

# Exams collection. Growing. Mathematics for economists (MFE), Methods of optimal solution (MOS)

24 мая 2013 г.

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## 1 2008-2009

### 1.1 MFE, mock, ??..11.08

Calculators are not allowed.

Candidates should attempt:

- all questions from Part A
- two of three questions from Part B.

Part A.

Problem 1. [10]

Find and sketch on the plane the sets:

- a)  $([1; 3] \times [-1; 4)) \cap ((2; 5] \times (2; 5])$
- b)  $([1; 3] \times [-1; 4)) \cup ((2; 5] \times (2; 5])$
- c)  $([1; 3] \times [-1; 4)) \setminus ((2; 5] \times (2; 5])$

Problem 2. [10]

Calculate the directional derivative of the function  $f(x, y) = 2x^3 + 2y^2$  at the point  $A(1; 2)$  in the following directions:

- a)  $\vec{l} = (1; 3)$
- b)  $\vec{l}$  which is orthogonal to the curve given by the equation  $x^2 + y^2 = 5$
- c) Direction of the fastest growth of  $f(x, y)$

Problem 3. [10]

Consider the following system of equation:

$$\begin{cases} xyzw + 2x^3y^3z^3 + 4w^3 = 7 \\ x + y + z^3 + w^3 + w^2z^2 = 5 \end{cases}$$

- a) Does this system define functions  $z(x, y)$  and  $w(x, y)$  at a point  $x = 1, y = 1, z = 1, w = 1$ ?
- b) If it's possible find  $\frac{\partial z}{\partial x}$  and  $\frac{\partial w}{\partial y}$  at that point

Problem 4. [10]

Find the Hesse matrix of the function  $f(x, y) = (2 + \cos(x))^{\sin(y)+5}$

Comment: clearly state Young theorem if you use it

Problem 5. [10]

Find the total differential for the function  $f(x, y) = x^2y^2 + xy^2 + 2x + 4y$

Using the total differential find approximately  $f(1.001, 1.999)$

Problem 6. [10]

Using the chain rule find all the first derivatives of  $p(a, b)$  where  $p(a, b) = f(x(a, b), y(a, b))$ ,  $x(a, b) = a^2 + ab$  and  $y(a, b) = b^3 + ab$

Part B.

Problem 7. [20]

Find the critical points of the function  $f(x, y, z) = x^3 - y^3 + 9xy - z^2e^{-z^2}$

Classify them using the Hesse matrix.

Problem 8. [20]

The individual lives for two periods. He has a utility function  $U(c_1, c_2) = u(c_1) + \beta u(c_2)$ . In each period his wage is equal to  $w$ . His budget constraint requires that his period 1 consumption be his wage  $w$  minus any savings,  $c_1 = w - s$ . The government taxes savings at the rate  $q$  per dollar saved. So his second period consumption will be  $c_2 = w + (1 + r)s(1 - q)$ . The individual takes  $q, r, w$  as given. The individual seeks to maximise his utility  $U$ .

- a) Find the first order condition for the optimal savings amount
- b) Using the implicit function theorem find  $\frac{\partial s}{\partial q}$
- c) Find  $\frac{\partial s}{\partial q}$  explicitly if  $u(c) = \ln(c)$

Problem 9. [20]

A firm sells its output into a perfectly competitive market and faces a fixed price  $p$ . It hires labor in a competitive labor market at a wage  $w$ , and rents capital in a competitive capital market at rental rate  $r$ . The production function is  $f(L, K)$ . The firm seeks to maximize its profits. Both factors are used in positive amounts in the optimal point.

- Express the profit  $\pi$  as a function of  $L$  and  $K$
- Find necessary first order conditions for a profit-maximizing point  $(L^*, K^*)$
- Find the second order conditions sufficient for maximum (two inequalities)
- Using the implicit function theorem find  $\frac{\partial K^*}{\partial w}$ . Is it positive or negative if you additionally know that  $\frac{\partial^2 \pi}{\partial L \partial K} > 0$ ?

## 1.2 MFE, fall semester exam, 21.01.2009

Lecturer: K.A. Bukin, Classteachers: B.B. Demeshev, I.O. Kachkovski

SECTION A. Answer all FOUR questions from this section (60 marks in total)

- Find the gradient of  $f(x, y) = \frac{x^2 y}{\sqrt{x^2 + y^2}}$  at the point  $M(1, 3)$ . Compute the derivative of  $f$  at  $M$  in direction of the vector  $\{-1, 1\}$ .
- Calculate all partial derivatives of the first and second order of  $u$  with respect to  $x$  and  $y$  if  $u = f(\xi, \eta)$  and  $\xi = x + xy$ ,  $\eta = x/y$ .
- Consider the system of equations

$$\begin{cases} x_1^2 + x_1 y_1 + x_2 y_2 = 3 \\ x_2^2 + x_1 y_2 - x_2 y_1 = 1 \end{cases}$$

Are implicit functions  $y = y(x)$  and  $x = x(y)$  defined around the point  $M(1, 1, 1, 1)$ ? Here  $y$  denotes the vector with components  $y_1$  and  $y_2$  and the same notation holds for  $x$ . If your answer is affirmative, find  $\partial y_1 / \partial x_1$  and  $\partial x_2 / \partial y_2$  at the point  $M$ .

- Find all stationary points of  $f(x, y) = x^4 + y^4 - 4xy + 1$ . Classify them as local minimum, maximum or saddle point.

SECTION B Answer TWO of the three questions from this section (20 marks each)

- Consider a problem of identifying Pareto-optimal allocations in the two goods economy with the two agents having identical utility functions  $U_1(x_1, y_1) = x_1 y_1$  and  $U_2(x_2, y_2) = x_2 y_2$ , where  $x_i$  and  $y_i$  denote respectively the amounts of goods  $x$  and  $y$  that are allocated to agent  $i = 1, 2$ . Given a weight  $\alpha \in (0, 1)$ , the solution of that problem can be found by maximizing the «weighted» utility function  $\alpha U_1 + (1 - \alpha) U_2$  with respect to all the variables subject to the resource constraints  $x_1 + x_2 = w_1$ ,  $y_1 + y_2 = w_2$ . In this economy  $w_1, w_2$  are positive endowments.
  - Using the Lagrangean derive the necessary conditions for extremum and solve the system of equations.
  - Without applying the second-order conditions explain why the solution  $(x_1^*, x_2^*, y_1^*, y_2^*)$  is the maximum of the problem stated above.
  - Calculate the value of the «weighted» utility function at the Pareto-optimal allocation and compare it with the case when all the endowment in  $x$  and  $y$  is given to a single agent. How would you explain a difficulty you may find here?
- A firm's inventory  $I(t)$  is depleted at a constant rate per unit time, i.e.  $I(t) = x - \delta t$ , where  $x$  is an amount of good reordered by the firm whenever the level of inventory is zero. The order is fulfilled immediately. The annual requirement for the commodity is 200 units and the firm orders the commodity  $n$  times a year where  $200 = nx$ . The firm incurs two types of inventory costs: a holding cost and an ordering cost. Since the average stock of inventory is  $x/2$ , the

holding cost equals  $C_h x/2$ , the cost of placing one order is  $C_o$ , and with  $n$  orders a year the annual ordering cost equals  $C_o n$ .

