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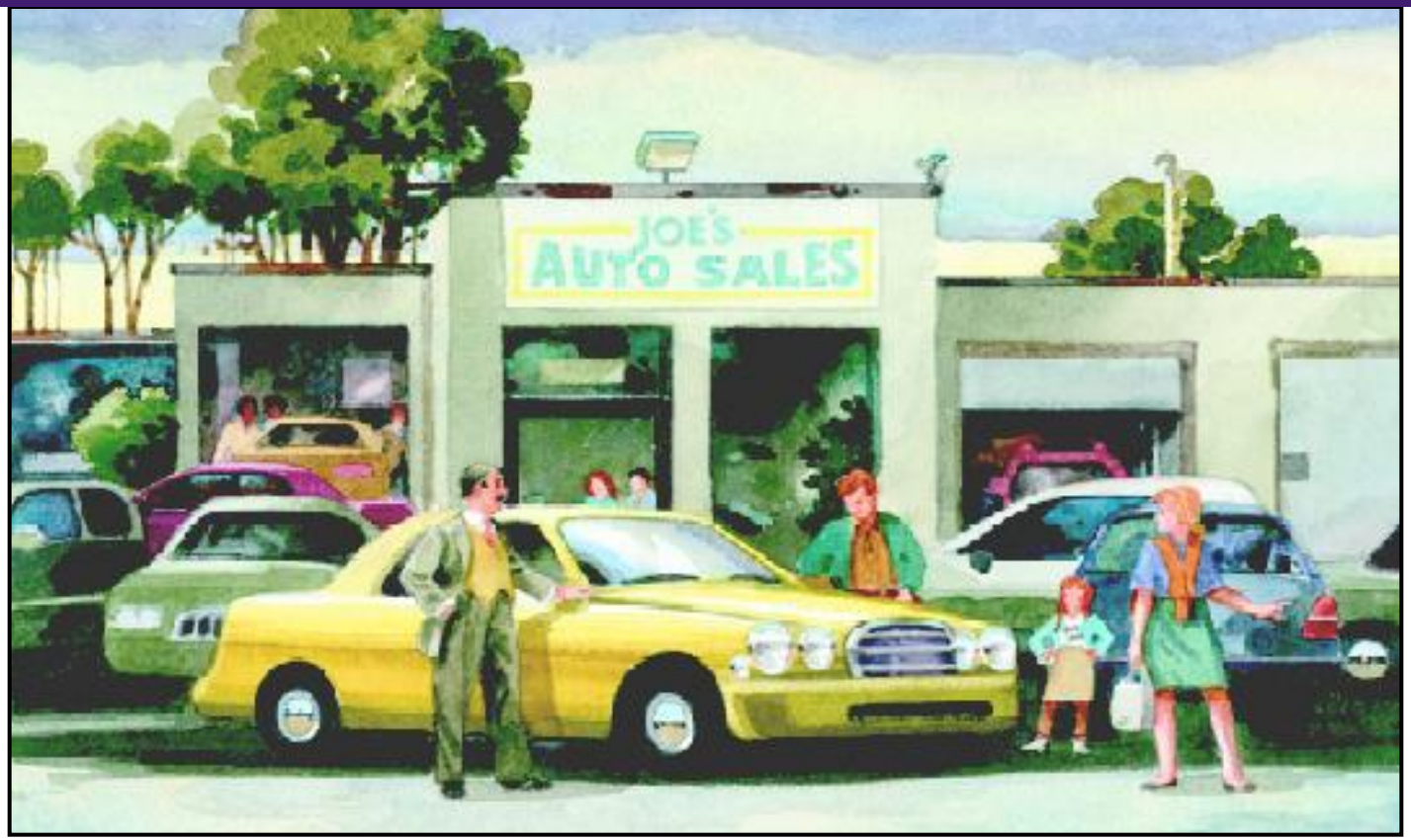
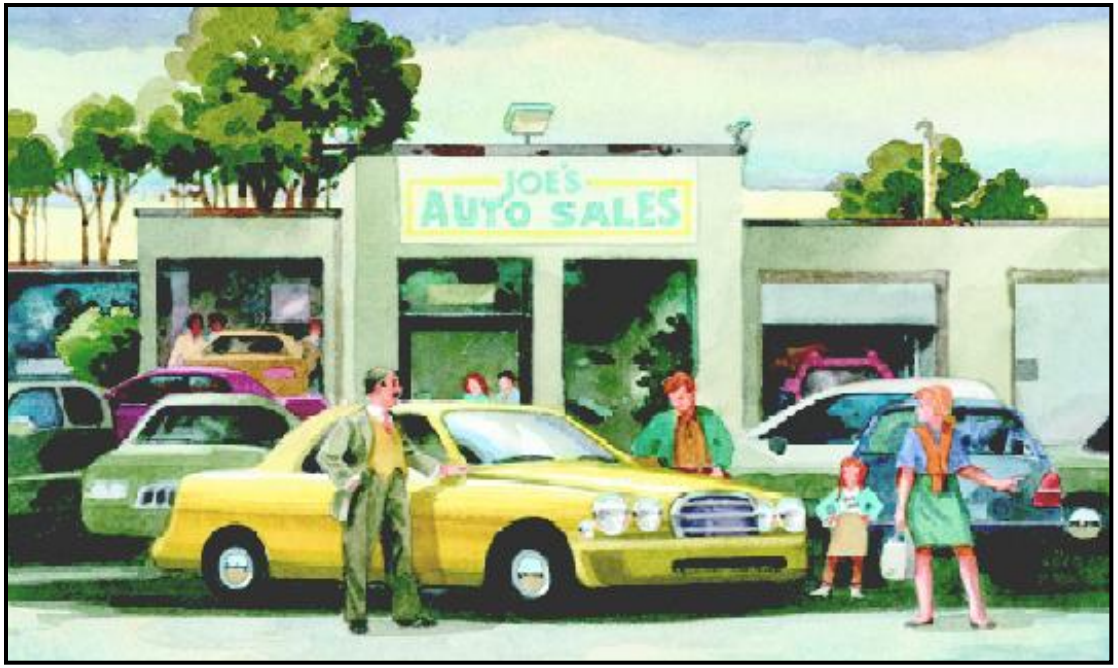
TOPICS FOR FURTHER STUDY





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The Theory of Consumer Choice

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Figure 1 The Consumer's Budget Constraint

Pints of Pepsi	Number of Pizzas	Spending on Pepsi	Spending on Pizza	Total Spending
0	100	$ 0	$1,000	$1,000
50	90	100	900	1,000
100	80	200	800	1,000
150	70	300	700	1,000
200	60	400	600	1,000
250	50	500	500	1,000
300	40	600	400	1,000
350	30	700	300	1,000
400	20	800	200	1,000
450	10	900	100	1,000
500	0	1,000	0	1,000

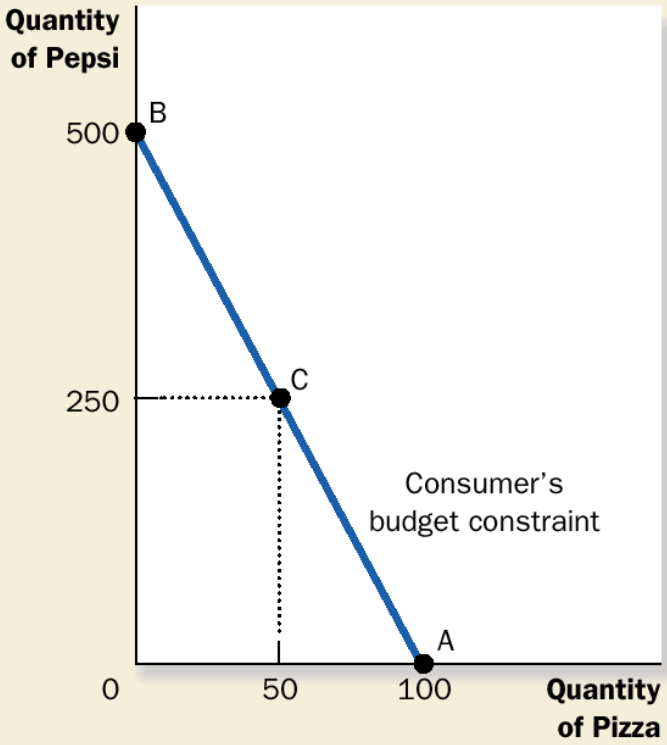

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Figure 2 The Consumer's Preferences

