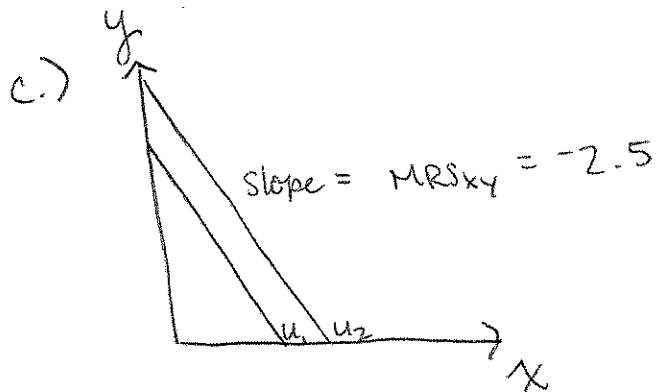


Econ 306
Problem Set 2

Chapter 4 :

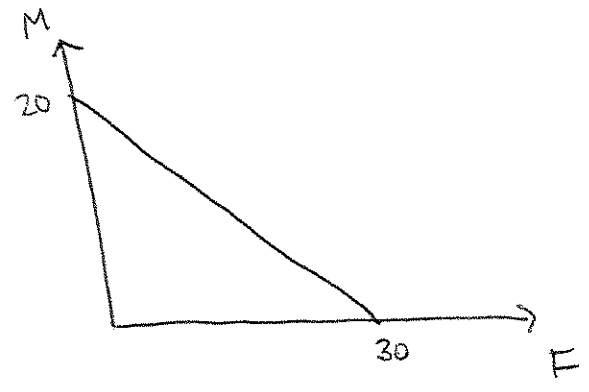
#8 a.) $MRS_{xy} = \frac{MU_x}{MU_y} = \frac{5}{2} = \underline{2.5}$

b.) MRS_{xy} is constant and equals 2.5 no matter what bundle we discuss



11

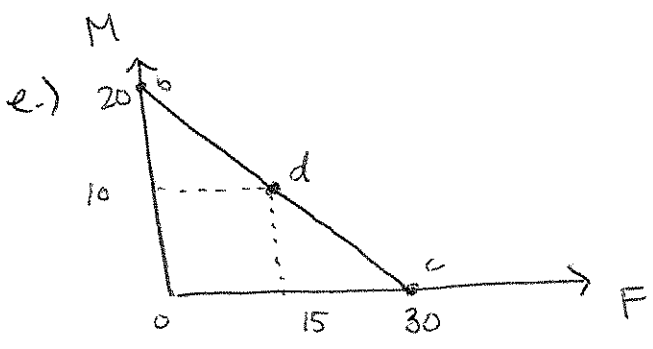
a.) $I = \$240$ $P_{\text{Music}} = \$12$ $P_{\text{Firework}} = \$8$



b.) $\frac{I}{P_M} = \frac{\$240}{\$12} = 20$

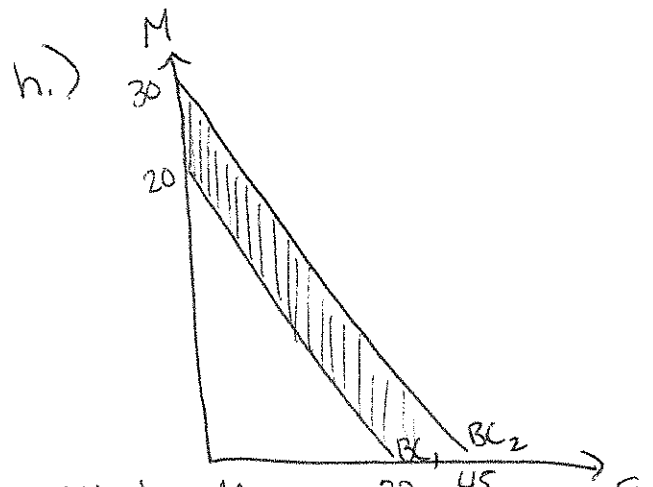
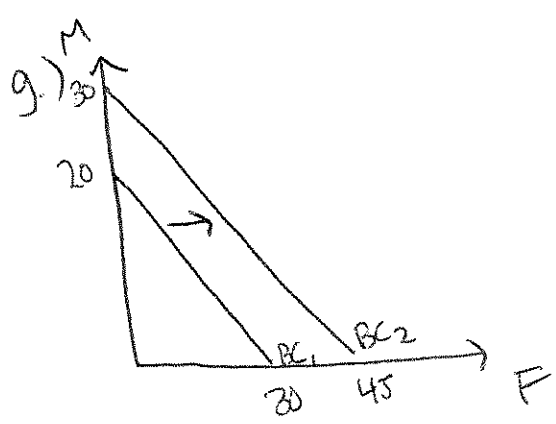
c.) $\frac{I}{P_F} = \frac{\$240}{\$8} = 30$