- (a) Minimize the cost of inventory  $C = C_h x/2 + C_o n$  by choice of  $x$  and  $n$  subject to the constraint  $nx = 200$  by the Lagrange multiplier method.
  - (b) Use the envelope theorem to approximate the change in the minimal cost if the requirement for the commodity rises to 204 units.
7. Use the Lagrange multiplier method to prove that the triangle with maximum area that has a given perimeter  $2p$  is equilateral. Be sure to justify that the extreme you find is indeed maximum.
- Hint 1:* Use Heron's formula for the area:

$$A = \sqrt{p(p-x)(p-y)(p-z)}$$

where  $x$ ,  $y$  and  $z$  are the lengths of the sides.

*Hint 2:* You may find that maximizing  $A^2$  instead of just  $A$  will require somewhat more pleasant calculations while giving the same answer.

## 2 2009-2010

### 2.1 MFE, fall semester exam, 19.01.2010

Lecturer: K. A. Bukin, Classteachers: A. Arlashin, I. Kachkovski, M. Martinovic

Marks will be deducted for insufficient explanation within your answers. Total duration of the exam is 120 min.

Variant I

SECTION A. Answer all six questions from this section (10 marks each)

1. Consider the function  $f(x, y) = (1 + x)/y^2$ . On the  $(x, y)$ -plane, sketch several level curves of  $f$ . Calculate and sketch unit length vectors indicating directions of the most rapid growth of  $f$  at points  $(1, 1)$  and  $(3, -1)$ .
2. Use the first-order differential to approximate  $\sqrt[3]{4 \cdot 0.9^2 + 2.2^2}$
3. Find the equation of the tangent plane to the surface given by  $x^3 + z^3 - 3xz = y - 1$  at the point  $(1, 4, 2)$ .
4. Find  $\partial^2 u / \partial x \partial y$  and  $\partial^3 u / \partial x \partial z^2$  if  $u = f(s, t)$  and  $s = x/y$ ,  $t = y/z$ . Assume that  $f$  has continuous third-order partial derivatives.
5. Given the system

$$\begin{cases} x e^{u+v} + 2uv = 1 \\ y e^{u-v} - \frac{u}{1+v} = 2x \end{cases}$$

find  $du$  and  $dv$  at  $x_0 = 1$ ,  $y_0 = 2$ ,  $u_0 = 0$ ,  $v_0 = 0$ .

6. Use Lagrange multipliers to find the dimension of a rectangular box with the least possible surface area among those with a volume of  $27 \text{ m}^3$ . Make sure you check the second order condition for minimisation.

SECTION B. Answer both questions from this section (20 marks each)

7. Dr. Cooper is a two-period consumer and his utility is  $u(c_0, c_1) = \ln c_0 + 0.8 \ln c_1$ , with  $c_0$  the initial period consumption and  $c_1$  the second period consumption. He gets income of  $Y_0$  and  $Y_1$  in these two periods respectively, and can borrow and lend money at the same interest rate of  $r$ . That means, if Dr. Cooper consumes less than  $Y_0$  in the initial period, then the difference is saved and results in the second period additional income, equal to  $(Y_0 - c_0)(1 + r)$ , of course. If he decides to consume more than  $Y_0$  in the initial period, he has to borrow and repay the borrowed

amount together with interest payments in the second period, thus lowering his second-period consumption (to what amount?).

- (a) Show that irrespective of whether Dr. Cooper goes borrowing or lending, his budget constraint is

$$c_0(1+r) + c_1 = Y_0(1+r) + Y_1$$

- (b) Sketch the budget constraint and several indifference curves on the  $(c_0, c_1)$ -plane.
- (c) Suppose now that  $r = 0.4$  and  $Y_0 = Y_1 = 10$ . Set up the utility optimisation problem with variables  $c_0$  and  $c_1$ . Use Lagrange multipliers to solve it. Justify that the point you have found is the point of maximum.
- (d) Using the Envelope Theorem, approximate the change in Dr. Cooper's maximum utility if the interest rate rises to 0.45 with unchanged income in both periods.

8. Consider the Edgeworth exchange economy with two agents, Robinson and Friday, and two goods, wheat and fish. Robinson has the utility of possessing  $w$  units of wheat and  $f$  units of fish equal to  $u_R(w, f) = wf$ , Friday's utility is  $u_F(w, f) = w^2f$ . There is one unit of wheat and one unit of fish in the economy.

- (a) Set up (but do not solve) the problem of optimisation of Friday's utility given the fixed level of Robinson's utility, say,  $u_R(w, f) = 1/3$ . There should be 4 variables (the product levels, or allocations, for Robinson and Friday) and 3 equality constraints.
- (b) The problem above can also be set up in 2 variables with 1 constraint: maximize  $(1-w)^2(1-f)$  subject to  $wf = 1/3$ . Use Lagrange multipliers to solve it. Find the optimal product levels of both agents. Do not check the second-order condition.
- (c) In the context, explain the geometric significance of the equation

$$\nabla u_R(w, f) = \lambda \cdot \nabla u_F(1-w, 1-f)$$

where  $\lambda$  is some real number.

- (d) The optimal levels in (ii) are also the solution of the problem of optimising Robinson's utility given some fixed level of Friday's utility,  $u_F(w, f) = a$ . What is the value of  $a$ ? What is the optimal value of Robinson's utility under the given constraint?

### 3 2010-2011

#### 3.1 MFE, fall semester exam, 18.01.2011

Variant 4, Classteachers: A.Arlashin, G.Sharygin, S.Provornikov

Section A. Answer all 6 questions from this section (10 marks each)

- Let  $\bar{n}$  be the unit normal at a point  $M_0(x_0, y_0, z_0)$  to the sphere represented by the equation  $x^2 + y^2 + z^2 = 16$  in  $R^3$ . The point  $M_0$  belongs to that sphere.
  - Find the components of  $\bar{n}$  as the functions of  $M_0$ .
  - Find the set of points on the sphere at which the directional derivative of the function  $u(x, y, z) = x - z$  in the direction of  $\bar{n}$  turns to zero.
- Suppose  $f(x, y)$  is a twice differentiable function. Let  $x$  and  $y$  be defined in terms of  $u, v$  as follows:  $x(u, v) = ue^{2v}$ ,  $y(u, v) = u^2 - v^2$ . Let  $F(u, v) = f(x(u, v), y(u, v))$ . Calculate  $F''_{uu}$  and  $F''_{uv}$ .
- Find the linear approximation of the function  $\cos(e^x + e^y)$  in the neighborhood of the point  $(\ln(\pi/4), \ln(\pi/4))$ .