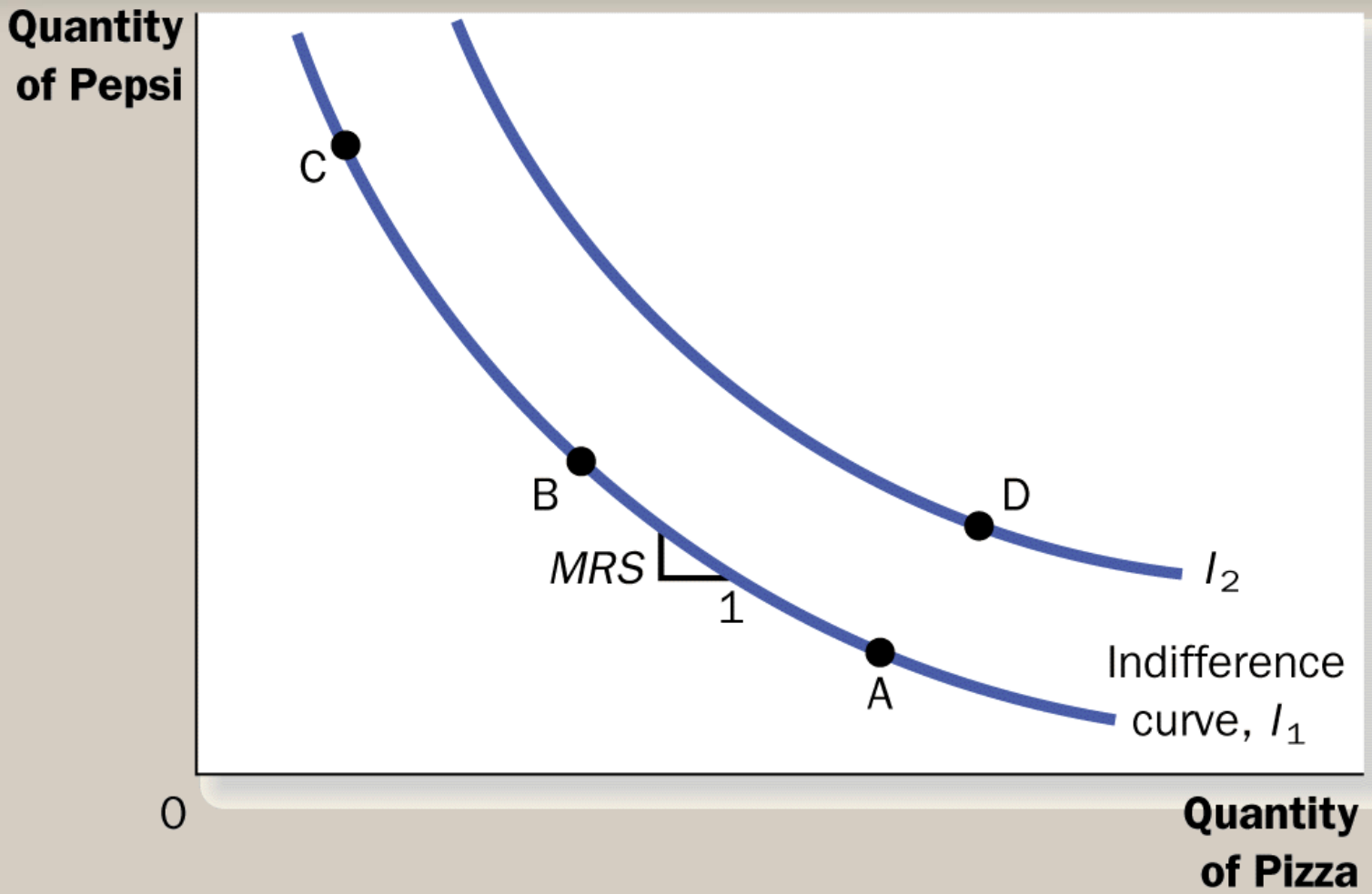

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Figure 3 The Impossibility of Intersecting Indifference Curves

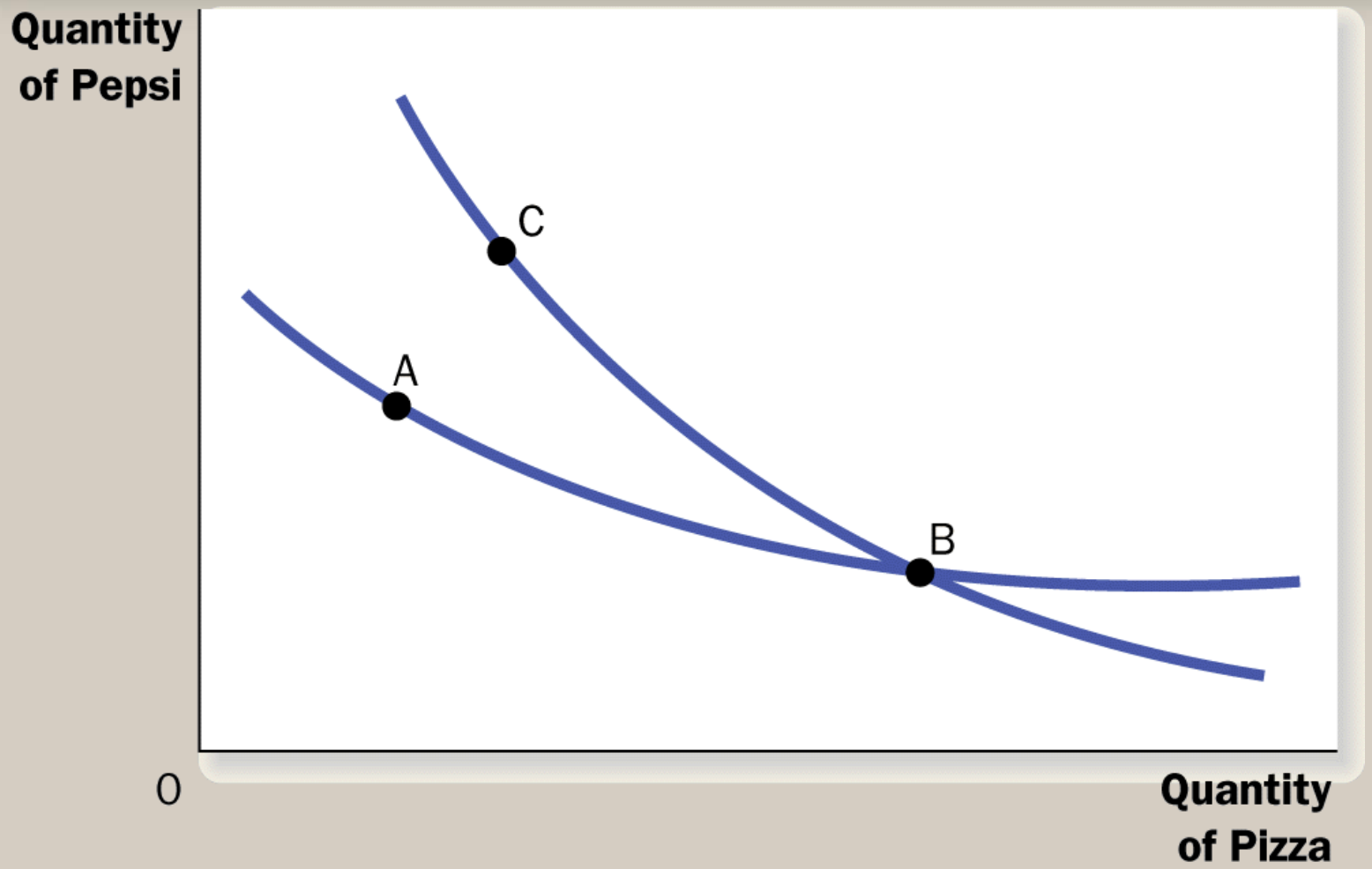

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Figure 4 Bowed Indifference Curves

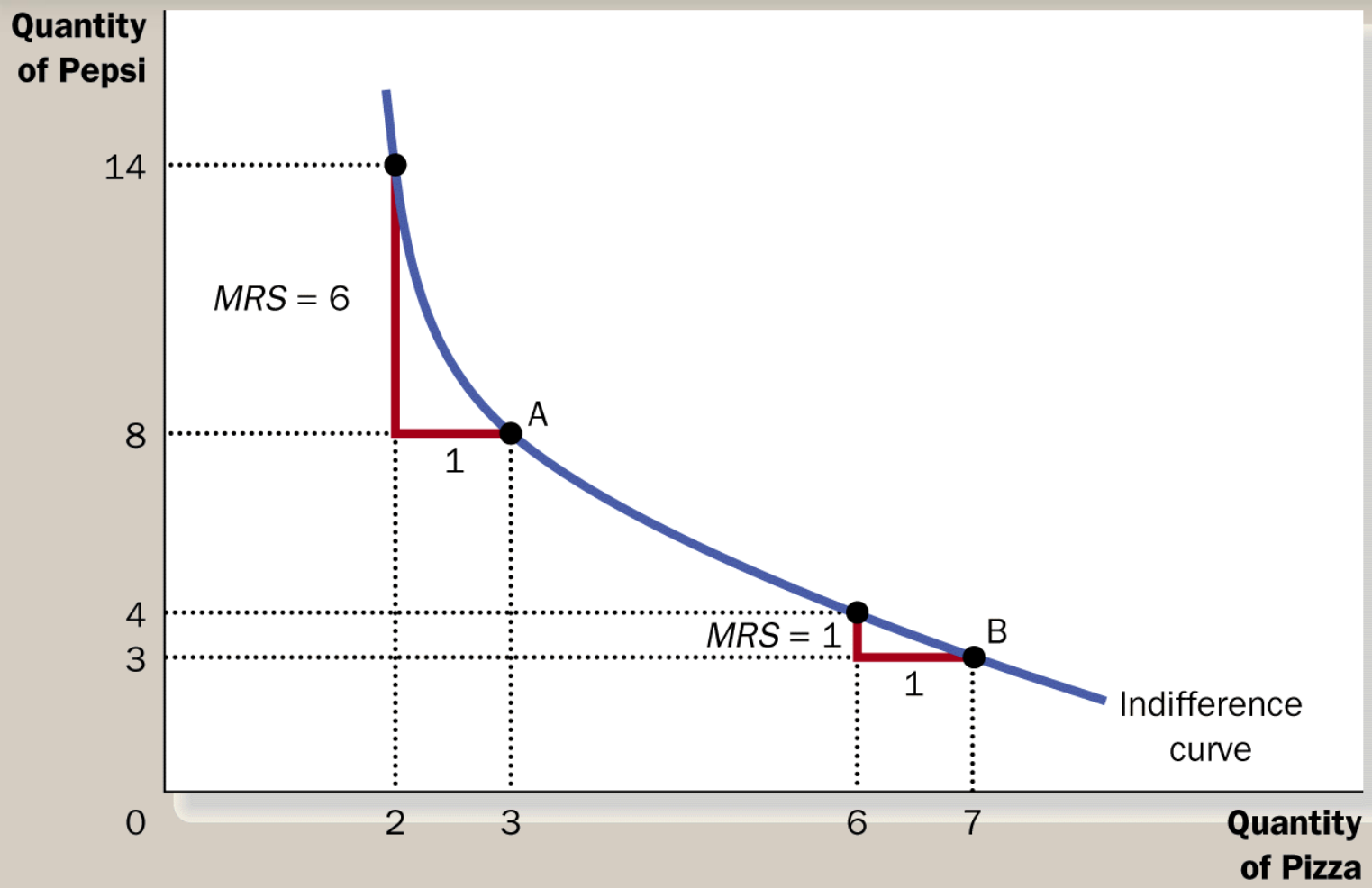

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Figure 5a Perfect Substitutes and Perfect Complements