d.) $F = \frac{.5I}{P_F} = \frac{.5(240)}{12} = 10$; $M = \frac{.5I}{P_M} = \frac{.5(240)}{8} = 10$



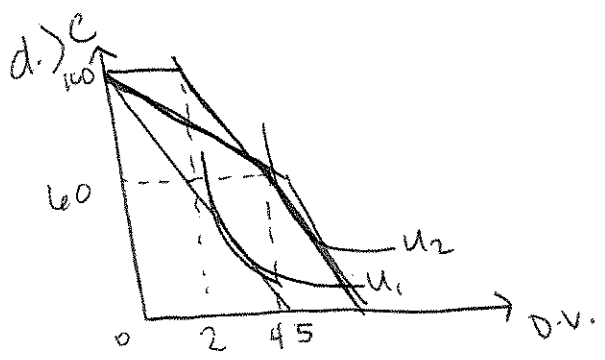
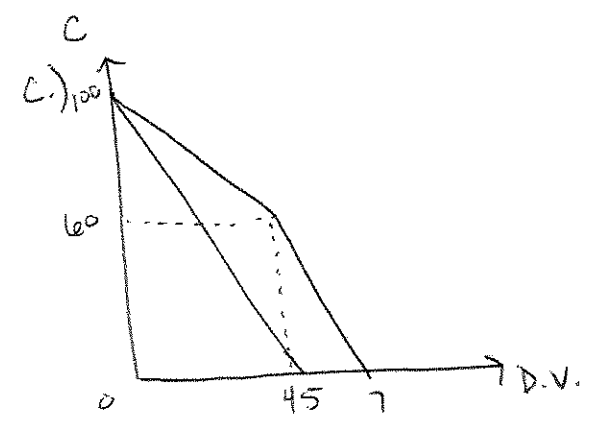
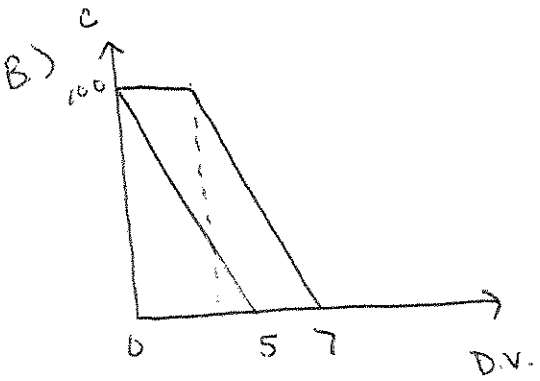
slope = $\frac{\Delta M}{\Delta F} = \frac{-20}{-30} = -\frac{2}{3}$

f.) $\frac{P_F}{P_M} = \frac{8}{12} = \frac{2}{3} \Rightarrow -1 \times$ the slope of b.c.

