Later we'll use that the substitution effect outweighs the income effect for pumpkin pasties to show how the quantity of pumpkin pasties changes.*

Q4 | Holiday Delivery Surge

The holiday season saw an increase in demand for deliveries (his chosen career), leading him to earn an extra 40 galleons. Use a graph to show what happened to Neville's optimal consumption bundle in response to the surge during the holiday season. Both are normal goods, meaning demand increases with income.