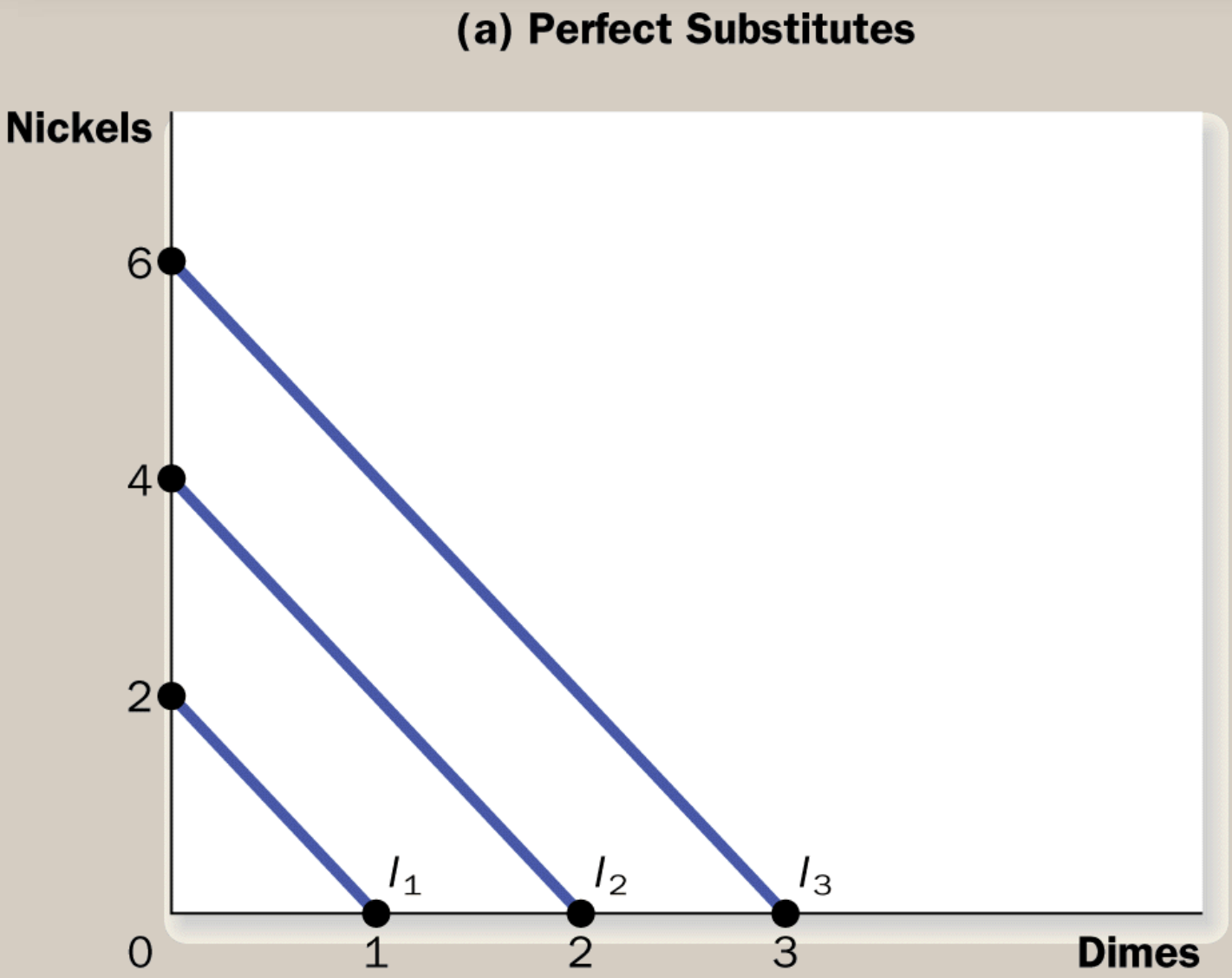

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Figure 5b Perfect Substitutes and Perfect Complements

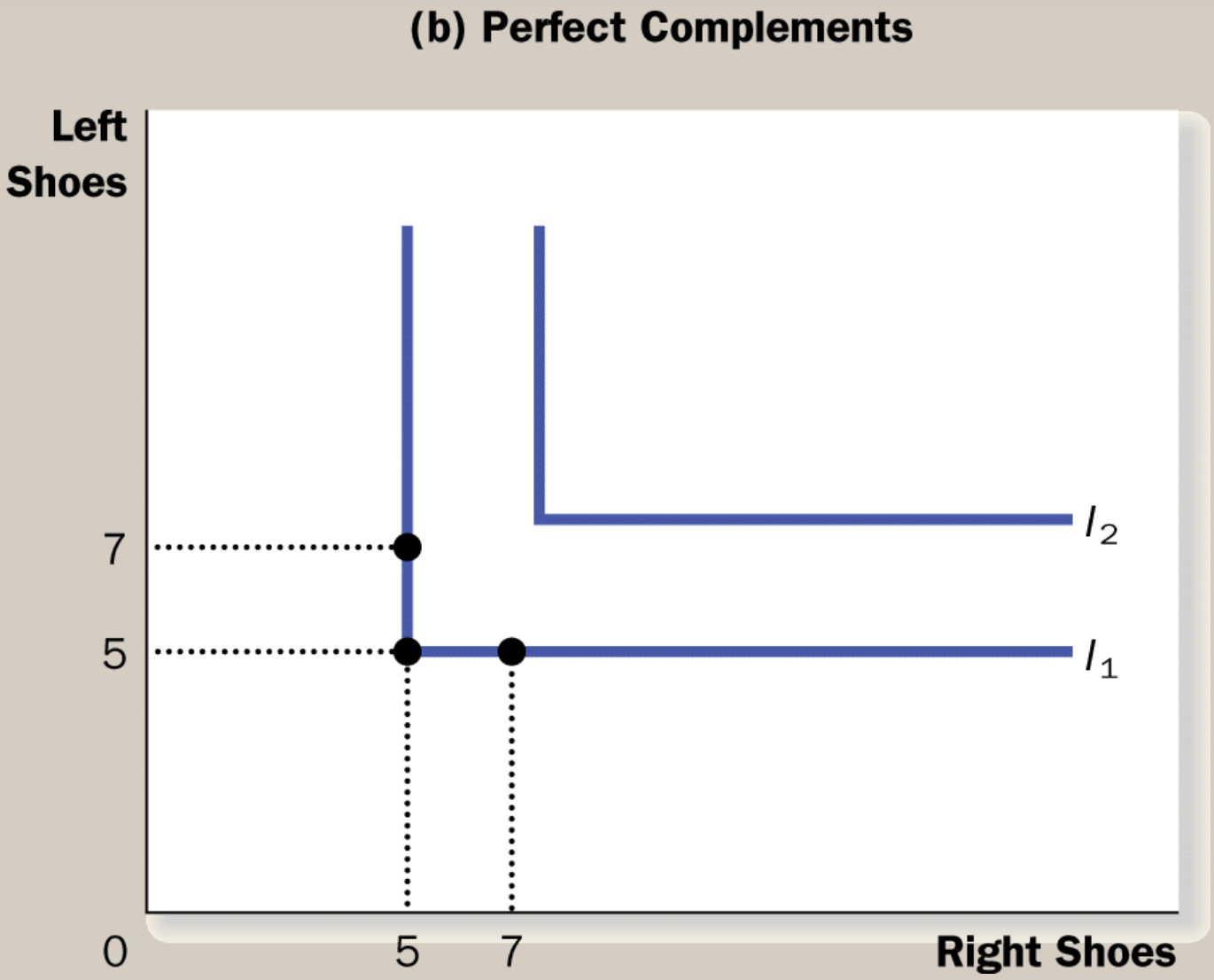

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Figure 6 The Consumer's Optimum

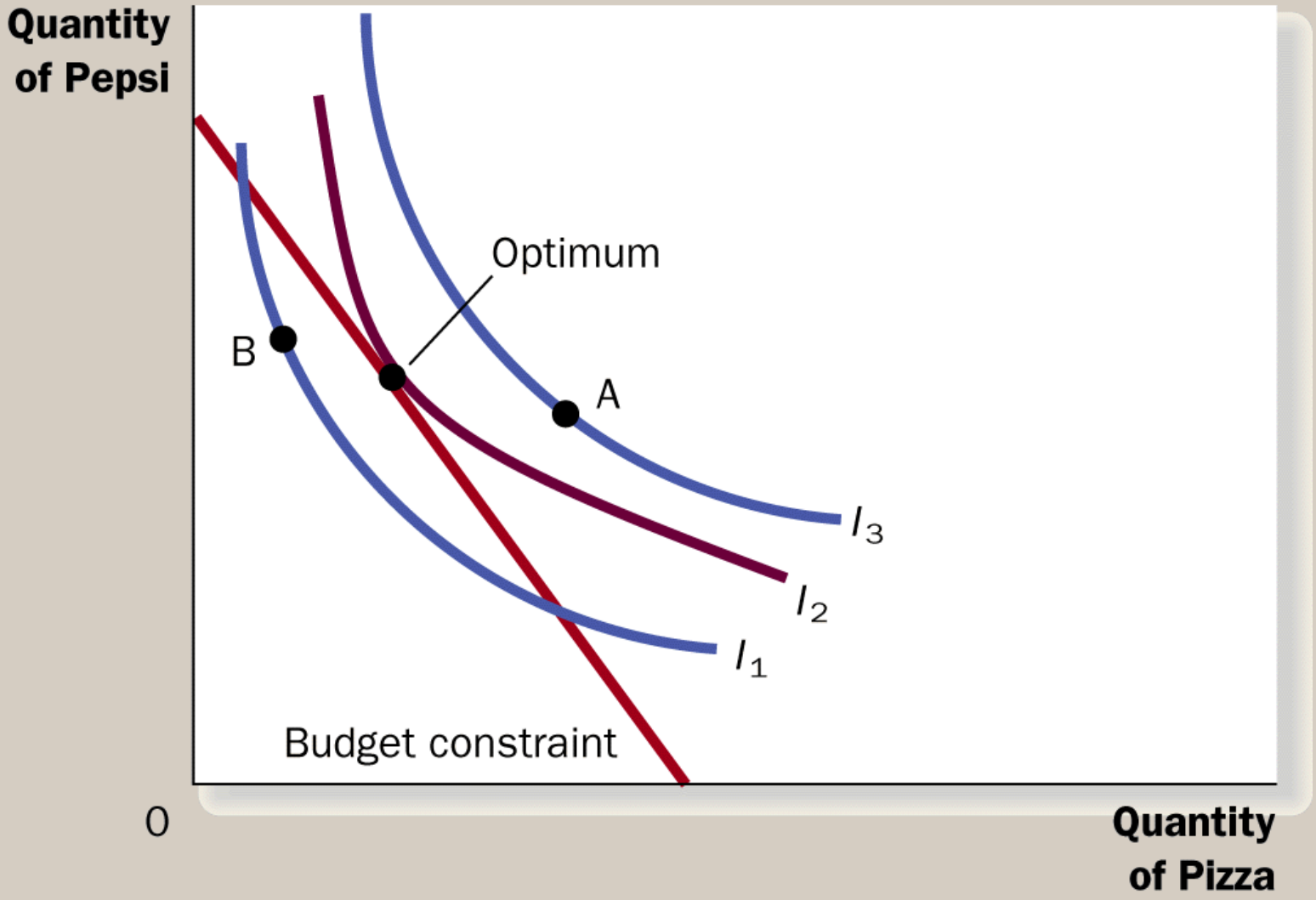

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Figure 7 An Increase in Income