4. In the economy producing two goods  $x$  and  $y$ , the production possibilities set (PPS) is given by the system of inequalities  $\{x^2 - xy + 2.5y^2 \leq 450, x \geq 0, y \geq 0\}$ . By definition the marginal rate of transformation is defined as  $MRT = -\frac{dy}{dx}$ , where derivative (if it exists) is taken at a point on the boundary of PPS which is called Production Possibilities Frontier.
  - (a) By completing perfect squares prove that PPS is a bounded set.
  - (b) Using the Implicit Function Theorem find MRT for that economy in terms of  $x, y$ . Consider  $x > 0$  and  $y > 0$ .
  - (c) Find point(s) at which  $MRT = 1$ .
5. A two goods producer is a monopolist and it faces the inverse demand functions  $p_x = 60 - 2x$  and  $p_y = 50 - 3y + x$  where  $x, y$  are produced positive quantities. Let the total cost function be  $C(x, y) = x^2 + 2y^2 + xy$ . Find production levels that maximize firm's profit. Use second-order conditions to verify maximization.
6. In the macroeconomic linear IS-LM model for the closed economy  $Y = \bar{C} + m(Y - T) + G + \bar{I} - ar$  and  $\bar{L} + bY - cr = M_s$ , where  $M_s$  is money supply,  $r$  — interest rate,  $G$  — government expenditures,  $T$  — lump sum tax and the constant parameters  $\bar{C} > 0, 0 < m < 1, \bar{I} > 0, a > 0, \bar{L} > 0, b > 0, c > 0$ . Find the formulas for  $dr/dT, dY/dT$ . Assume that government expenditures and money supply are fixed exogenous variables.

Section B Answer both questions from this section (20 marks each)

7. In the economy described by the production possibilities set in question four from section A, the world prices on goods are set as follows:  $p_x = 5, p_y = 4$ . In order to maximize its national income the economy maximizes the objective function  $5x + 4y$  on the constraint set  $\{x^2 - xy + 2.5y^2 \leq 450, x \geq 0, y \geq 0\}$ . Find the produced quantities in that economy. You may not use the Kuhn-Tucker formulation here. Can the Weierstrass Theorem on attainment of the greatest and the least values be applicable in that maximization problem? Explain.
8. A consumer splits her time  $\bar{L}$  hours a week between labor and leisure. Her utility function is represented by  $u(c, l) = c^\alpha l^{1-\alpha}$ , where  $c$  is the amount of consumption and  $l$  is leisure in hours and  $0 < \alpha < 1$ . The weekly budget constraint is written as  $pc + wl = w\bar{L}$ , where  $p$  is the price of consumption,  $w$  is the hourly wage rate.
  - (a) Find the consumer's optimal bundle  $(c^*, l^*)$ . Justify your answer by checking second-order conditions or otherwise.
  - (b) Let  $\alpha = 3/4, \bar{L} = 168, p = 16, w = 8$ . Using Envelope Theorem estimate the change in the maximum value of her utility if the wage rate has decreased by 0.5.

## 4 2011-2012

### 4.1 MFE, mock, 31.10.11

Marks will be deducted for insufficient explanation within your answers. Sections A and B will make up 60% and 40% of the exam grade, respectively. Total duration of the exam is 120 min.

#### SECTION A

Answer SIX of the six questions from this section.

1. Estimate value of  $\sin^2(61^\circ) \cdot \tan(31^\circ)$  by linear approximation using derivatives at  $60^\circ$  and  $30^\circ$ . Convert degrees into radians first.
  - (a) Degrees to radians. 2 points.
  - (b) Approximation. 8 points.
2. Let  $D$  be the domain of the function  $f(x, y) = \ln(x) + \sqrt{y - x}$ . Find  $D$ , the set  $D^\circ$  of internal points of  $D$ , the set  $\partial D$  of boundary points of  $D$ .

- (a) The set  $D$ . 4 points.
  - (b) Internal points. 3 points.
  - (c) Boundary points. 3 points.
3. Consider the function  $f(x, y) = x^2 + y^3 - xy + 3y$  at the point  $(2; 1)$ . Find all the directions in which the growth rate of the function constitutes 60% of the maximal possible growth rate at that point.
- (a) Gradient and its length. 3 points.
  - (b) Equation for direction. 3 points.
  - (c) Solution of the equation. 4 points. One missing solution implies penalty 2 point.
4. Find the Hesse matrix of  $f(x, y) = y \ln(x^2 + y)$ . Clearly state Young's theorem if you use it.
- (a) First derivatives. 2 points.
  - (b) Second derivatives without the use of Young's theorem. 8 points .
  - (c) Second derivatives with the use of Young's theorem. 6 points for derivatives. 2 points for the statement of the theorem.

5. Consider the function

$$f(x, y) = \begin{cases} \frac{xy}{\sqrt{x^2+y^2}}, & \text{if } (x, y) \neq (0, 0) \\ 0, & \text{if } (x, y) = (0, 0) \end{cases} \quad (1)$$

Is this function continuous at  $(0; 0)$ ?

- (a) 10 points. Answer without proof = 0 points.
6. The value of  $y$  is determined as a function of  $t$  by the equation

$$\int_0^t f(x, y) dx = 1 \quad (2)$$

Find  $dy/dt$

- (a) Mention of the formula  $dy/dt = -\frac{G_t}{G_y}$ . 2 points.
- (b) All the rest. 8 points

PLEASE TURN OVER

## SECTION B

Answer TWO of the two questions from this section.

1. Find all critical points of the function  $z = z(x, y)$  implicitly defined by the equation

$$x^2 + y^2 + z^2 - xz - yz + x + y + 4z + 1 = 0 \quad (3)$$

2. Let the production function  $q = F(K, L)$  be twice continuously differentiable. Marginal rate of technical substitution is defined by the formula

$$MRTS = \frac{\frac{\partial F}{\partial L}}{\frac{\partial F}{\partial K}} \quad (4)$$

The derivatives in the denominator and numerator are taken while the same amount of the output  $q$  is fixed. Show that under the conditions  $F_L > 0$ ,  $F_K > 0$ ,  $F_{LL} < 0$ ,  $F_{KK} < 0$ ,  $F_{LK} \geq 0$ , the marginal rate monotonously declines with the growth of the factor  $L$ . In other words  $\frac{\partial MRTS}{\partial L} < 0$ .

## 4.2 MFE, fall semester exam, 29.12.11

Lecturer: K. Bukin

Classteachers: B. Demeshev, A. Kalchenko, S. Slavnov, D. Yesaulov

Marks will be deducted for insufficient explanations within your solutions. Exam lasts for 120 minutes.

