

Econ 306-001
Problem Set #2
DUE: MARCH 5, 2014 at the beginning of class

Instructions: Write or type your answers neatly. You may work with others if you like, but each person is required to hand in their own copy. This assignment will be graded on two margins. First, the assignment will be checked for completeness (points will be deducted for missing problems). Second, the assignment will be graded based on the accuracy of a subset of problems, usually 5 or 6 questions, worth around 20 points each.

Show your work! "Yes," "No," or single number answers will receive zero credit!

Chapter 4:

Review Questions: 1,4,6,12,14

Problems: 8, 11, 19

Chapter 5:

Review Questions: 4,8,12

Problems: 9

Chapter 6:

Review Questions: 4,6,8,12

Problems: 3,6,9,19 (parts A-D)

Additional Questions:

1. Ginger loves to dance and uses a lot of dance shoes. Suppose tap and ballroom shoes are both normal goods for Ginger. Place tap shoes on the X-axis and ballroom shoes on the Y-axis. Draw a hypothetical indifference curve and budget constraint for Ginger. Suppose the price of tap shoes rises. Demonstrate this change on your graph. Using the method discussed in class, decompose the income and substitution effects. Are the income and substitution effects working in the same or opposite direction? Is utility higher or lower?