

ECO 135 (1) Quiz 2. Answers.

Q: By using Budget Constraint and indifference curve, show income, substitution and total effect.

* There was a mistake in the question

It should be

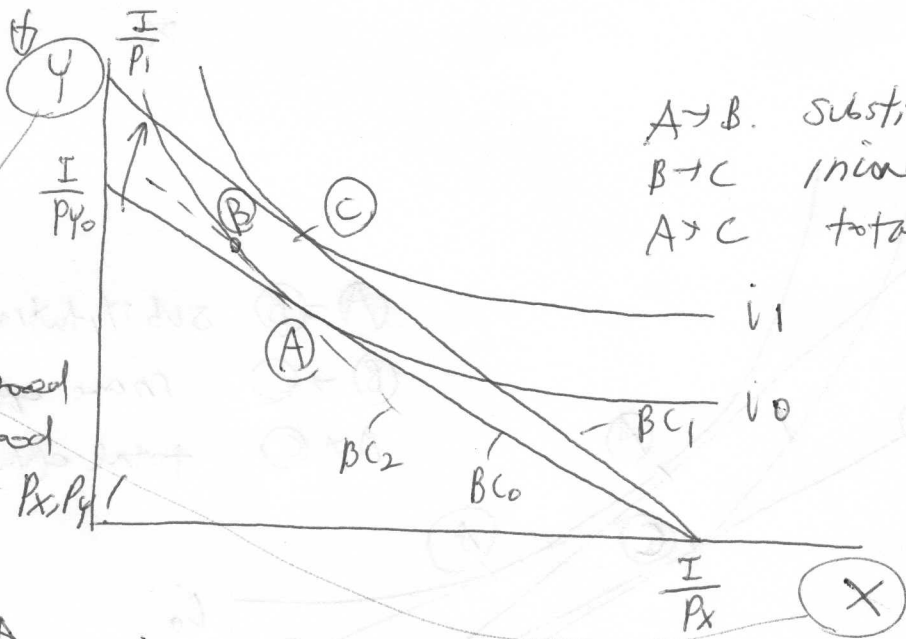
"Label A→B as substitution effect

B→C as income effect" BC_0

- Sorry for the confusion, If you draw BC_1, BC_2 i.e., i, correctly, you get 10/10. 2 points for participation.

Case 1

$P_Y \uparrow$



A→B. substitution effect
B→C income effect
A→C total effect.

+ Please make sure that you label

X & Y axis.

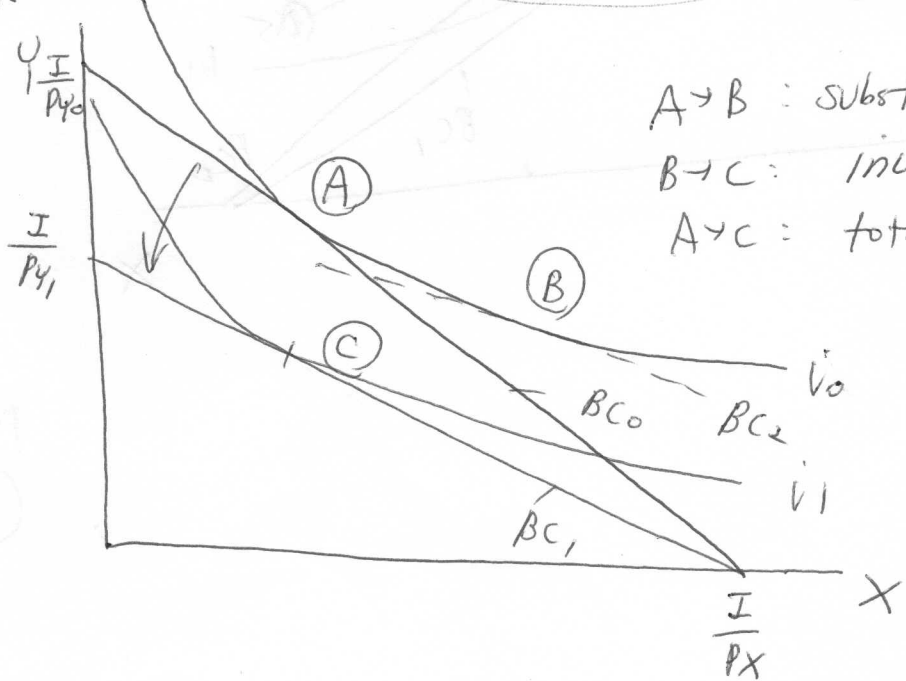
In this case, X good

on X-axis & Y good

on Y-axis. Not P_X, P_Y

Case 2

$P_Y \uparrow$



A→B : substitution effect
B→C : income effect
A→C : total effect.