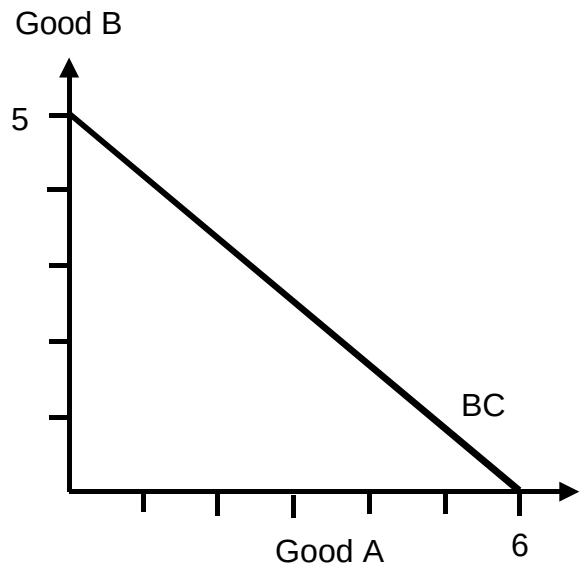
Consumer Choice

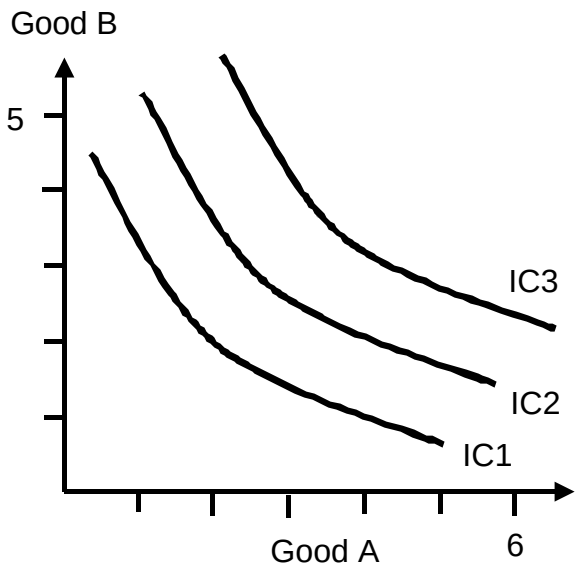
1 Budget constraint (BC)

- Only 2 goods, A and B
- Income = 60; fully spent
- Price A = 10, B = 12



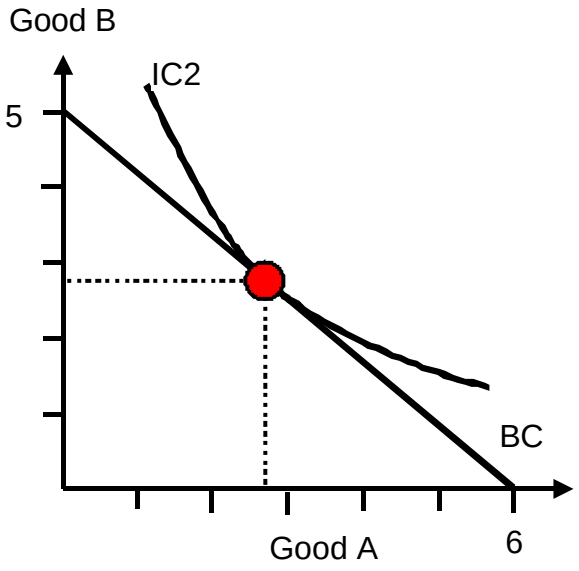
2 Indifference curves (IC)

- An indifference curve exhibits constant utility.
- IC3 is preferred to IC2 and IC2 to IC1.

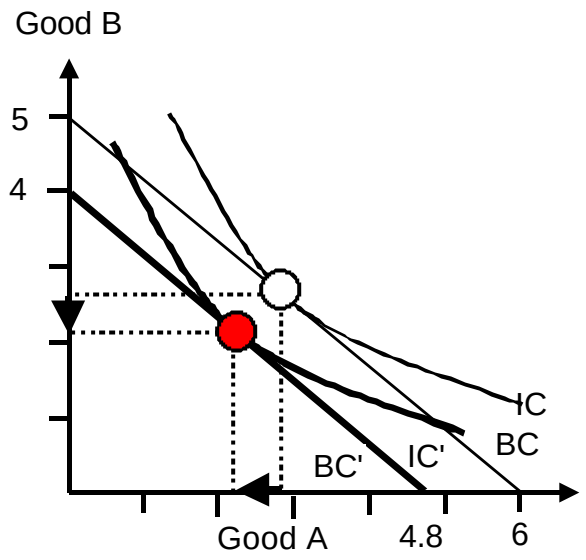
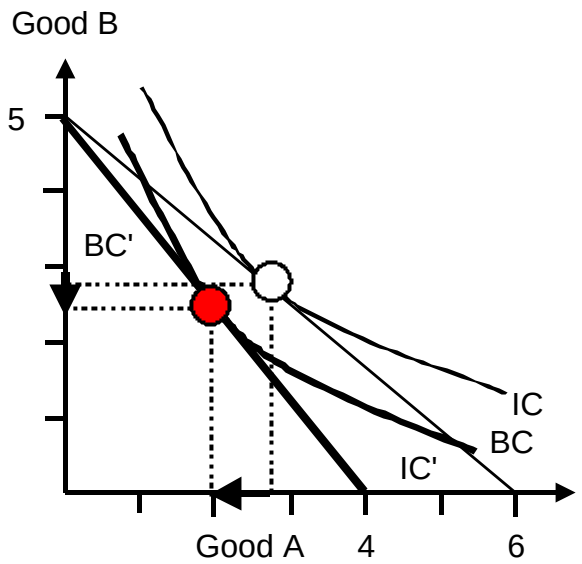


3 Consumer Optimum

is located where the BC touches the highest possible IC.



4 Changes of income or changes of prices

41 Income falls from 60 to 48.	42 Price of A rises from 10 to 15.
	
Both good A and good B are normal goods. (→ income elasticity of demand > 0)	Good A and good B are complements. (→ cross-price elasticity of demand < 0)
Income elasticity of demand = $\frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$	Cross-price elasticiy of demand = $\frac{\text{\% change in quantity demanded of good B}}{\text{\% change in the price of good A}}$