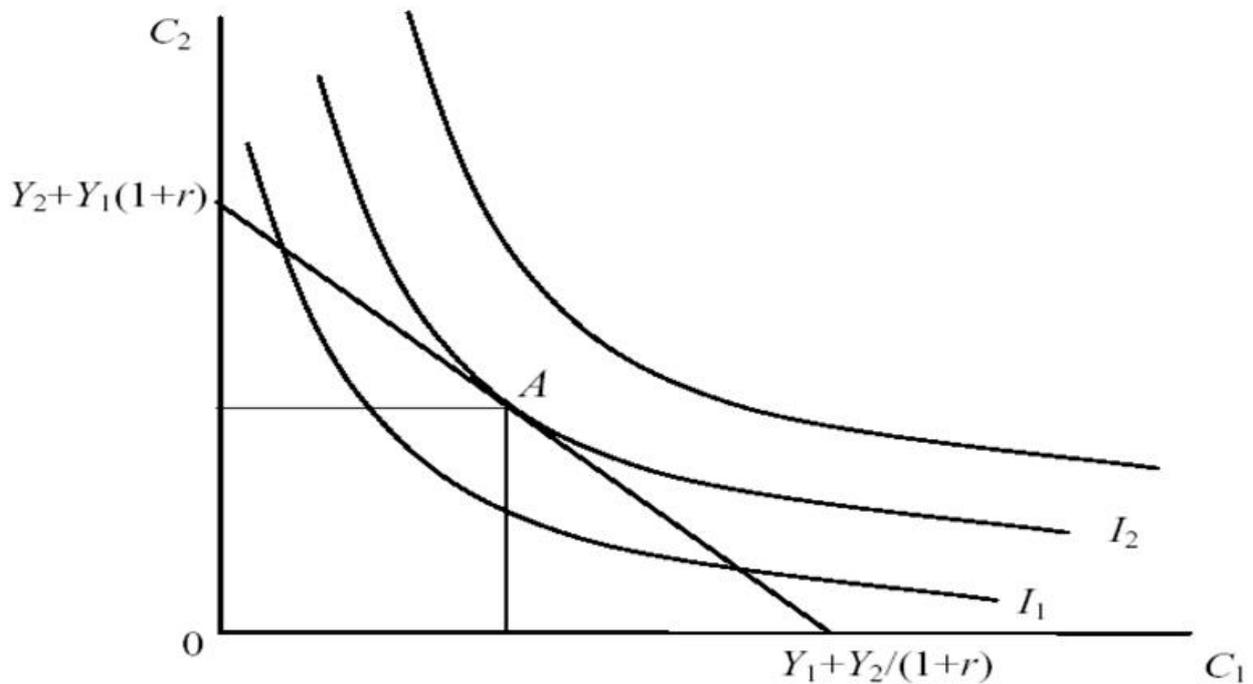


(a)



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 I_2 .

The utility maximization equation will be

$$C_1 + C_2/(1 + r) = Y_1 + Y_2/(1 + r), \text{ where } C_1 = C_p, C_2 = C_f$$

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