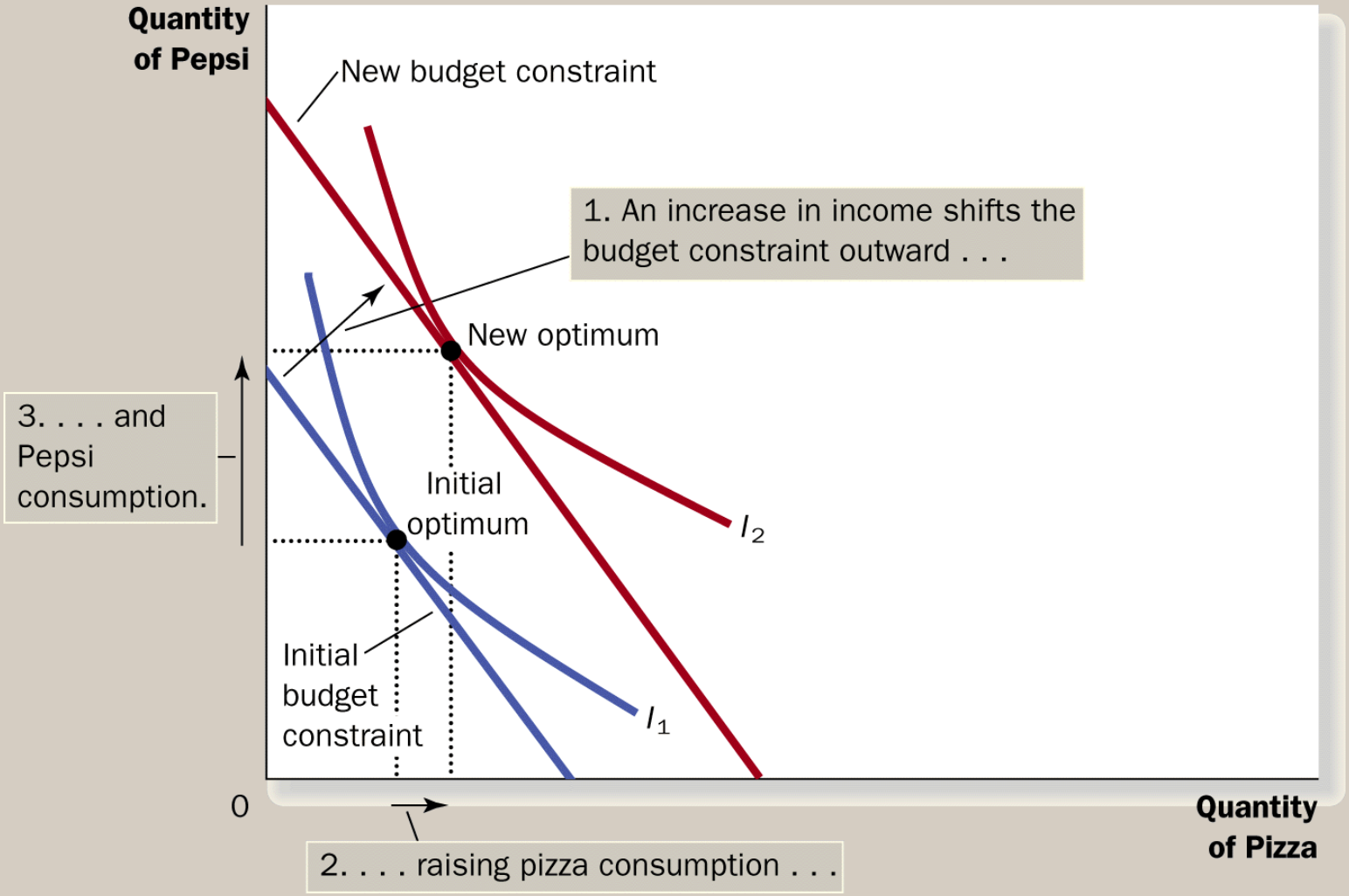

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Figure 8 An Inferior Good

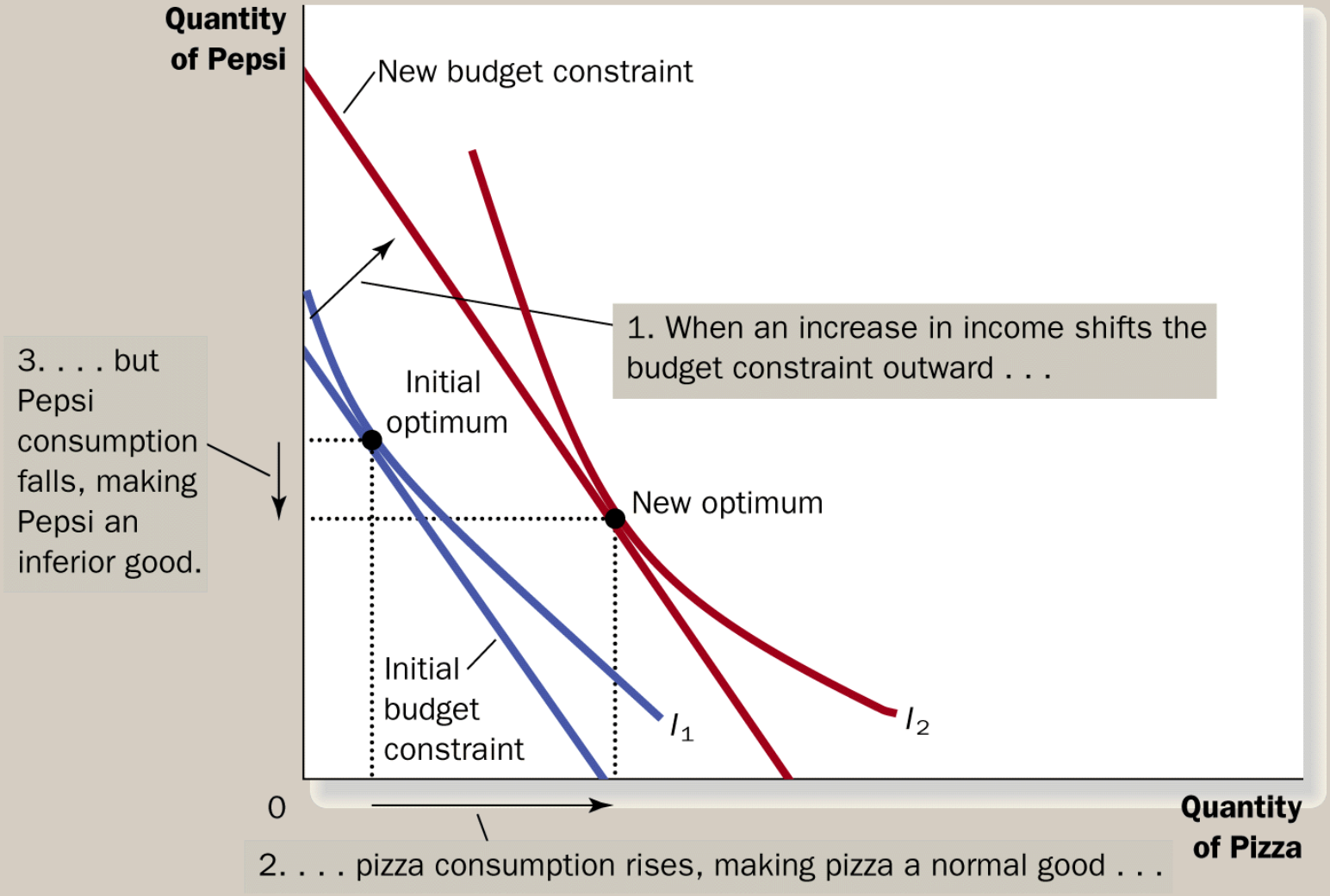

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Figure 9 A Change in Price

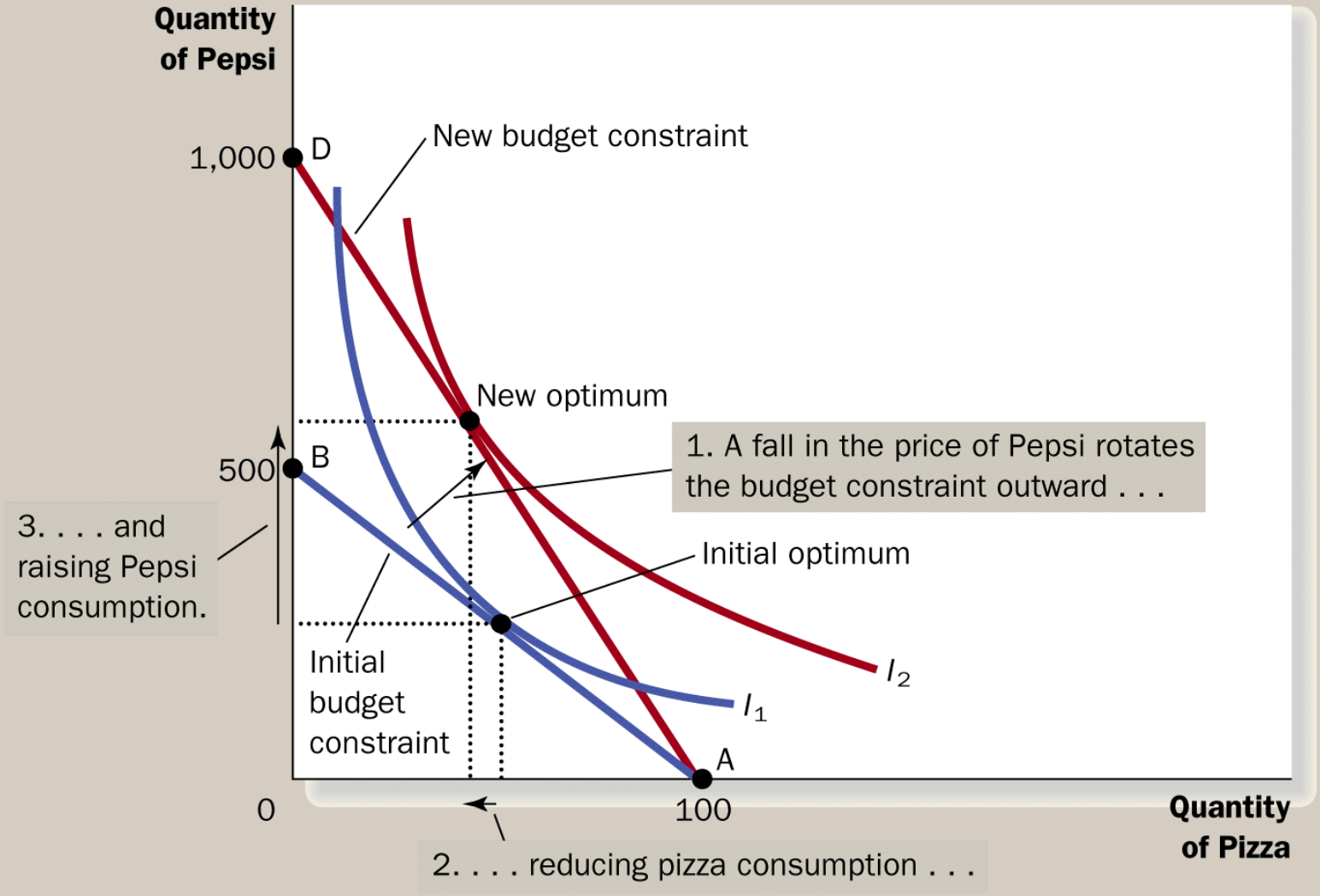

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Table 1 Income and Substitution Effects When the Price of Pepsi Falls

Good	Income Effect	Substitution Effect	Total Effect
Pepsi	Consumer is richer, so he buys more Pepsi.	Pepsi is relatively cheaper, so consumer buys more Pepsi.	Income and substitution effects act in same direction, so consumer buys more Pepsi.
