

Econ 101 | Demo F1

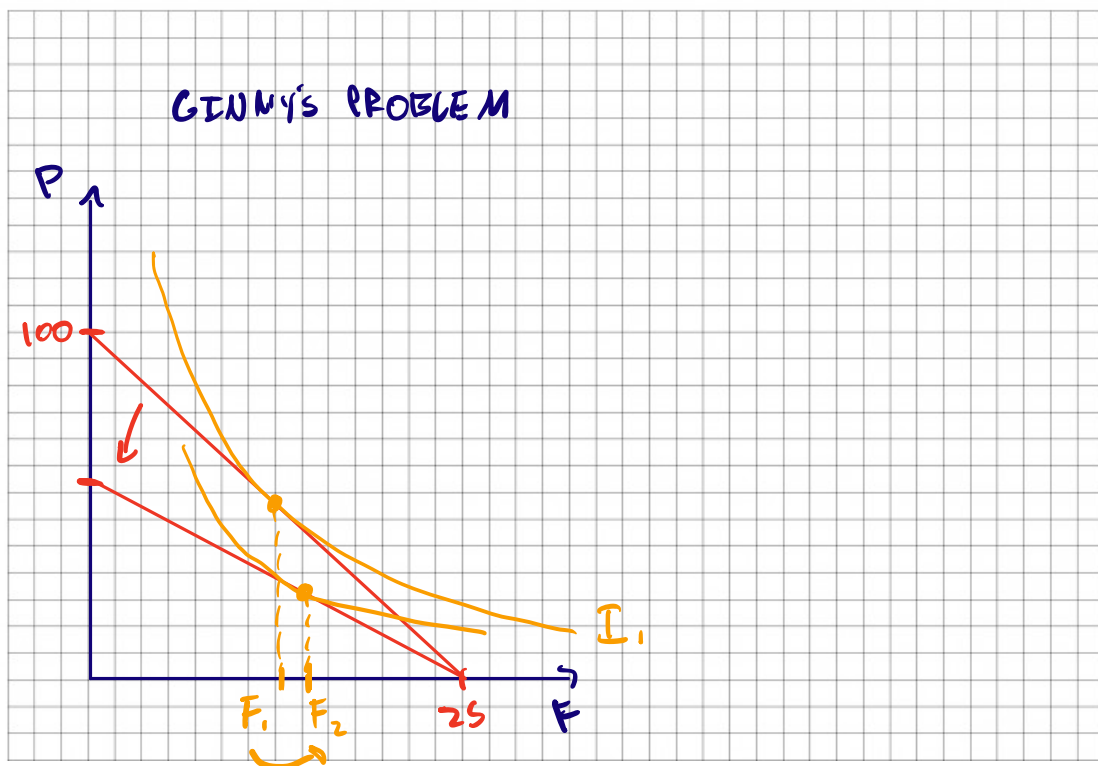
Demo F1 is adapted from a MiniExam in a past semester.

Ginny's Problem

Ginny divides her 100 galleons between pumpkin pasties which cost 1 galleon and chocolate frogs which cost 4 galleons (both of which are normal goods).

Q1 | Budget Constraint

Draw Ginny's budget constraint with pumpkin pasties on the vertical axis.



Q2 | Pumpkin Blight

This fall season was shaping up to be lovely until a blight on pumpkins shocked the wizarding culinary world. Show the effect of the blight on Ginny's budget constraint on the graph from Q1.

Use words to describe the intuition for your conclusions, as if you were explaining the result to a friend.

The blight made it more costly to make pumpkin pasties, raising the price. This lowered the budget constraint.

Q3 | Changing Choices

Use a graph of Ginny's indifference curve on the figure in Q1 to show the effect the blight had on her optimal consumption bundle. Assume the substitution effect outweighs the income effect for chocolate frogs.

Use words to describe the intuition for your conclusions, again as if you were explaining the result to a friend.

This shock lowered the budget, forcing a lower indifference curve, I_2 . Since substitution effects outweigh income effects, Ginny shifted her consumption toward F: the relatively better price of F outweighed the more constraining budget.

Q4 | Holiday Gift

In response to the blight around the holiday season, the Ministry of Magic sent every wizard and witch a 50 galleon check in the mail to ensure families are able to afford special treats. Show the effect of the holiday gift on Ginny's optimal consumption bundle.

The holiday gift shifted out her budget, raising the quantity of both goods, assuming they are normal.

GINNY'S PROBLEM