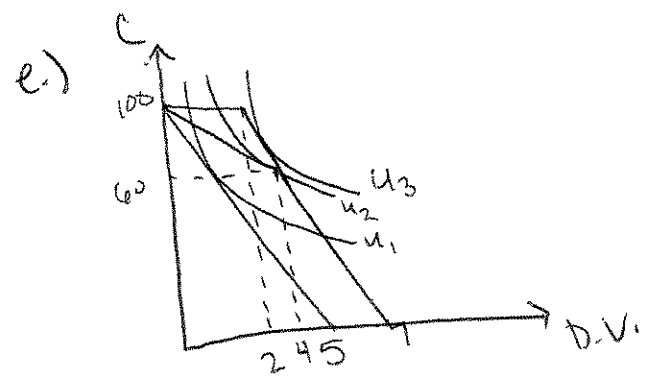


All bundles (F, B) such that $8F + 12M \leq 360$ are feasible.

#19)



Consumers who consume high ~~quantity~~ quantity of doctors visits are equally off under either plan (u_1) but are best off with no plan (u_2)

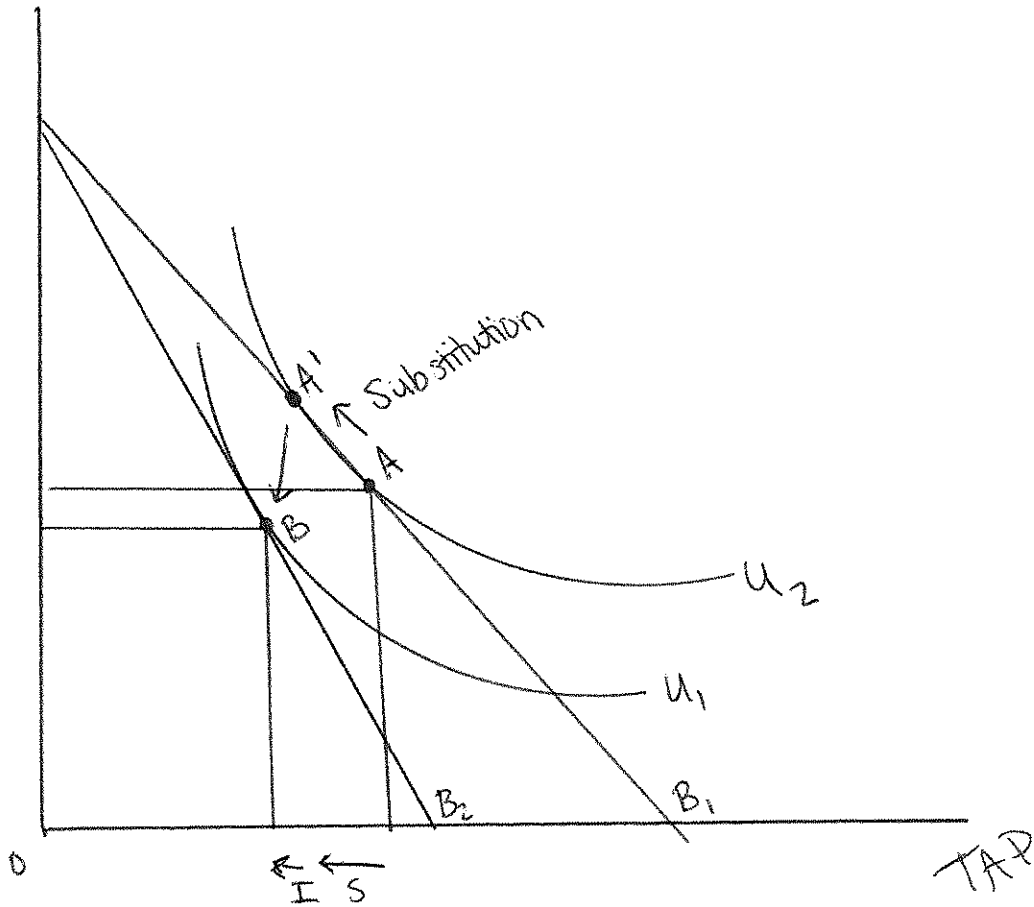


consumers who consume low quantities of doctor's visits will achieve u_3 under plan A, u_2 under plan B and u_1 under no plan.

#1

Additional Questions

Ballroom



Since both goods are normal, the income and substitution effects work in the same direction. The utility on U_1 is less than U_2 because it lies closer to the origin.