

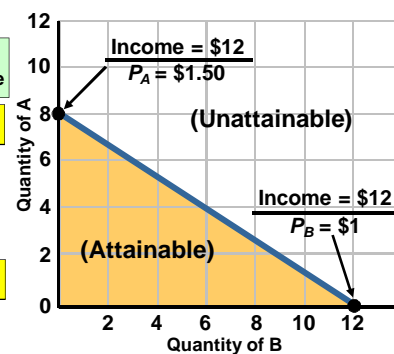
Ch. 7 Appendix

Indifference curves Analysis

The Budget Line

- Income changes
- Price changes

Units of A (Price = \$1.50)	Units of B (Price = \$1)	Total Expenditure
8	0	\$12
6	3	12
4	6	12
2	9	12
0	12	12



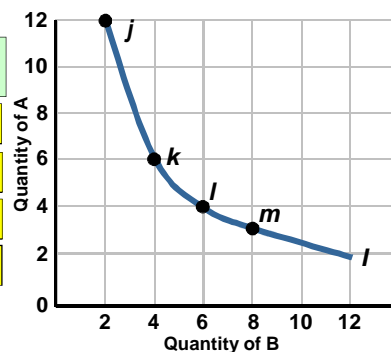
7-2

Indifference Curves

What is preferred

- Downsloping and convex
- Marginal rate of substitution

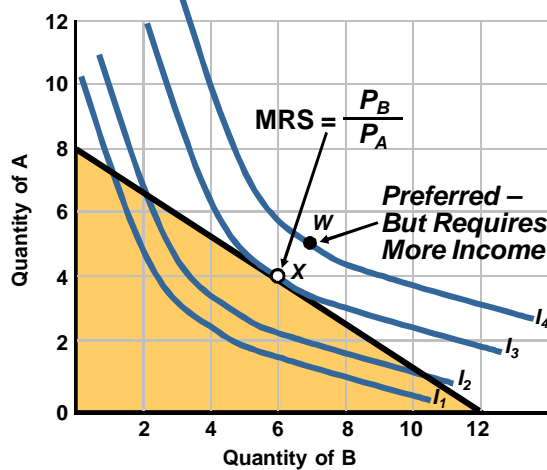
Combination	Units of A	Units of B
j	12	2
k	6	4
l	4	6
m	3	8



7-3

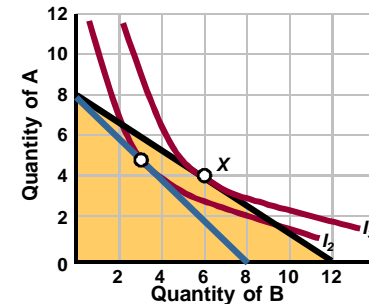
Indifference Curve Analysis

- The indifference map
- Equilibrium position at tangency



7-4

Demand Curve Derived



At \$1 price for B,
6 units of B are
purchased

Record the results

As price of B increases
to \$1.50, only 3 units of
B are bought

Record the results

Connect the points to
create the demand
curve for B



7-5

Appendix Key Terms

- Budget Line
- Indifference curve
- Marginal rate of substitution (MRS)
- Indifference map
- Equilibrium position

7-6