Introduction to Microeconomics
Week 7

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Question 1

A consumer lives on a diet of solely rice and potatoes. Her budget is $30 for every 10 days, and she must buy enough potatoes to eat atleast 2 potatoes per day.

A) A potato costs $0.5 and the price of rice is $10 a kg. How much will the consume purchase of each good?

B) Now if the price of a potato increases to $1.25, how much will she purchase of each good?

C) What kind of a good is potato?

Question 2

Charlie, vegetarian that he is, continues to consume apples and bananas. His utility function is $U(x_A; x_B) = x_A x_B$. The price of apples is \$1, the price of bananas is \$2, and Charlie's income is \$40 a day.

A) How many apples and bananas did Charlie consume?

B) The price of bananas suddenly falls to \$1. How many apples and bananas does Charlie consume now?

C) Which effect is dominant in this example?

Question 3

Consider $U = x + y$, where income of the consumer is 10 units. Price of x is 2 and Price of y is 3. There is an increase in price of x and now the new price of x is 4 units.

1. What will be the Marshallian final demand vector for (x,y) after the price increase for good x?

2. What will be the Hicksian demand vector for (x,y) after the price increase?

Question 4

An income expansion path is:

A) A curve that traces all the points corresponding to optimal bundles as income varies and prices and tastes may also change.

B) Always drawn on an indifference map.

C) Both A and B.

D) None of the above.

Reference Reading

1. *The Economy 2.0: Microeconomics* by CORE Econ.

2. *Introduction to Economic Analysis v. 1.0*

3. *Workouts in Intermediate Microeconomics 6e* by Hal Varian

4. *Microeconomics* by Jeffrey Perloff

5. *Microeconomics* by Pindyck and Rubenfield