Nonlinear Budget Constraints

You are looking to purchase some socks and realize that the three local shops offer quite different pricing:

1. $2 per pair
2. $3 per pair and $6 for a 4-pack of pairs
3. $3 per pair for the first 3 and $2 per pair after that

Part 1:

Which shop offers the best deal?

1. Shop A
2. Shop B
3. Shop C
4. It depends.

Part 2: [Hand out three empty graphs]

Now let’s put some economic structure on the problem. Consider socks and money as the two goods you care about. Assuming you have $12, draw the possible consumption bundles associated with purchasing socks at each shop.

Part 3: [Hand out sheets with pre-printed indifference curves.]

Describe each of these consumers in words. Which deal would each customer prefer? Does this change your answer to Part 1? Which of the three consumers has attained the most happiness from their sock purchases?