

Economics Lecture 6 - Exercise

2016-17

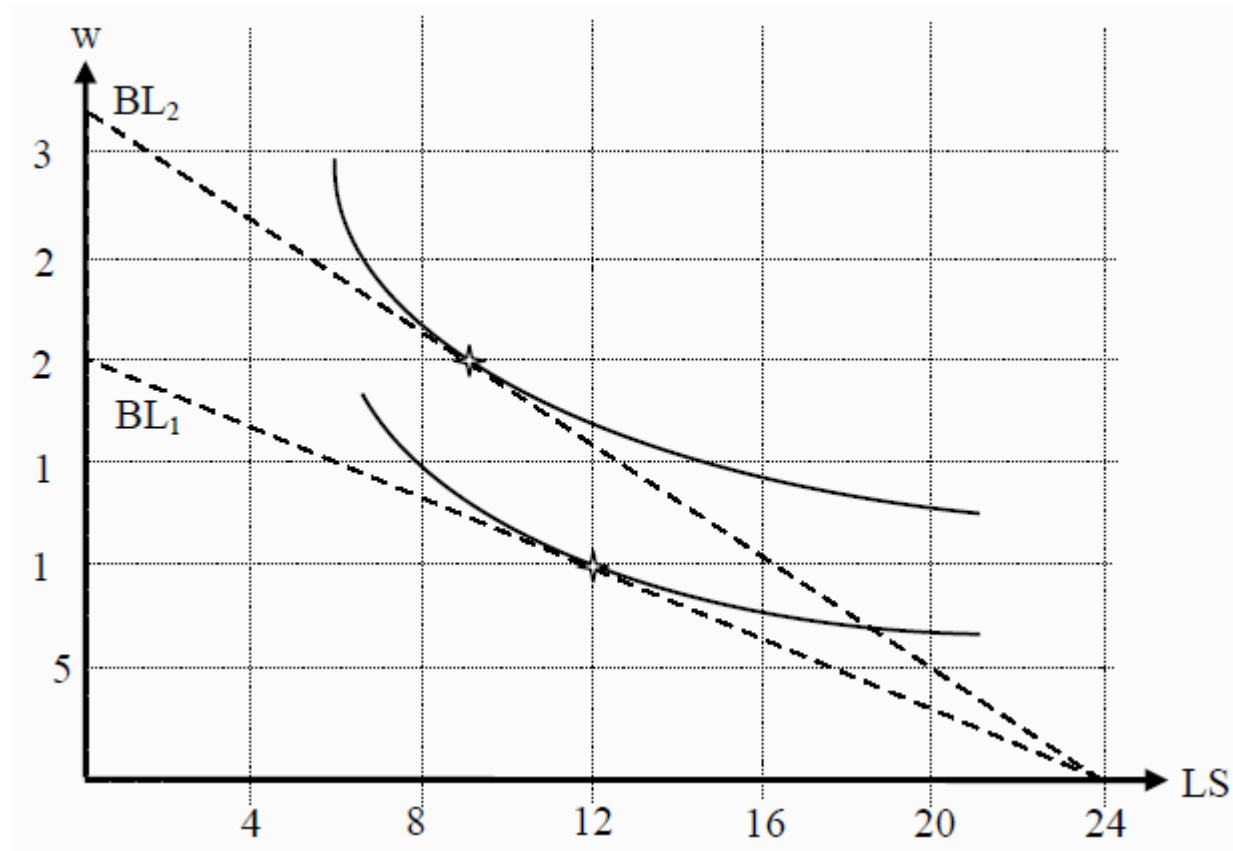
Sebastiano Vitali

Exercise 1

A certain individual can choose between work and leisure. She prefers leisure, but if she works, she receives a wage that makes it possible for her to buy things she also wants. In the Figure, we see a part of her problem.

The wage increased from 20 to 32 and the budget line rotates from BL_1 to BL_2 .

Moreover, you see two indifference curves regarding leisure, LS , and wage, w .

