

IN-CLASS ASSIGNMENT: Budget Constraint

Wednesday, February 11th 2014

5 points

Name: ANSWER KEY

- You buy burritos and pizza with an income of \$1000. The price of a burrito is \$5 and the price of a pizza is \$15.
 - What is your marginal rate of transformation (MRT)?

2pts {

$$-\frac{P_z}{P_b} = MRT = -\frac{15}{5} = -\frac{3}{1}$$

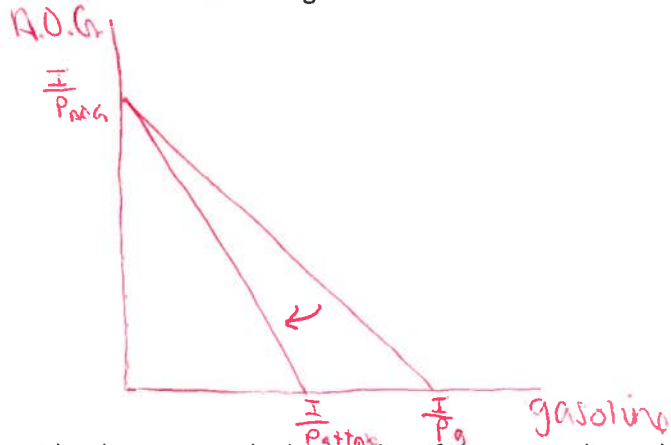
- Graph your budget constraint with burritos on the y-axis and pizza on the x-axis.

1pt {



- On a diagram with gasoline on the x-axis and spending on all other goods on the y-axis:
 - What happens to the budget line if the government imposes a \$1/gallon tax on gasoline but does not tax other goods?

1pt {



- What happens to the budget line if the tax applies only to purchases of gasoline in excess of 10 gallons/week?

1pt {

