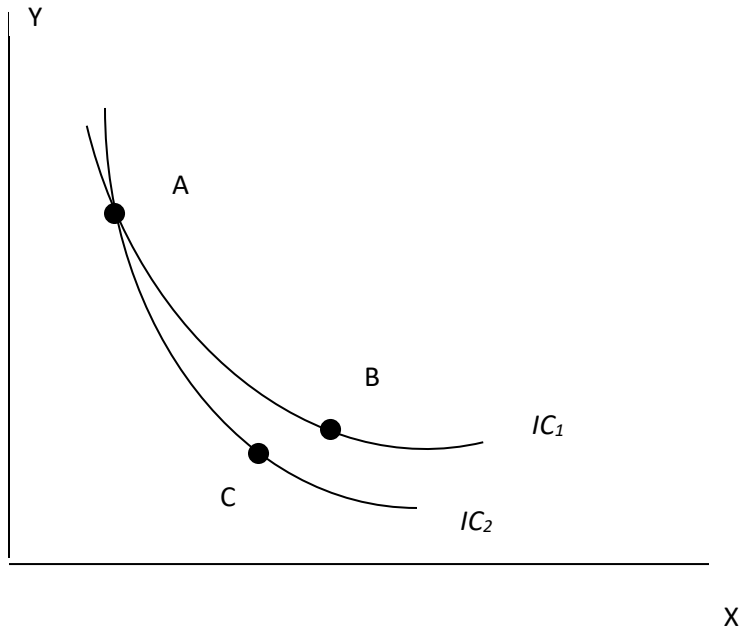


Problem Set #3
ECNS 204
Snowmester 2020

1.) Given the diagram below, provide a logical explanation for why indifference curves cannot cross.



2.) Suppose a consumer spends all of his income, I , on goods x and y . The price of x is P_x and the price of y is P_y .

a.) Write an equation describing the consumer's budget constraint.

b.) Graph the consumer's budget line. **Make sure to label your graph (including the vertical and horizontal axis intercepts).** Show the consumer's optimal consumption decision with an indifference curve. What does the slope of the budget line represent? What does the slope of the indifference curve represent?