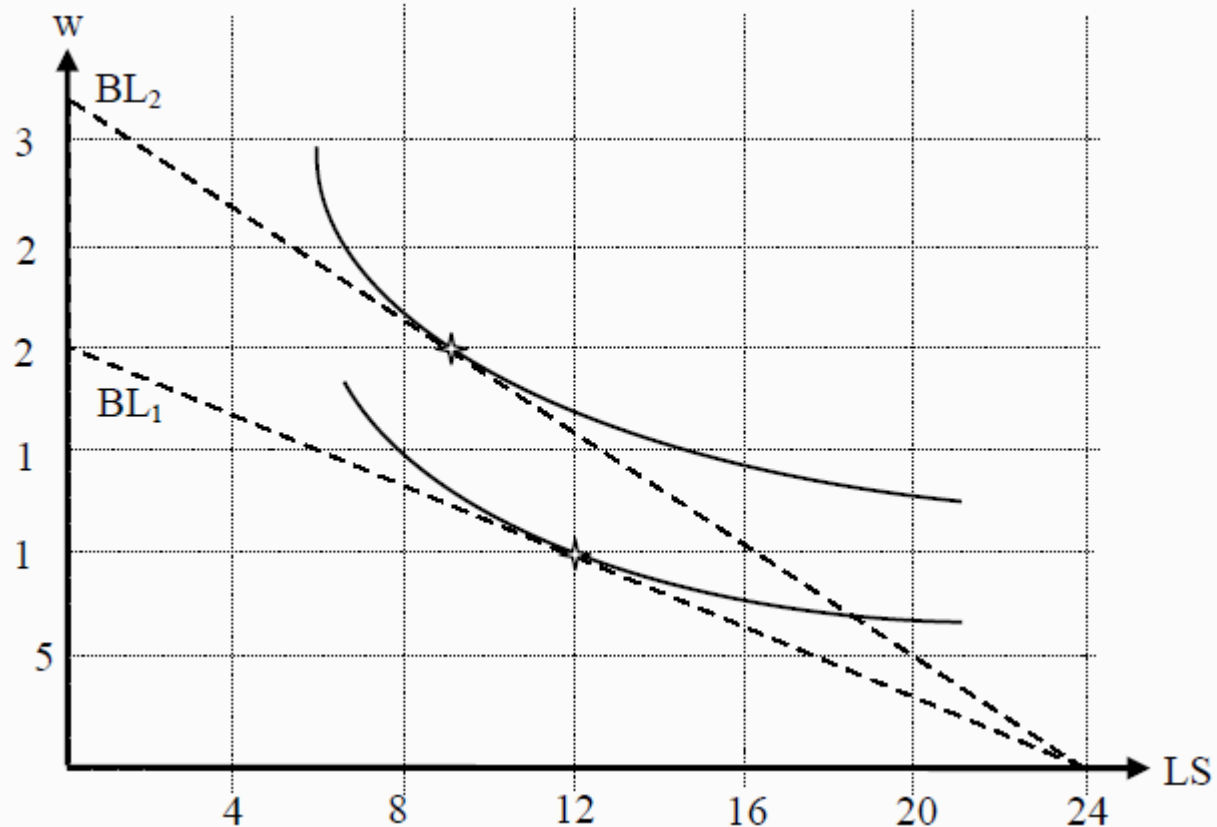


Exercise 1

The individual utility increased or decreased?

Why?

To what extent does this depend on the substitution effect and the income effect respectively?

