1.6 Solving the Consumer's Problem - Practice Problems

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You can get utility from consuming Soda (s) and Hot dogs (h), according to the utility function:

$$u(s, h) = \sqrt{sh}$$

The marginal utilities are:

$$MU_s = 0.5s^{-0.5}h^{0.5}$$
$$MU_h = 0.5s^{0.5}h^{-0.5}$$

You have an income of \$12, the price of Soda is \$2, and the price of a Hot dog is \$3. Put Soda on the horizontal axis and Hot dogs on the vertical axis.

1. What is your utility-maximizing bundle of Soda and Hot dogs?

2. How much utility does this provide?