Pizza	Consumer is richer, so he buys more pizza.	Pizza is relatively more expensive, so consumer buys less pizza.	Income and substitution effects act in opposite directions, so the total effect on pizza consumption is ambiguous.

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Figure 10 Income and Substitution Effects

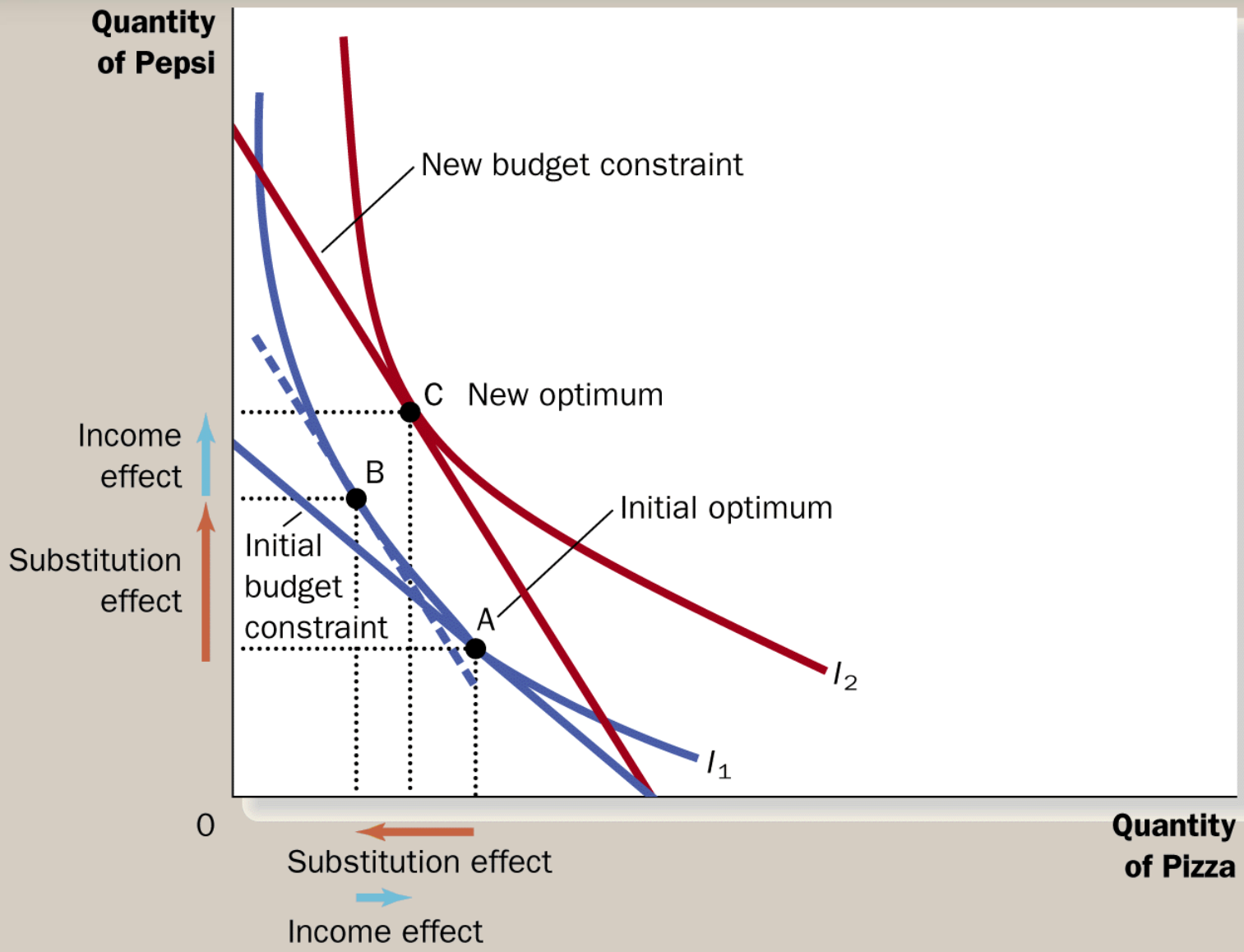

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Figure 11a Deriving the Demand Curve

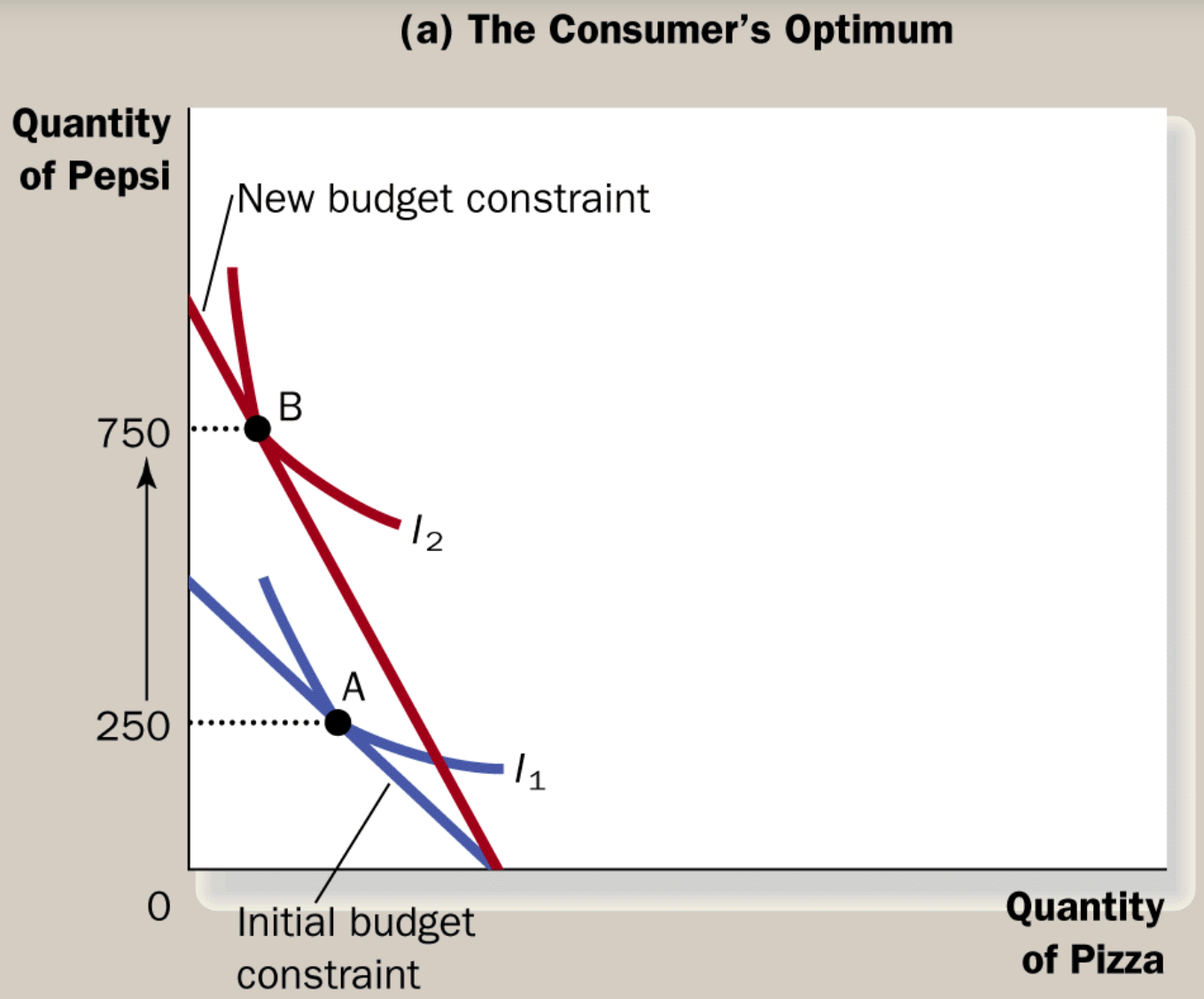

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Figure 11b Deriving the Demand Curve