Section A. Answer all 6 questions from this section (10 marks each)

1. The function  $f(x, y)$  is given by  $f(x, y) = u^2(x, y) + v^3(x, y)$ . The values of  $u$  and  $v$  and their gradients at the point  $(x, y) = (1, 1)$  are also known,  $u(1, 1) = 3$ ,  $v(1, 1) = -2$ ,  $\text{grad } u = (1, 4)$ ,  $\text{grad } v = (-1, 1)$ . Find  $\text{grad } f$  if  $u, v \in C^1$ .
2. Find the Hesse matrix of the function  $f(x, y) = \int_{x-3y}^{2x+y} h(t) dt$  if  $h \in C^1$ .
3. Determine the values of  $a$  for which the quadratic form  $x^2 + 2axy + 2xz + z^2$  is positive definite, negative definite, positive semidefinite, negative semidefinite, and indefinite.
4. Given the system of two equations  $x^2 + y^2 = \frac{1}{2}z^2$  and  $x + y + z = 2$ , find  $\frac{dx}{dz}$  and  $\frac{dy}{dz}$  in the neighborhood of the point  $(1, -1, 2)$ .
5. Find the maxima and minima of the function  $f(x, y, z) = xyz$  subject to the constraints  $x + y + z = 5$  and  $xy + yz + xz = 8$ ,  $x > 0$ ,  $y > 0$ ,  $z > 0$ .
6. If the function  $y$  is given by  $y(x) = \frac{1}{2}(e^x + e^{-x})$ , check that  $\frac{dx}{dy} = \frac{1}{\sqrt{y^2 - 1}}$ .

Section B. Answer both questions from this section (20 marks each)

7. Consider the following maximization problem  $f(x, y, a, b) = ax^2 - x + by^2 - y$ , where  $a$  and  $b$  are real numbers.
  - (a) Derive  $(x^*, y^*)$  — the point that satisfies the first order conditions.
  - (b) Specify the conditions for  $a$  and  $b$  to ensure that the point  $(x^*, y^*)$  is the maximizer.
  - (c) Use the Hessian to specify conditions for concavity and convexity of  $f$  depending on the values of parameters.
  - (d) Solve the comparative statics problem: compute  $\frac{\partial y^*}{\partial a}$  and  $\frac{\partial y^*}{\partial b}$  as  $a$  and  $b$  marginally change.
  - (e) Using one of the envelope theorems find the rate of change of the value function  $f(x^*, y^*, a, b)$  as the result of the marginal change in  $a$  and  $b$ .
8. Robinson Crusoe splits his time  $\bar{L}$  hours a week between labor and leisure. His utility function is represented by  $u(c, l) = \alpha \ln c + (1 - \alpha) \ln l$ , where  $c$  is the amount of food and  $l$  is leisure in hours and  $0 < \alpha < 1$ . The food is produced by him in accordance with the production function  $c = \sqrt{\bar{L} - l}$ .
  - (a) Find Robinson's optimal bundle  $(c^*, l^*)$  that provides him with the maximum utility (welfare) possible. Justify your answer by checking second-order conditions or otherwise.
  - (b) Let  $\alpha = 1/4$ ,  $\bar{L} = 168$ . Using the envelope theorem, estimate the change in the maximum value of his welfare if his utility function has slightly changed to become  $u(c, l) = \frac{1}{5} \ln c + \frac{4}{5} \ln l$ .

## 4.3 MFE, fall semester retake, 25.01.12

Lecturer: K. Bukin. Classteachers: B. Demeshev, A. Kalchenko, S. Slavnov, D. Yesaulov

Section A. Answer all 6 questions from this section (10 marks each)

1. For the function  $f(x, y) = 2xy + 3$  find the level curves and the equations for their tangents at the points  $(1, 2)$  and  $(2, 2)$ .



- The population of a certain country grows exponentially,  $N_t = N_{1990} \cdot \exp(r(t - 1990))$ . The population was 70 million in 1990 and 80 million in 2000, what will be the population in 2013?
- Use the chain rule to find  $f'(x)$  and  $f''(x)$  for  $f(x) = u(a, b, x)$  where  $a = \cos(x)$  and  $b = x^3$ .
- The system of equations defines  $x(z)$  and  $y(z)$ :

$$\begin{cases} x^2 + zxy + y^2 + 6z + y^3 = 10 \\ y^3x^2 + 3x + 2y + z = 7 \end{cases}$$

Find  $x'(z)$  and  $y'(z)$  at the point  $x = 1$  and  $y = 1$ .

- Consider the function  $f(x, y) = x^2 + y^3 - xy + 3y$  at the point  $(2; 1)$ . Find all the directions in which the growth rate of the function constitutes 60% of the maximal possible growth rate at that point.
- Consider the objective function  $f(x, y) = 4kx^3 + k^2xy + 3ky^4 - 13x - 13y$ . The point  $(x, y) = (1, 1)$  is the maximum of the function.
  - Find the value of  $k$
  - Find the approximate increase of the maximum value if  $k$  will change by  $\Delta k = 0.01$

Section B. Answer both questions from this section (20 marks each)

- We wish to build a picnic zone for the travellers along a highway. The picnic zone should be rectangular with an area of 1000 m<sup>2</sup> and should have a fence on the three sides not adjacent to the highway. The price of one meter of fence is equal to \$ 20.
  - Find the dimensions of the picnic area that minimize the fencing costs.
  - Using hessian or otherwise check that you have found the costs-minimizing solution.
  - Using the Envelope theorem estimate the change in the costs if we increase the area of the picnic zone by 1 m<sup>2</sup>.
- A monopolistic firm with the cost function  $TC(Q) = 30 + 15Q + Q^2$  sells a single product in two separate markets. The demand functions for these markets are given by  $Q_1 = 25 - P_1$ ,  $Q_2 = 29 - P_2$ .
  - Find the optimal quantities  $Q_1, Q_2$  to be supplied to the respective markets in order to maximize the profit. Using hessian or otherwise check the second order condition.
  - Calculate the point elasticity of demand for each of the three markets. Is it true that the optimal price is negatively related to the absolute value of elasticity at the optimal levels of output?
  - Using the Envelope theorem estimate the change in the optimal profit if the demand on the second market changes to  $Q_2 = 29.2 - 1.1P_2$ .

#### 4.4 MFE, mock exam, 02.04.12

Time allowed 120 minutes.

Students should answer all of the following eight questions. Calculators are not permitted in the exam. Marks will be deducted for insufficient explanations within your answers.

Section A: 10 points each question.

- Determine whether the function  $f(x, y) = \ln(5x + y) - 5(x + y)^2$  is convex (concave up), concave (concave down), strictly convex, strictly concave or neither.
- Solve the differential equation  $y^{(4)} - y = \cos(x)$ . The  $y^{(4)}$  denotes the forth derivative of  $y$ .
- Consider the monopolist producing two distinct goods. The cost function is given by  $TC(q_1, q_2) = q_1 + kq_2$ , where the constant  $k \in (0; 1)$ . And the demand functions are given by  $q_1(p_1, p_2) = q_2(p_1, p_2) = (p_1p_2)^{-3}$ .

