

1.6 — Deriving a Demand Function — Practice Problems

ECON 306 - Spring 2020

Wednesday, September 2, 2020

You can spend your income on apples and oranges. Apples currently cost \$0.25 and oranges cost \$0.50. When your income is \$40, you buy 10 apples and 8 oranges. When your income increases to \$80, you buy 12 apples and 6 oranges

1. **What type of good are apples (inferior, necessity, luxury)?**
2. **What type of good are oranges (inferior, necessity, or luxury)?**

You can have cereal and milk for breakfast. When milk is \$2/gallon, you consume 5 bowls of cereal per week. When milk increases to \$4/gallon, you consume 4 bowls of cereal per week.

3. **What is the relationship between these two goods?**
4. **What is the cross-price elasticity?**