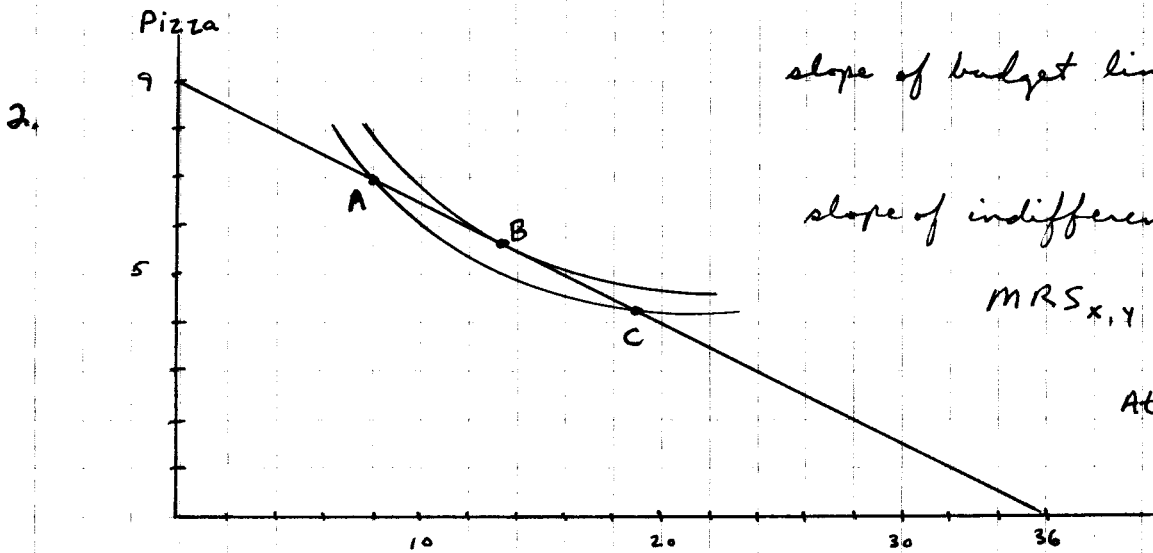


Unless you consume all banana splits and no enchiladas, you are worse off. Your 2nd period budget constraint lies everywhere inside your 1st period budget constraint.



slope of budget line = $\frac{P_x}{P_y} = \frac{1}{4}$

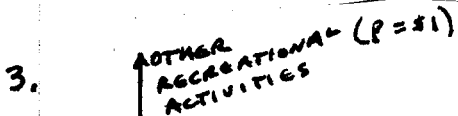
slope of indifference curve =

$MRS_{x,y} = \frac{1 \text{ pizza}}{2 \text{ beer}}$

At point A $MRS_{x,y} > \frac{P_x}{P_y}$

Manfred is not maximizing utility since $MRS_{x,y} \neq P_x/P_y$. Instead, he is at a point

like A since $MRS_{x,y} > P_x/P_y$.



(a) $P_{ORA} = \$1$

$P_{HC} = \$4$

$I = \$100$

(b) $P_{ORA} = \$1$

$P_{HC} = \$1$

$I = \$100 - \$30 = \$70$ if

$HC \text{ hours} > 0$

Since the original bundle can be purchased under the new pricing scheme, Mike can clearly reach a higher indifference curve than U_0 .

4.

MILK

Tommy's bliss point: 8 cookies, 4 milk

More than 8 cookies \Rightarrow cookies are bad

More than 4 milk \Rightarrow milk is bad

[13 cookies, 1 milk] is preferred

to [4 cookies, 6 milk]