- (a) Find the optimal production bundle for the monopolist.
- (b) For which values of  $k$  one of the product is priced under marginal costs?
- 4. The density of a standard normal random variable  $X$  is given by  $f(x) = \frac{1}{\sqrt{2\pi}} \exp(-x^2/2)$ . Taking the fact that  $\int_{-\infty}^{\infty} f(x) dx = 1$  for granted calculate  $E(X^2)$ ,  $E(X^4)$ .  
Hint: if you don't remember,  $E(X^n) = \int_{-\infty}^{+\infty} x^n f(x) dx$
- 5. The point elasticity of demand for a good is given by  $\varepsilon = p^2/(p^2 + 4p + 3)$ . Find the demand function  $q(p)$  given the initial condition  $q(1) = 1$ .
- 6. Find the values  $a$  and  $b$  such that the function  $f$  is homogeneous:

$$f(x, y) = 2x^{b-a}y^{b+2} + y^{a+1}x^{-3b} + y^{7b}x^{-2a}$$

For the values of  $a$  and  $b$  you have found expand the function

$$h(x) = \sqrt{1 + f(x, x)} \cdot (1 - \cos(f(x, x)))$$

as a power series up to  $x^4$ . State the range for  $x$  where your expansion is correct.

Section B: 20 points each question.

- 1. It is known that  $x_0 = 0$ ,  $x_{100} = 100k$  where  $k \in \mathbb{Z}$  is constant and for any  $n \in \{2, 3, \dots, 100\}$  the following difference equation is satisfied:

$$x_n - 2x_{n-1} + x_{n-2} = -1$$

- (a) Find the particular solution
- (b) Find the maximum value of  $x_n$  for  $n \in \{0, \dots, 100\}$  as a function of  $k$ .
- 2. Using the Lagrange multiplier method without reducing the number of variables by substitution find the minimum of the function

$$f(x, y, z) = 2x^2 + 4y^2 + xy + 8z^2 + 2yz$$

subject to  $x + y + 1.5z \geq 1.2$  and  $x + y + z = 1$ .

## 4.5 MOR, 22.05.12

**Section A.** Solve **two** of the following **two** problems

- 1. Use Lagrange multipliers method to solve optimization problem

$$xy \rightarrow \max$$

subject to  $x \geq 0$ ,  $0 \leq y \leq 3$ ,  $x + 2y \leq 8$ ,  $y \geq \frac{x^2}{16} + 1$ .

- 2. Solve the linear program depending on the parameter  $\beta$ ,

$$2x_1 + 4x_2 + 5x_3 - x_4 \rightarrow \min$$

subject to  $x_1 + x_3 - x_4 \geq 0$ ,  $-x_1 + x_2 + \frac{1}{2}x_3 + \beta x_4 \geq 1$ ,  $x_i \geq 0$ .

For what values of  $\beta$  the minimum of the objective function equals 3?

**Section B.** Solve **two** of the following **three** problems

- 3. Find the general solution of the differential equation  $y'' + 2y' + y = xe^{-x} + \cos(x)$

4. Solve the initial-value problem for the system of difference equations
- $$\begin{cases} x_{t+1} = x_t + y_t \\ y_{t+1} = 3x_t - y_t - 5 \end{cases}, \text{ where } x_0 = y_0 = 0.$$
5. In the model of interacting inflation and unemployment based on the Phillips relation, both unemployment rate  $U$  and expected inflation  $\pi$  are the solutions of the system  $\dot{\pi} = \frac{3}{4}(p - \pi)$ ,  $\dot{U} = -\frac{1}{2}(m - p)$ , where  $m$  is exogenously defined positive rate of nominal money growth and  $p$  is the posteriori observed inflation satisfying equation  $p = \frac{1}{6} - 3U + \pi$ . Find the steady-state solutions for the inflation both expected and observed as well as the unemployment rate in terms of  $m$ . Explore the dynamic stability of solutions. What is the natural rate of unemployment?

**Section C.** Solve **two** of the following **three** problems

6. Find all pure and mixed Nash equilibria in the following bimatrix game:

	D	E	F
A	3;4	1;3	1;0
B	2;7	3;6	0;3
C	0;2	2;1	5;6

7. Two players play a version of Rock-Paper-Scissor game. Paper beats Rock, Rock beats Scissors, Scissors beats Paper. The two players simultaneously make their choice. The first player can choose any object. The second player can choose Rock or Paper. The winner receives 1 rouble from the loser. In case of a draw the wealth of a player does not change.
- (a) Construct the payoff matrix of the game.
- (b) Find all pure and mixed Nash equilibria
8. Two players are trying to bribe the judge. The possible amount of bribe is any real number between 0 and 1 million roubles. The player who gives the biggest bribe is announced as the winner of the affair by the judge. The winner receives 1 million roubles. The loser gets nothing. Obviously bribes are not returned by the judge. In the case of equal bribes each player gets nothing.
- (a) Are there any pure Nash equilibria in this game?
- (b) Find at least one mixed Nash equilibrium.

Short tips:

- (a) No
- (b) If the second player choses his move according continuous distribution function  $F$  then the expected payoff of the first player for the bribe  $b$  is equal to

$$1 \cdot P(b_2 \leq b) - b = 1 \cdot F(b) - b$$

If a rational player uses mixed strategies he is indifferent between the corresponding pure strategies. That means that  $F(b) - b = \text{const}$  for pure strategies that are mixed. For pure strategies that are mixed the density function  $f(b) = F'(b) = 1$ . Do I know such a random variable? Yes, I know! A uniform on  $[0; 1]$ .

## 4.6 MFE, retake exam, 19.09.2012

Time allowed 120 minutes.

Students should answer all of the following eight questions. Calculators are not permitted in the exam. Marks will be deducted for insufficient explanations within your answers.

Section A: 10 points each question.

1. It is known that the functions  $f_1(x)$  and  $f_2(x)$  are concave up. Is it possible that the function  $h(x) = \max\{f_1(x), f_2(x)\}$  is concave down?
2. The implicit function  $z(x, y)$  is given by the equation  $x - z = f(y - z)$  where  $f$  is some unknown differentiable function. Find  $\frac{\partial z}{\partial x} + \frac{\partial z}{\partial y}$ .
3. Consider the monopolist producing two distinct goods. The cost function is given by  $TC(q_1, q_2) = q_1 + kq_2$ , where the constant  $k \in (0; 1)$ . And the demand functions are given by  $q_1(p_1, p_2) = q_2(p_1, p_2) = (p_1 p_2)^{-3}$ .
  - (a) Find the optimal production bundle for the monopolist.
  - (b) For which values of  $k$  one of the product is priced under marginal costs?
4. The density of an exponential random variable  $X$  is given by  $f(x) = \exp(-x)$  for  $x > 0$ . Calculate  $E(X)$ ,  $E(X^2)$ .  
Hint: if you don't remember,  $E(X^n) = \int_{-\infty}^{+\infty} x^n f(x) dx$
5. The point elasticity of demand for a good is given by  $\varepsilon = p^2/(p^2 + 4p + 3)$ . Find the demand function  $q(p)$  given the initial condition  $q(1) = 1$ .
6. Find the values  $a$  and  $b$  such that the function  $f$  is homogeneous:

$$f(x, y) = 2x^{b-a}y^{b+2} + y^{a+1}x^{-3b} + y^{7b}x^{-2a}$$

For the values of  $a$  and  $b$  you have found expand the function

$$h(x) = \sqrt{1 + f(x, x)} \cdot (1 - \cos(f(x, x)))$$

as a power series up to  $x^4$ . State the range for  $x$  where your expansion is correct.