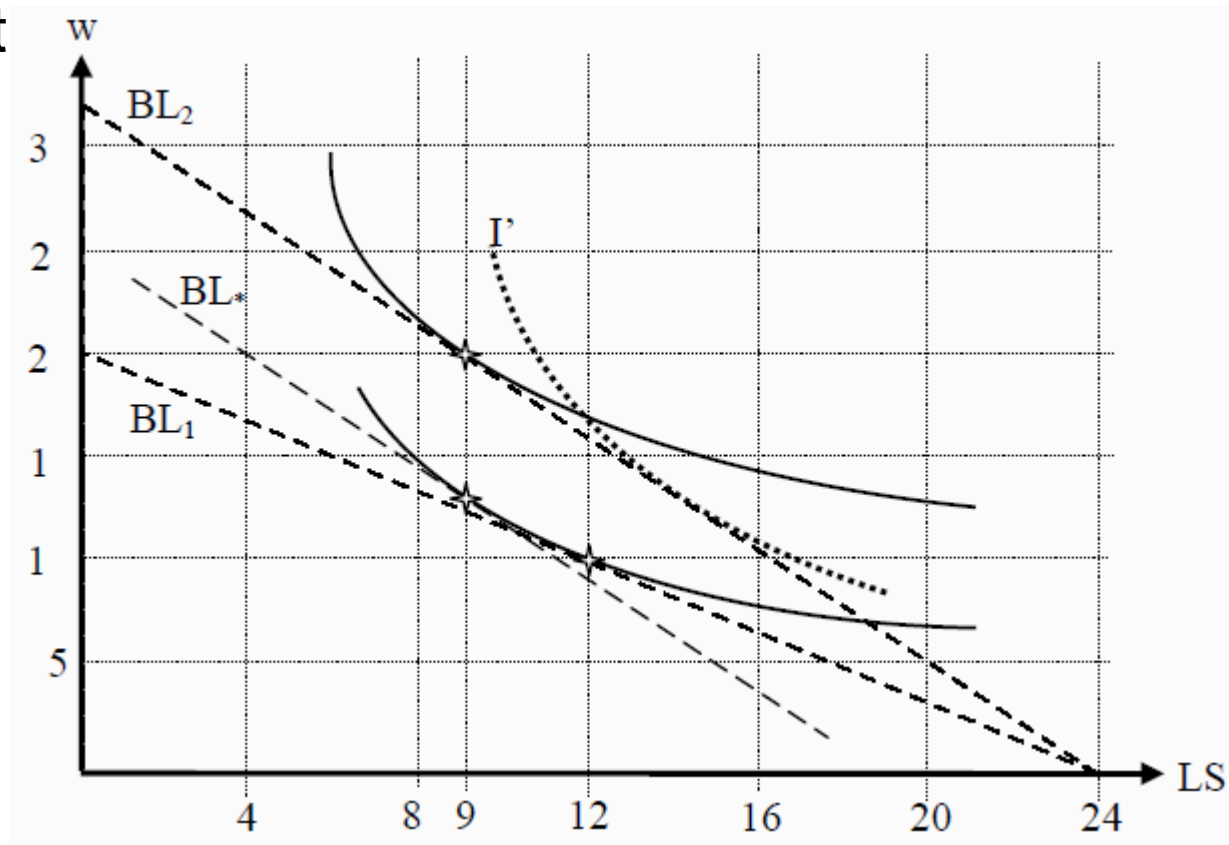


Exercise 1

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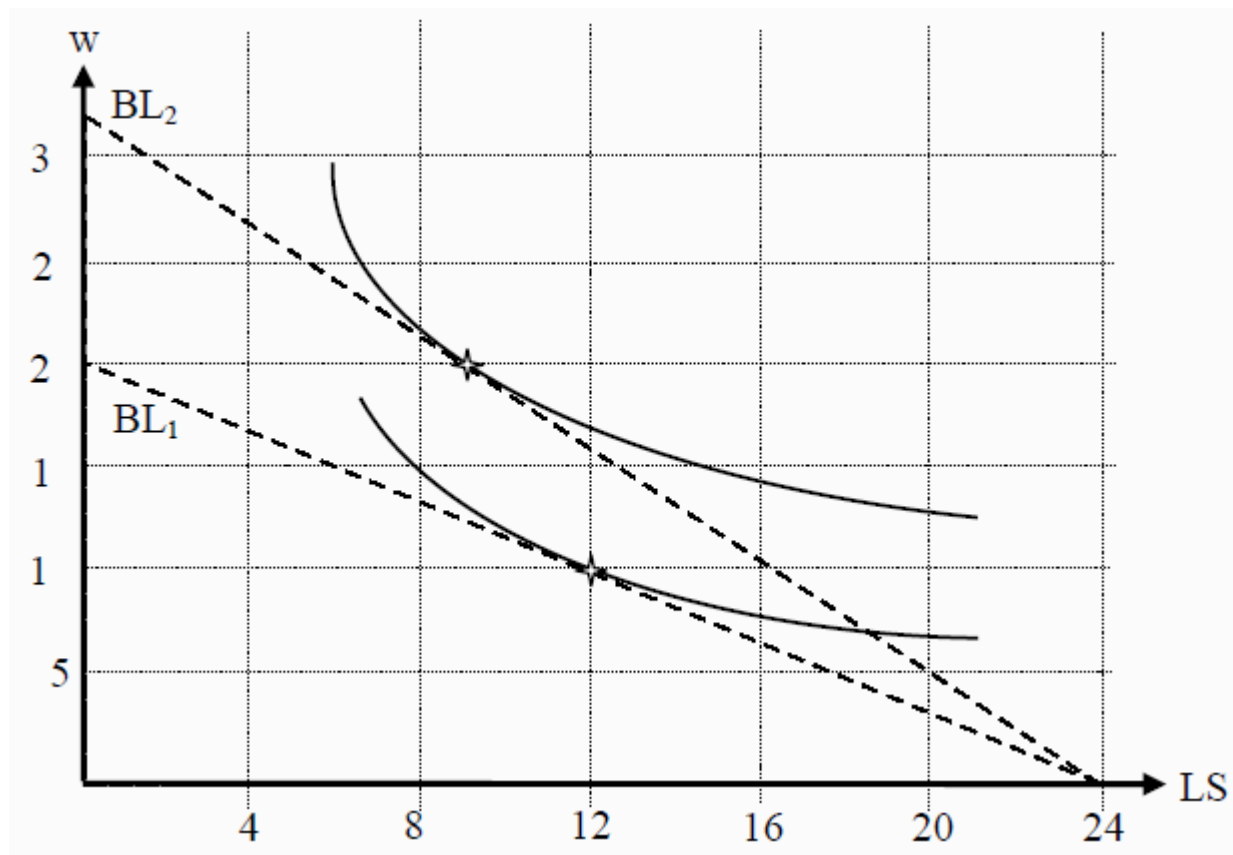
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To what extent does this depend on the substitution effect and the income effect respectively?



Exercise 1

Given the two budget lines, can you change the indifference curves to achieve the opposite effect, i.e. to observe a work reduction when the wage increases?



Exercise 1

The effect we can observe in previous case, does typically arise for high or for low wages? Or is it independent of wage?