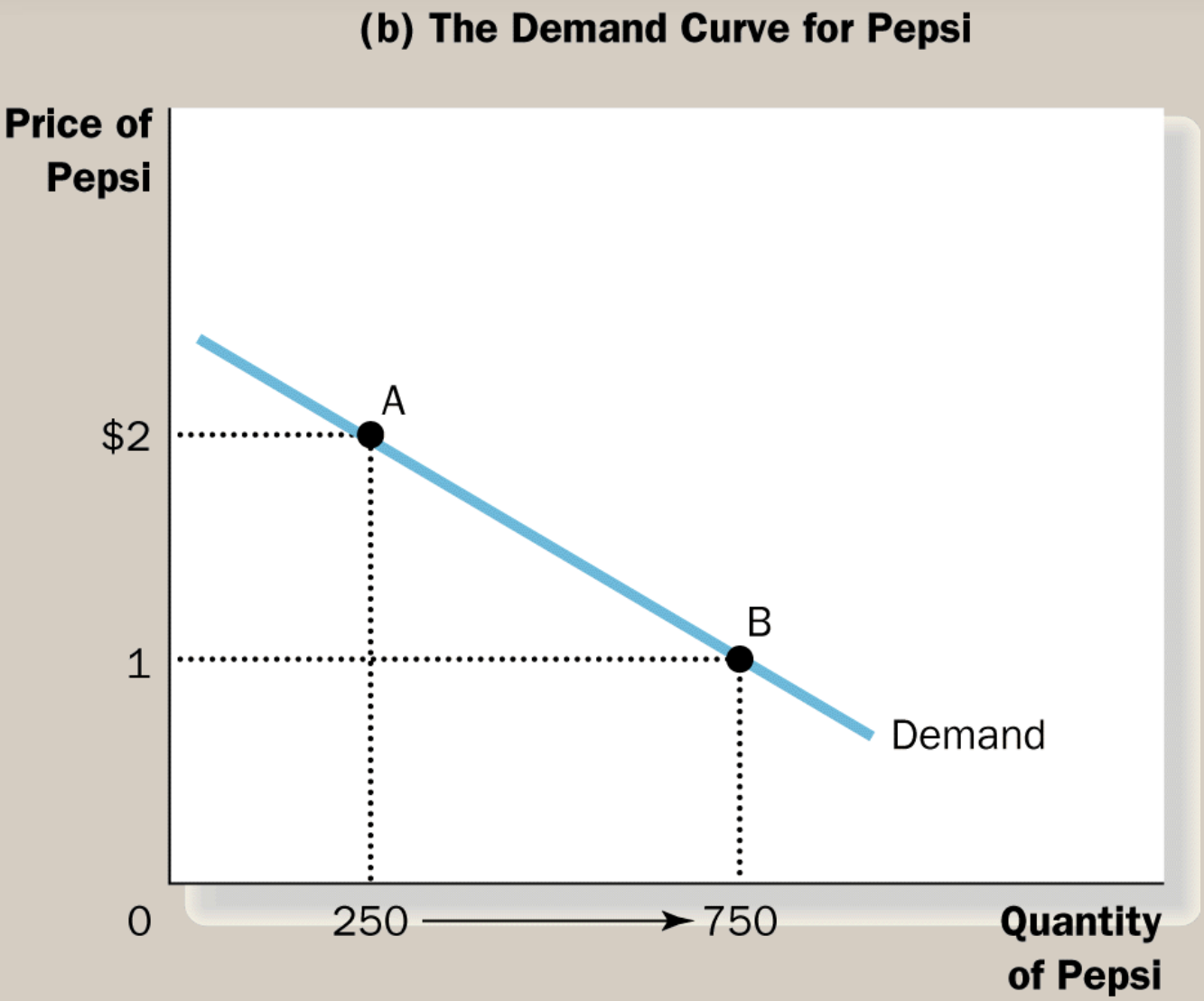

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Figure 12 A Giffen Good

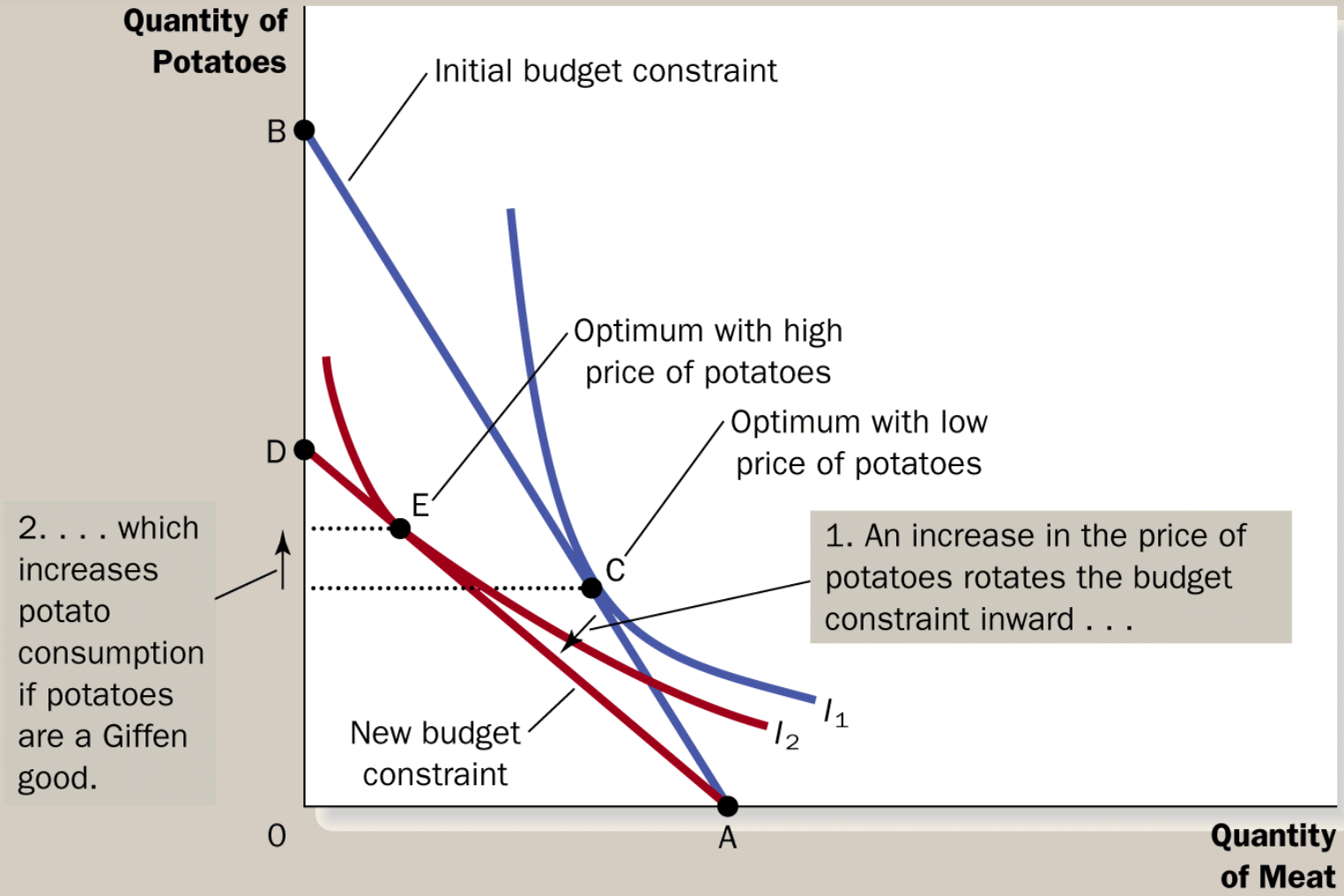

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Figure 13 The Work–Leisure Decision