Section B: 20 points each question.

1. Use Lagrange multipliers method to solve optimization problem

$$x + \ln y \rightarrow \max$$

subject to  $x \geq 0$ ,  $x + y \leq 4$ ,  $x + 2y \leq 6$ .

2. Let  $Y_t$ ,  $C_t$ ,  $I_t$  denote national income, consumption, and investment in period  $t$  respectively. The economy is described by the system

$$\begin{cases} Y_t = C_t + I_t \\ C_t = c + mY_t \\ Y_{t+1} = Y_t + rI_t \end{cases} \quad (5)$$

, where  $c$ ,  $m$  and  $r$  are positive constants.

- (a) Find the function  $Y_t$
- (b) Find the asymptote of  $\ln(Y(t))$  as  $t$  tends to infinity.

## 4.7 MOR, retake exam, 11.09.12

Section A. Solve **two** of the following **two** problems

1. Use Lagrange multipliers method to solve optimization problem

$$x + \ln y \rightarrow \max$$

subject to  $x \geq 0$ ,  $x + y \leq 4$ ,  $x + 2y \leq 6$ .

2. Solve the linear program depending on the parameter  $\beta$ ,

$$2x_1 + 4x_2 + 5x_3 + x_4 \rightarrow \min$$

subject to  $x_1 + x_3 + x_4 \geq 0$ ,  $-x_1 + x_2 + \frac{1}{2}x_3 - \beta x_4 \geq 1$ ,  $x_i \geq 0$ .

For what values of  $\beta$  the minimum of the objective function equals 3?

**Section B.** Solve **two** of the following **three** problems

3. Find the general solution of the differential equation  $y'' + 4y' + 4y = xe^{-3x} + \cos(x)$   
 4. Consider the system of difference equations

$$\begin{cases} x_{t+1} = 2x_t - 4y_t \\ y_{t+1} = x_t - 3y_t + 3 \end{cases}$$

- (a) Solve the system  
 (b) Find the equilibrium solution and check whether it's stable  
 5. A policymaker desires to double in 10 periods of time the value of GDP  $y_t$  produced in period  $t$ . Evolution of GDP over time is given by equation  $4y_{t+2} - 4y_{t+1} + y_t = 2^t + t^2$ . Is doubling of GDP feasible? If the answer is positive, is it possible to find the period  $t$  when the value of  $y_t$  will first exceed  $2y_0$ , where  $y_0$  is the initial GDP?

**Section C.** Solve **two** of the following **three** problems

6. Find all pure and mixed Nash equilibria in the following bimatrix game:

	D	E	F
A	5;5	2;4	2;1
B	3;8	4;7	1;4
C	1;3	3;2	6;7

7. A man has two sons. When he dies, the value of his estate after tax is \$1000. In his will it states that the sons must specify the sum of money  $s_i$  that they are willing to accept. If  $s_1 + 2s_2 \leq 1000$ , then each gets the sum he asked for and the rest goes the cats' shelter. If  $s_1 + 2s_2 > 1000$ , then neither of them gets any money and the entire sum goes to the cats' shelter. Assume that the sons only care about the money they will inherit and they ask for the whole dollars. Find the pure strategies Nash equilibria of this game.  
 8. Two players are trying to bribe the judge. The possible amount of bribe is any real number between 0 and 1 million roubles. The probability that the player will win is proportional to the amount of the bribe. In the case of zero bribes the probability is equal 1/2 for each player. The winner receives 1 million roubles. The loser gets nothing. Obviously bribes are not returned by the judge.  
 (a) Are there any pure Nash equilibria in this game?  
 (b) Find at least one mixed Nash equilibrium.

## 5 2012-2013

### 5.1 MFE, mock, 25.10.12

Marks will be deducted for insufficient explanation within your answers. All problems are mandatory. Sections A and B will make up 60% and 40% of the exam grade, respectively. Total duration of the

exam is 120 min.

## SECTION A

1. Consider the function  $f(x, y) = x^3 + y^2 + xy - y^5$ . Using the total differential find the approximate value of  $f(1.01, 0.98)$ .
2. Consider the function  $f(x, y) = x^3 + y^2 + xy - y^5$  at the point  $A = (1, 1)$ . I have two choices:
  - (a) move from  $A$  in the direction  $\vec{l} = (2, 1)$  by a small number  $\varepsilon$
  - (b) move from  $A$  in the direction  $\vec{m} = (1, 2)$  by  $2\varepsilon$

Using the directional derivative find which choice will give me a bigger value of the function  $f$  at the destination point.

3. Consider the following system of equations:
$$\begin{cases} xyz + 2x^3y^3z^3 + 4x^3 = 7 \\ x + y^3 + z^3 + xy^3 + 2x^2z^2 = 6 \end{cases}$$
  - (a) Does this system define functions  $z(x)$  and  $y(x)$  at a point  $x = 1, y = 1, z = 1$ ?
  - (b) If it's possible find  $y'(x)$  and  $z'(x)$  at that point
4. Determine whether the following limit exists

$$\lim_{x,y \rightarrow 0} \frac{x^3 + y^3}{x^2 + y^2}$$

5. Consider the function  $g(u) = f(x, y)$ ,  $x = 2u$  and  $y = u - u^2$ . Find  $g'(u)$  and  $g''(u)$ . Assume that  $f$  has continuous second partial derivatives at any point.
6. Find the equation of a tangent plane to the surface  $z = x + y^2$  at the point  $(0, 1, 1)$ .

## SECTION B

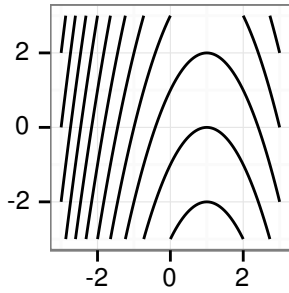
7. Find all the stationary points of the implicit function  $z(x, y)$  given by the equation  $x^2 + y^2 + z^2 + xy + xz + 2 = 4x + 3y$ .
8. Consider a market with the demand curve  $q^d = f(p)$  and the supply curve  $q^s = g(p, a)$  where the parameter  $a$  describes the available technology. The goal is to find how will the equilibrium price  $p^*$  and quantity  $q^*$  react to the change of the technology parameter  $a$ . We assume that  $f'(p) < 0$ ,  $\partial g / \partial p > 0$  and  $\partial g / \partial a > 0$ .
  - (a) Find  $dp^*/da$ ,  $dq^*/da$
  - (b) If possible determine the sign of the derivatives  $dp^*/da$  and  $dq^*/da$ .

