* Duration : 20 minutes
* No calculators
* Comment on your results

Questions from class (3 points)

1. What do the indifference curves represent? What do they represent if they are linear?

2. What does the assumption of monotonicity imply for preferences?

3. What is an optimal choice basket of goods? How do we determine the consumer’s optimal choice?

Exercise 7 points

Jean-Charles earns 3000 euros per month. He spends half of it to pay the rent and other necessities such as food/clothing/internet and spends the rest of it for leisure. His two favorite leisurely activities are visiting museums and calligraphy. A calligraphy workshop costs him 60 euros and a visit to the museum costs him 30 euros. His MRS (marginal rate of substitution, c🡺m) is 2Cc/3Cm.

1. Graph and represent the budget constrain.

2. What happens if the cost of attending a calligraphy workshop is reduced by 10 Euros? Illustrate graphically

3. What is the general formula for the marginal rate of substitution?

4. Explain the intuition behind the MRS g-m and the theoretical implications of a decreasing MRS.

5. Find the optimal consumption bundle, (Cm\*;Cc\*) and illustrate graphically (not drawn to scale).