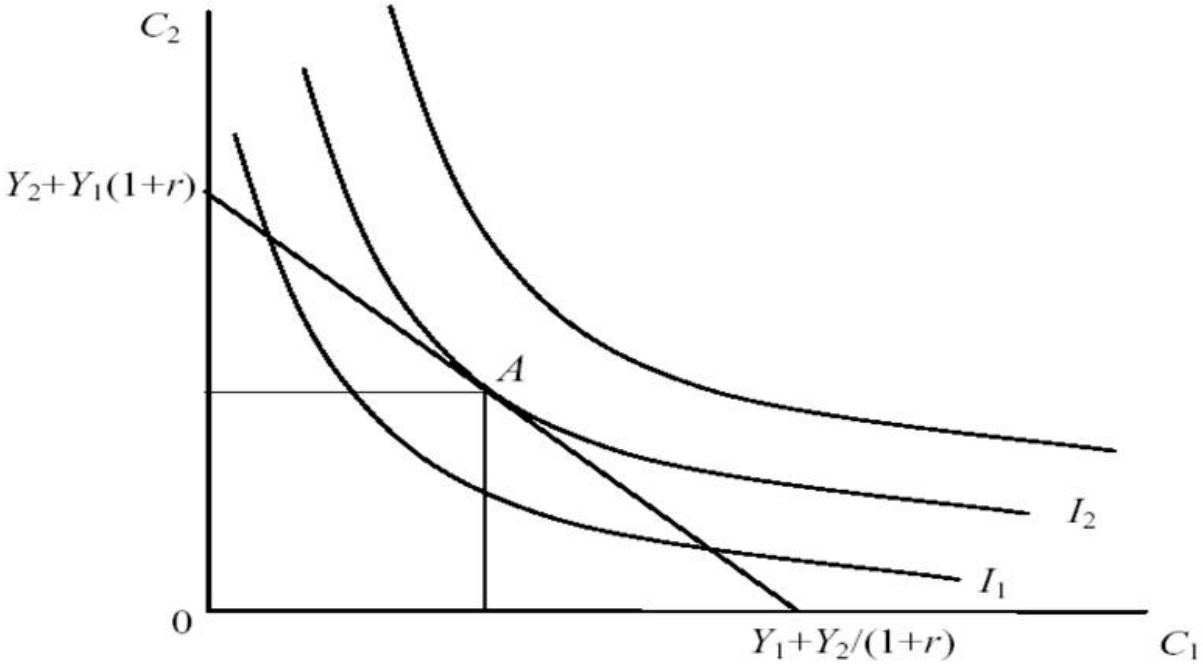
Answer on Question #48534, Economics, Microeconomics

(a)



The figure depicts the intertemporal choice exercised by the consumer, given the utility preferences and the budget constraint.

The individual maximizes his utility in point A (figure 3.2.), where the budget constraint intersects with the indifference curve I2.

The utility maximization equation will be

$C_1 + \frac{C_2}{1+r} = Y_1 + \frac{Y_2}{1+r}$, where C1 = Cp, C2 = Cf

(b) The choise of the consumer is point A on the figure above and the level of saving is Yf/(1 + r).