## 5.2 MFE, fall semester exam, 27.12.2012

Sections A and B will make up 60% and 40% of the exam grade, respectively. Total duration of the exam is 120 min.

### SECTION A:

1. The level curves of a function  $f(x, y)$  are shown below. Draw the level curves of the functions  $g(x, y) = f(x + 1, y)$  and  $h(x, y) = f(-x, |y|)$ .



- Find the local maxima and minima of the function  $f(x, y) = x^4 + 2y^4 - xy$ . Determine whether the extrema you have found are global or local.
- Find the gradient of the function  $h(x, y) = f(x, y) \cdot g(x, y)$  at the point  $A = (1, 7)$ . It is known that at the point  $A$ :  $\text{grad } f = (1, 1)$ ,  $\text{grad } g = (3, 3)$ ,  $f(A) = 4$ ,  $g(A) = 5$ .
- Consider the following system of equations as defining functions  $y_1(x_1, x_2)$  and  $y_2(x_1, x_2)$

$$\begin{cases} x_1^3 + x_1 y_1^3 + x_2 y_1 y_2 + y_2^3 = 4 \\ x_2 + x_2^3 + y_1 y_2^2 + y_2^3 = 4 \end{cases}$$

- If possible find  $dy_1$  at the point  $(x_1, x_2, y_1, y_2) = (1, 1, 1, 1)$ .
  - Find approximately  $y_1$  for  $x_1 = 1.01$  and  $x_2 = 0.98$ .
- Find the constrained extrema of the function  $f(x, y) = x + 2y$  subject to  $2x^2 + y^2 = 10$ .
  - Find the Hesse matrix of the function  $h(x, y) = \mathbb{P}(Z \in [2x; 3y])$  where  $Z$  is a standard normal random variable with probability density function given by  $f(z) = \frac{1}{\sqrt{2\pi}} \exp(-z^2/2)$ . It is supposed that  $3y > 2x$ .

## SECTION B:

- A firm's production function is  $Q = K + L + 2\sqrt{KL}$ , where  $K > 0$  and  $L > 0$  are capital and labor, respectively. The firm is perfectly competitive and seeks to maximize its output, but the firm is run by accountants who have imposed a fixed budget on the production of  $C$  dollars per hour, which means satisfying constraint  $wL + rK = C$ , where  $w$  and  $r$  are hourly wage rate and rental rate of capital, respectively.
  - State the constrained optimization problem associated with that production and solve it by the Lagrange multiplier method (it is sufficient to find the optimal values of capital and labor alone).
  - Check the concavity of the production function and use it to classify the critical point.
  - Explain the economic meaning of the Lagrange multiplier in this problem. Use the appropriate envelope theorem.
  - Let  $w = r$ . Would it be right to conclude that if the wage rate goes up by 1% and the rental rate goes down by the same 1% under the fixed budget the output will not change? How can you prove this mathematically?
- It is well known that a perfectly competitive firm operating in the long-run produces at the minimum point of its average costs curve, where  $p = AC = MC$ . Let the  $AC$  curve be U-shaped. If we assume that this particular firm uses only labor, equation  $AC(y, w) = MC(y, w)$  may be used to find  $y = y(w)$  as an implicit function of wages ( $y$  denotes the output). Moreover, the second-order condition that guarantees the profit maximization is supposed to hold.
  - Show that Implicit Function Theorem can be applied, the function  $y = y(w)$  exists and find its derivative.

- (b) If we know that at long-run equilibrium  $\frac{\partial MC}{\partial w} > \frac{\partial AC}{\partial w}$  what can we say about new long-run equilibrium when the market adjusts to a small rise in wage  $w$ ? Will the equilibrium price go up? What about the output of the firm?

### 5.3 MFE, fall retake 23.01.13

Part A, 10 points for each problem.

1. It is known that  $f'_x(x, y) > 0$  and  $f'_y(x, y) > 0$ . Sketch possible level curves for  $f(x, y)$ . What are the possible values of the angle between the gradient of the function  $f$  and the  $x$ -axis?
2. Find the local maxima and minima of the function  $f(x, y) = x^4 + 4y^4 - xy$ . Determine whether the extrema you have found are global or local.
3. Find and classify the constrained extrema of the function  $f(x, y) = x + 5y$  subject to  $2x^2 + y^2 = 10$ .
4. Given the system

$$\begin{cases} xe^{u+v} + 2uv = 1 \\ ye^{u-v} - \frac{u}{1+v} = 2x \end{cases}$$

find  $du$  and  $dv$  at  $x_0 = 1, y_0 = 2, u_0 = 0, v_0 = 0$ .

5. Find the total differential for the function  $f(x, y) = x^2y^2 + xy^2 + 2x + 4y$ . Using the total differential find approximately  $f(1.001, 1.999)$
6. Use the chain rule to find  $f'(x)$  and  $f''(x)$  for  $f(x) = u(a, b, x)$  where  $a = \cos(x)$  and  $b = x^3$ .

Part B, 20 points for each problem.

7. A consumer maximizes the quasilinear utility function  $u(x, y) = v(x) + y$ , where  $v' > 0, v'' < 0$ , subject to the budget constraint  $px + y = I$ .
  - (a) (10 points) Denote the demand on  $x$  by  $x^*$ . Show that  $\frac{\partial x^*}{\partial I} = 0$  and  $\frac{\partial x^*}{\partial p} < 0$ .
  - (b) (10 points) Let  $V = u(x^*, y^*)$ , where  $(x^*, y^*)$  is the optimal bundle. Assuming that  $y^* > 0$  and using the appropriate envelope theorem, show that  $\frac{\partial V}{\partial I}$  is constant.
8. A two-product firm produces outputs  $y_1$  and  $y_2$  from a single factor of production which is labor, in other words, there is a function  $f$ , such that  $f(y_1, y_2) \leq \bar{L}$ . Output prices are  $p_1$  and  $p_2$ . The firm has a fixed amount of labor supply  $\bar{L} > 0$  that should be utilized in full.
  - (a) (10 points) Set the problem of the revenue maximization under the labor constraint mathematically and derive first-order conditions. Assume that both outputs should be produced in positive amounts.
  - (b) (10 points) Let the maximum value of the total revenue under the labor constraint be  $TR(p_1, p_2, \bar{L})$ . What are its derivatives with respect to the prices?

### 5.4 MFE, mock, 28.03.2013

Marks will be deducted for insufficient explanation within your answers. All problems are mandatory. Sections A and B will make up 60% and 40% of the exam grade, respectively. Total duration of the exam is 120 min.

#### SECTION A

1. Compute all the roots of the complex number,  $\sqrt[5]{-1+i}$
2. The matrix  $A$  has the eigenvalues  $\lambda_1 = -1, \lambda_2 = 3, \lambda_3 = -2$ .



