Question 2  
(10 points)

Suppose a consumer has an income of $900 and will spend it all. Assume the price of one good, call it C, is $30 and the price of another good, call it F, is $60.

Using the axes below draw the consumer’s budget line, being sure to label the end points.

A.)

B.) What is the slope of the budget line?

C.) Assume the utility maximizing bundle for this consumer is 20 units of C and 5 units of F. Mark the point on the budget line and label it K. Now, assume both prices decrease by 50%. Draw the new budget constraint using the axes above, and label it HI. Be sure to label the end points again.

D.) What is the slope of the new budget line?

E.) Assume that the income elasticity of C is positive and the income elasticity of F is negative. Draw an indifference curve that identifies the utility maximizing bundle on HI which is consistent with this information.