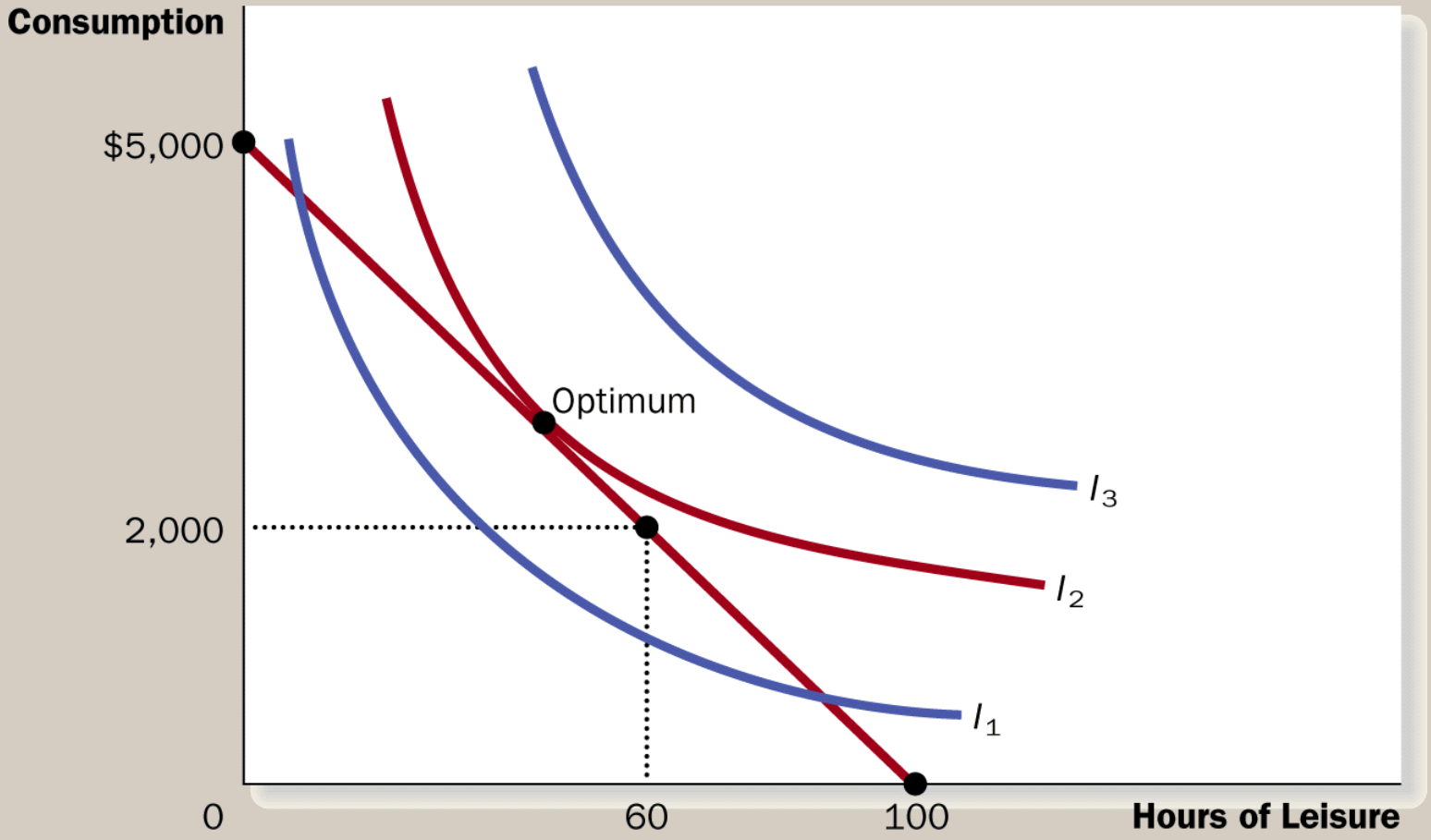

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Figure 14a An Increase in the Wage

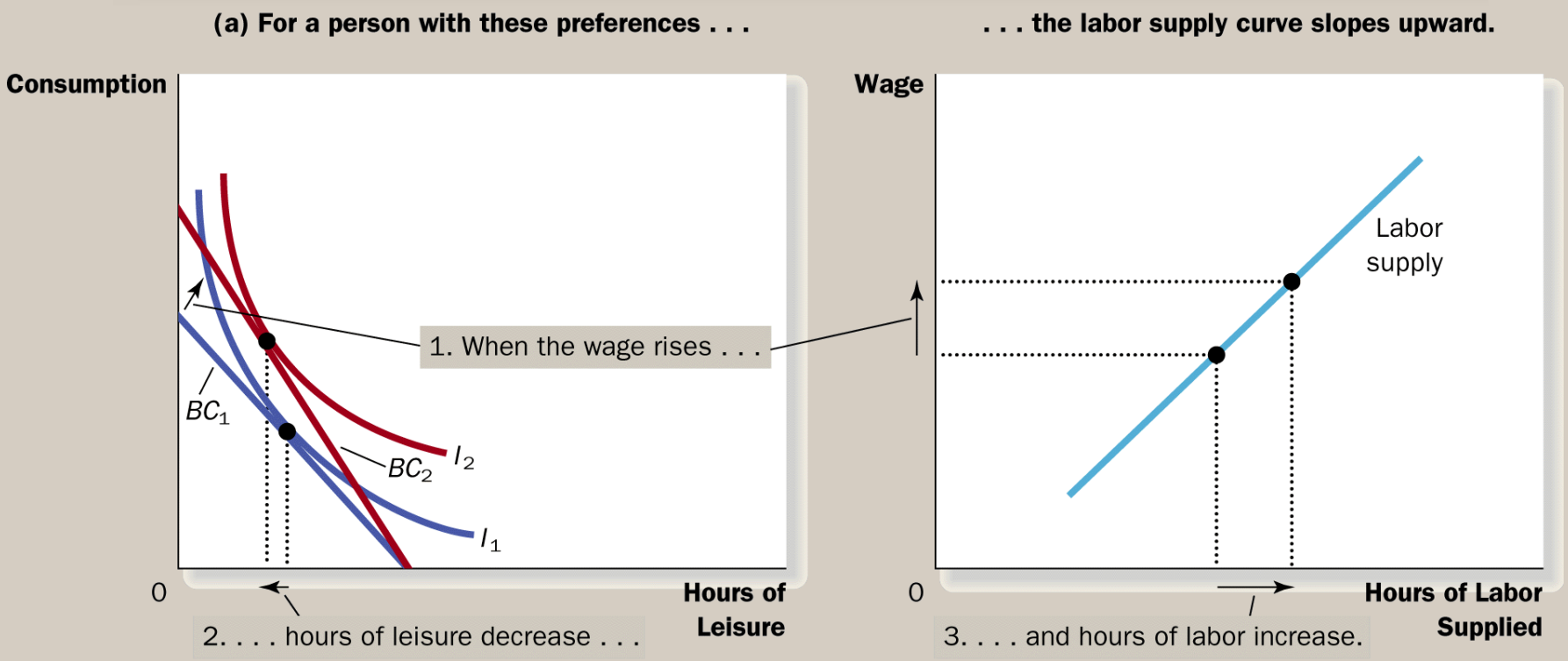

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Figure 14b An Increase in the Wage

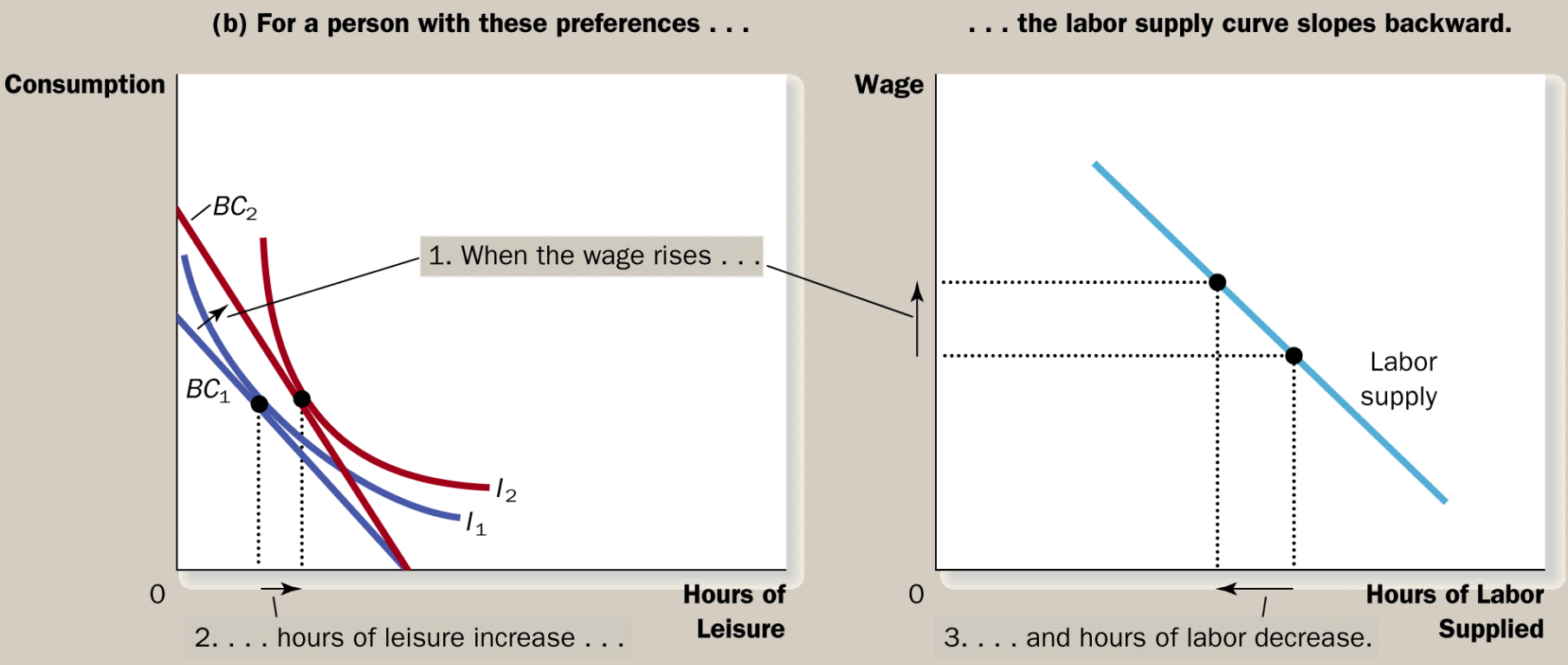

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Figure 15 The Consumption–Saving Decision

