ECON 219: Problem Set #5

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Problem 1

A representative consumer has a utility function $U(x, y) = xy$. A representative firm makes good x and has a production function $x = f(k, l) = (kl)^{0.25}$ and an unavoidable fixed cost equal to A. Thre are 100 consumers and, initially, 100 firms. Prices are $w = v = P_y = 1$, and P_x is determined in a competitive market. Representative consumer income is $I = 2$. In the short run, the number of firms is fixed, and capital is fixed at $k_1 = 1$.

1. Find the representative individual's Marshallian demand for good x.