

Economics – Microeconomics – Question #80399

Task:

A person has monthly income of y rupees which he decides to spend on two goods. one is consumption and other is saving bond. The price of consumption is twice of second one. Let price of saving bond as $p-2$.

Does this problem can be solved using budget line.

Answer:

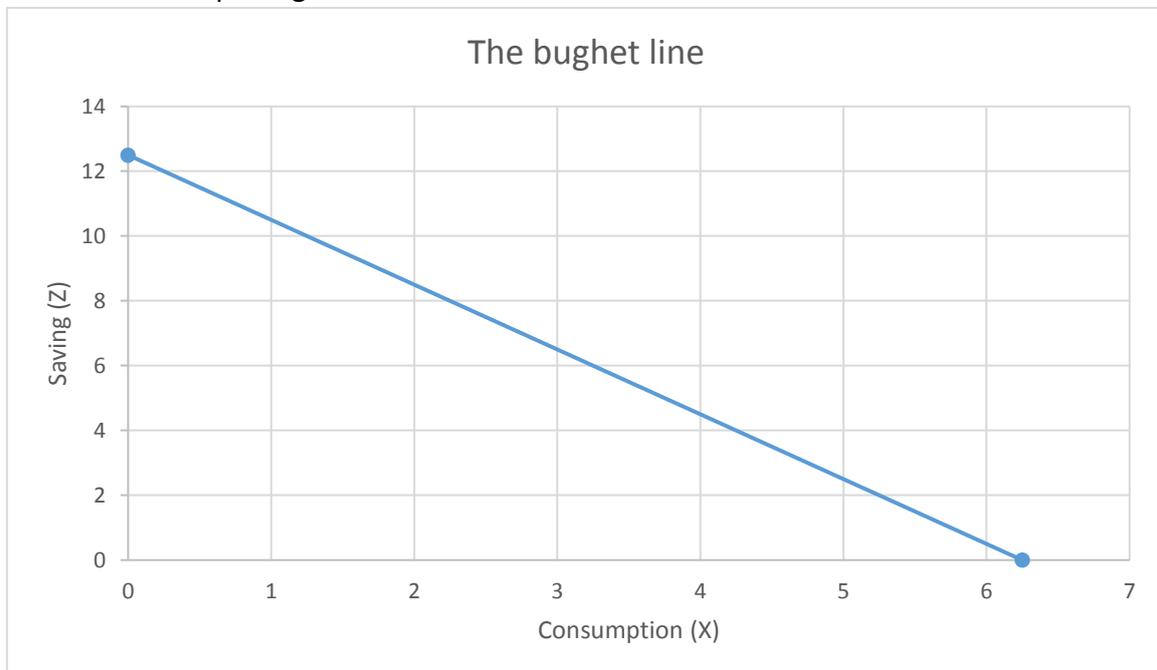
Equation of the budget line:

$I = P_x X + P_z Z$, where I – income, P_x – price of one good (consumption), X – quantity of one good, P_z – price of second good (saving), Z – quantity of second good.

$I = Y$

$Y = 2(p-2)X + (p-2)Z$

$\Delta Z / \Delta X = - P_x / P_z = - (2(p-2)) / (p-2) = -2$ – person have to refuse from one saving bond to buy two units of consumption good.



Answer provided by <https://www.AssignmentExpert.com>