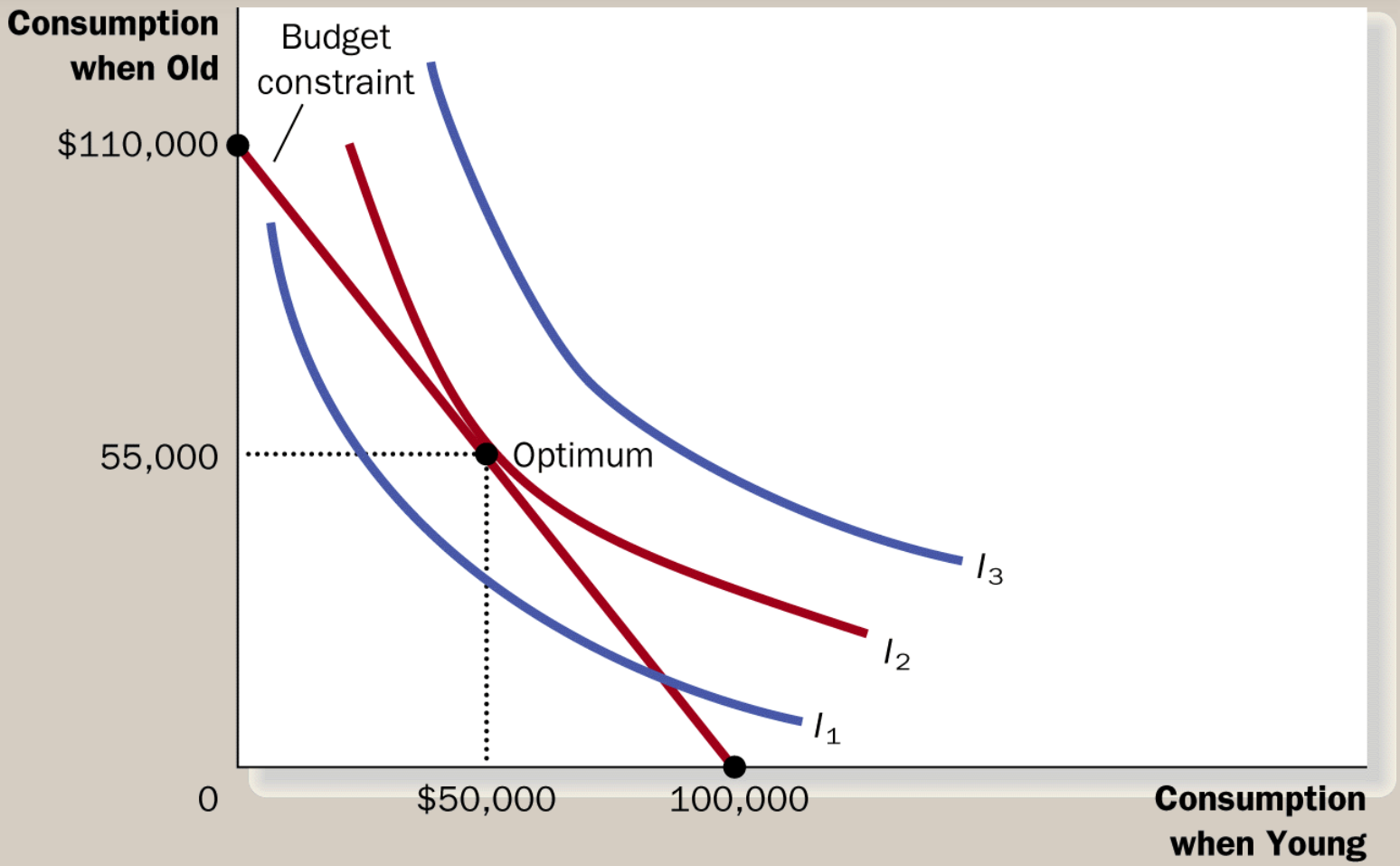

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Figure 16a An Increase in the Interest Rate

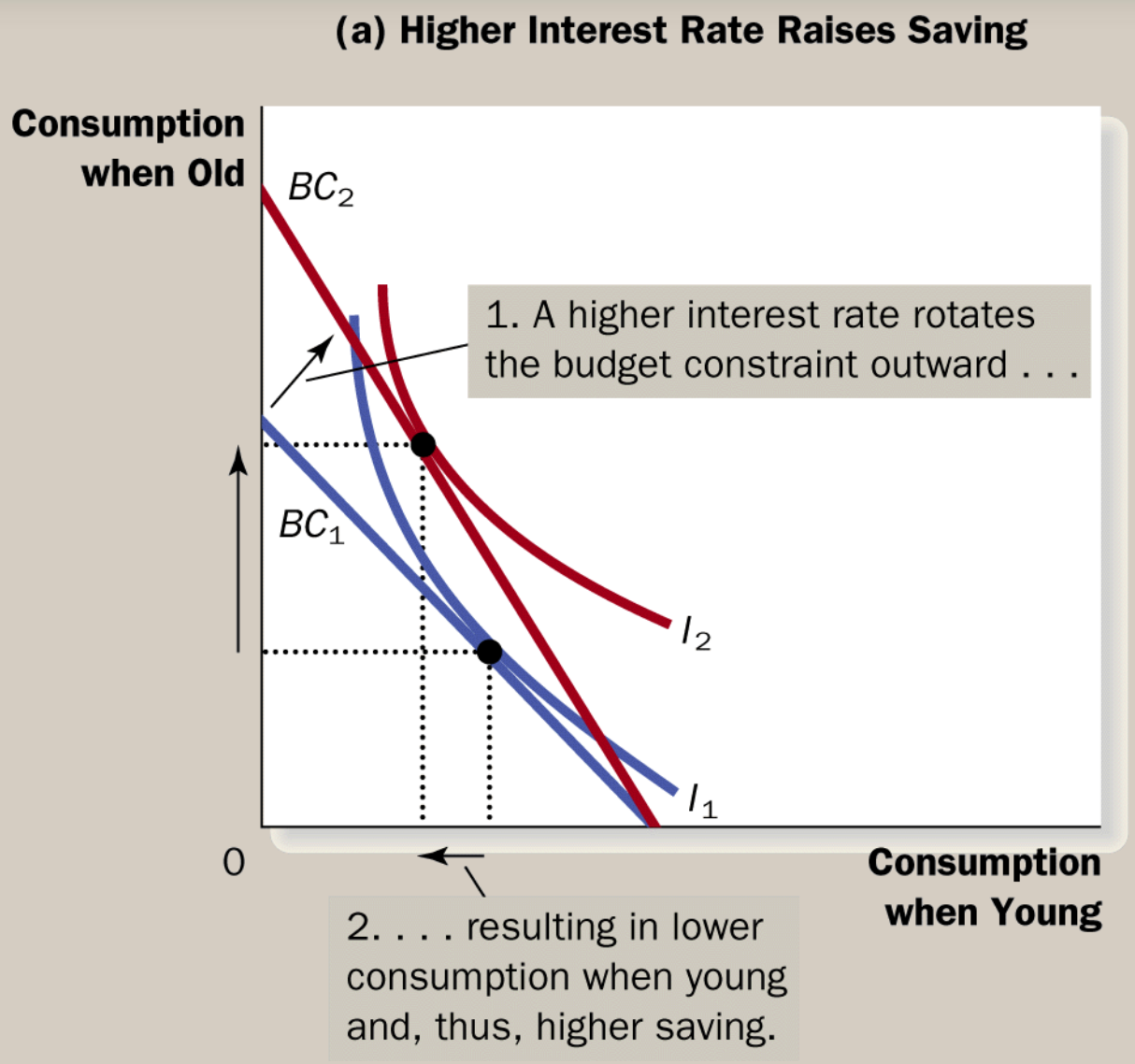

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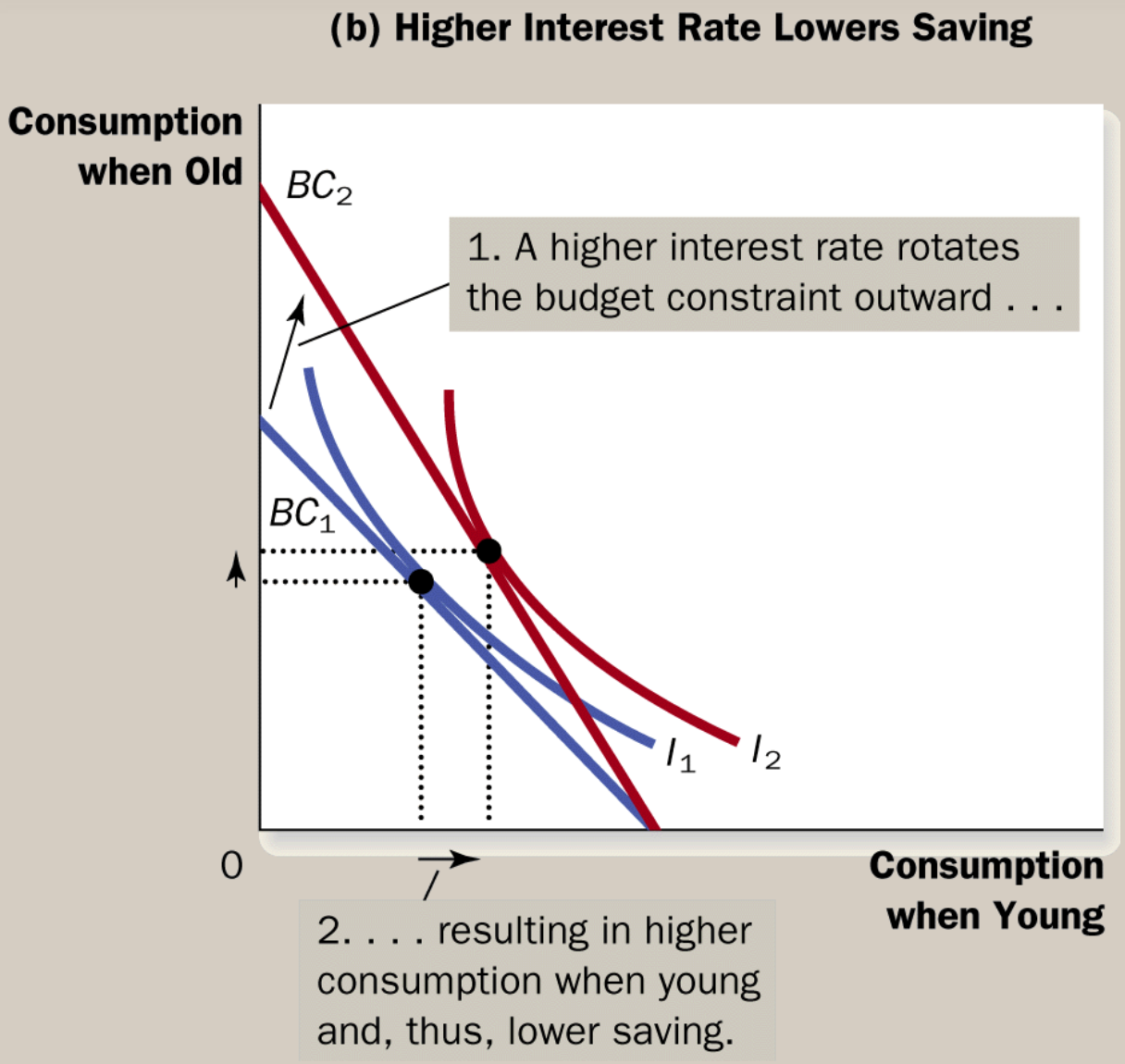
Figure 16b An Increase in the Interest Rate



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