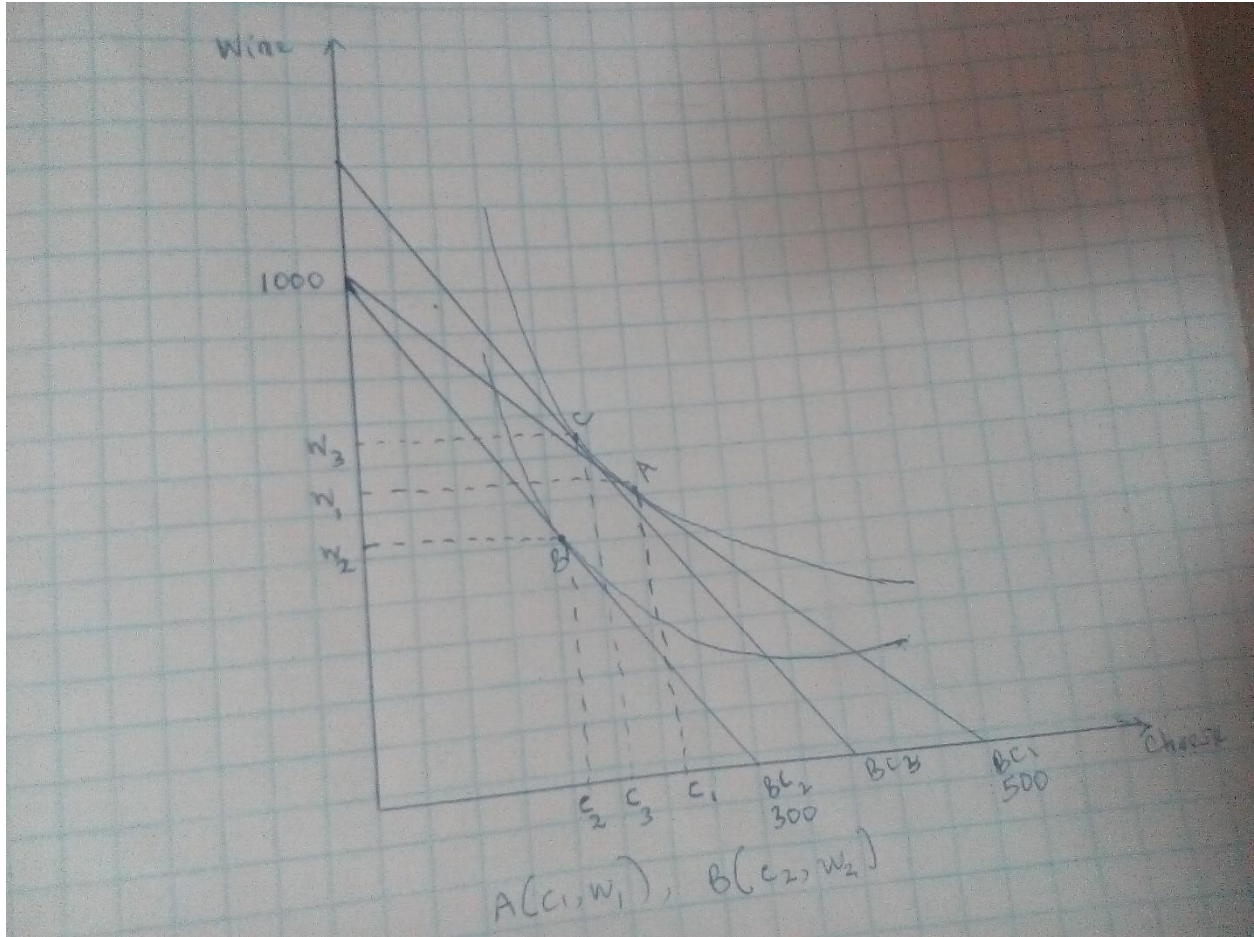


Answer to Question #91067, Economics / Microeconomics

A rise in price of cheese makes the x-intercept shift from 500 to 300. Consumers budget constraint also moves from BC1 to BC2 and optimal mix moves from A to B. To divide the change into income and substitution effect a new budget line BC3 parallel to BC2 and tangent to first indifference curve at C is drawn. A shift from A to C is the substitution effect while C to B is the income effect. Since cheese becomes relatively expensive the buyer substitutes wine for cheese as he moves from A to C (substitution effect). An increase in price of cheese causes a corresponding decrease in income from C to B



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