

EXERCISE: UNIT II

NAME: _____

LAB INST.: _____

LAB TIME: _____

1. On two different graphs, draw two indifference curves that will result in demand curves one of which will be elastic and one of which will be inelastic.
2. Why are indifference curves convex to the origin? Explain your answer.
3. Define an equilibrium in the context of indifference curve analysis.
4. Explain the slope of the budget line.

5. Complete the following graphs. Point Z is the consumer's initial equilibrium and corresponds to Z' in the price-quantity space.

1. Draw a budget line showing a decrease in the price of good #2.
2. Draw the new equilibrium associated with this new set of relative prices.
3. Draw the point in price-quantity space that corresponds to this new equilibrium point.
4. Draw the demand for good #2