- (a) Compute the eigenvalues of the following matrices:  $B = A^2$ ,  $C = A + 3I$ ,  $D = A^{-1}$  where  $I$  is the corresponding identity matrix.
- (b) What can be said about the definiteness of these matrices?
3. Consider the implicit function  $y(x)$  given by the equation

$$y^3 + y + 3x^3 + x^2 = 14.$$

- (a) Does this equation define the implicit function  $y(x)$  in the neighborhood of the point  $(1, 2)$ ?
- (b) If the implicit function is defined find the Taylor series for  $y(x)$  up to the second order term.
4. Consider the difference equation  $y_{t+1}(2 + 3y_t) = 4y_t$  with initial condition  $y_0 = 2/3$ .
- (a) Using the substitution  $z_t = 1/y_t$  solve the difference equation.
- (b) What is the limit of  $y_t$  as  $t \rightarrow \infty$ ?
5. The homogeneous function  $f$  is given by the equation

$$f(x, y) = \int_0^{xy^a} t^3 + xt \, dt.$$

Find the value of the parameter  $a$  and the degree of homogeneity of  $\partial f / \partial x$ .

6. Find the two indefinite integrals  $\int e^x \cos(2x) \, dx$ ,  $\int \frac{x+1}{x^2-5x+4} \, dx$

## SECTION B

7. Suppose you enter a casino with  $k$  dollars in your pocket. You decide to play a game in which you win \$1 with the probability  $2/3$  and lose \$1 dollar with the probability  $1/3$ . The game is over when  $k = 0$  (no money left) or  $k = 100$ . Denote the probability to win the game, i.e. reaching  $k = 100$ , starting with  $k$  dollars as  $x_k = \mathbb{P}(\text{win}|k)$ . Using the total probability formula

$$\mathbb{P}(\text{win}|k) = \frac{1}{3} \cdot \mathbb{P}(\text{win}|k-1) + \frac{2}{3} \cdot \mathbb{P}(\text{win}|k+1)$$

derive the difference equation for  $x_k$  and solve the boundary-value problem with  $x_0 = 0$  and  $x_{100} = 1$ .

8. Let  $N(t)$  denote the size of population,  $X(t) = \sqrt{N}$  the total output in the economy. Consider the following model

$$\frac{\dot{N}}{N} = \alpha - \beta \frac{N}{X}$$

where  $\alpha > 0$ ,  $\beta > 0$ . Find  $N$  and explore its behavior as  $t \rightarrow \infty$ .

## 5.5 MOR, exam, 22.05.2013

You need to solve exactly FIVE problems out of 7. At least ONE problem from each section should be chosen for solving. Each question is worth 20 points.

## SECTION A

1. A two-product monopoly seeks to maximize its revenue which follows the formula  $R(x, y) = 6x - x^2 + y - y^2$ . The total costs function is given by  $C(x, y) = x^2 + y^2 + 4x + 3y$ , where  $x$  and  $y$  are the outputs.  
State the problem of the monopoly, given condition that its profit  $\pi = R - C$  should always remain nonnegative. Apply the Kuhn-Tucker conditions. Use Weierstrass theorem to confirm sufficiency.
2. For any real number  $\lambda$ , find the minimal value of the objective function  $x_1 + 6x_2 + 2x_3 + 4x_4$  subject to the constraints  $\lambda x_1 + x_2 - x_3 + x_4 \geq -1$ ,  $x_1 + 1.5x_2 + x_3 + x_4 \geq 5$ , all choice variables are nonnegative.

## SECTION B

3. Solve the system of differential equations:

$$\begin{cases} \dot{x} = x - y \\ \dot{y} = 2x - y \end{cases}$$

4. Given the Metzler equation of inventory cycles  $y_t = 3by_{t-1} - 2by_{t-2} + N$ , where  $0 < b < 1$  and  $N$  is a number, find all such values of  $b$  for which solution represents convergent stepped time path (the complex roots case). Does the value of  $N$  affect your conclusion?
5. Show that Chebyshev's equation  $(1 - x^2)y'' - xy' + y = 0$ , where  $|x| < 1$ , can be reduced to equation  $\ddot{y} + y = 0$  by substituting  $x = \cos t$ . Hence find the general solution of Chebyshev's equation.

## SECTION C

6. Find all pure and mixed Nash equilibria in the following bimatrix game:

	d	e	f
a	4;5	1;4	1;1
b	2;8	5;0	0;4
c	0;3	2;2	5;7

7. There is an auction of a painting with two players. The value of the painting for the first player is a random variable  $v_1$ , for the second player —  $v_2$ . The random variables  $v_1$  and  $v_2$  are independent and uniformly distributed from 0 to 1 million dollars. Each player makes the bid  $b_i$  knowing only his own value of the painting. The player who makes the highest bid gets the painting and pays the arithmetic mean of the two bids.  
Find a Nash equilibrium where each player uses linear strategy of the form  $b_i = k \cdot v_i$ .

## 5.6 MOR, marking scheme, 22.05.2013

1. 5 points for setting Kuhn-Tucker Lagrangian correctly and writing down first-order conditions. Another 3 points for showing that the only constraint in the problem is binding. 5 points for proving that an internal critical point ( $x > 0$ ,  $y > 0$ ) does not exist. Plus 3 points for finding corner critical point. And 4 points for showing that Weierstrass theorem is applicable.
2. 10 points for conversion to the dual program and correct analysis of the feasible region. The rest 10 points for maximizing objective function. The smart students who have noticed the obvious solution in Variant 3 would get full points immediately.

3. 10 points for either finding eigen values +eigen vectors or rewarding the students who managed to reduce the system to one equation and solved it successfully. 10 points for finding general solution.
4. 5 points for finding roots of the characteristic equation. Another 10 points for finding interval for  $b$  that provides convergent stepped time path. 5 points for conclusion that for these  $b$  values the particular integral is represented by a constant and thus the value of  $N$  does not affect the answer.
5. 10 points for correct chain rule differentiation that reduces Chebyshev equation to the linear equation with the constant coefficients. Another 10 points for solving the latter and finding after substitution  $y = c_1\sqrt{1-x^2} + c_2x$ .
6. Correct elimination of strictly dominated strategies — 4 points. Correct picture of best response functions — 12 points. The rest — 4 points. If only pure Nash Equilibria are found — the total is 4 points.
7. 10 points for the payoff function of the first player given that his valuation of the painting is  $v_1$  and his bid is  $b_1$ . If we denote by  $W$  the win of the first player than the expected utility of the first player is given by:

$$P(W) (v_1 - E[(b_1 + b_2)/2 \mid W]) = \frac{b_1}{k} \left( v_1 - \frac{b_1 + 0.5b_1}{2} \right)$$

5 points for stating FOC and 5 points for obtaining strategy from FOC. The final answer is  $b_i = \frac{3}{8}v_i$ .