Finger Exercises due Sep 25, 2024 07:30 CST Completed

2.1

1/1 point (graded)

Which statement about the first three axioms of consumer preference theory is correct? Select all that apply.

- [ ] Axiom 1 Completeness: Preferences are complete, i.e., for any consumer if $A^P B$ and $B^P C$ then it must be that $A^P C$. In addition, consumers are consistent in their preferences.
- [ ] Axiom 2 Transitivity: Preferences are transitive, i.e., for any two bundles A and B, a consumer can establish a preference.
- [ ] Axiom 3 Continuity: Preferences are continuous, i.e., if $A^P B$ and C lies within an ε radius of B then $A^P C$. ✔
- [ ] As long as any two of these three axioms are obeyed, we can define a cardinal utility function.
- [ ] We need all three axioms to be obeyed to define a cardinal utility function. ✔

Explanation

The statements of completeness and transitivity should be exchanged. Given Axioms 1- 3 are obeyed, we can always define a utility function that represents the individual's preference.

Submit You have used 1 of 2 attempts

Answers are displayed within the problem

2.2

1/1 point (graded)

Which statement about the fourth and the fifth axioms of consumer preference theory is correct? Select all that apply.

- [ ] Axiom 4 Non-satiation: Given two bundles A and B of goods X and Y, if $X_A = X_B$ and $Y_A > Y_B$ then $A^P B$, regardless of the levels of X_A, X_B, Y_A, Y_B. ✔
- [ ] Axiom 5 Diminishing marginal rate of substitution: The more of something you have, the more you value it.
- [ ] In addition to Axioms 1-3, we also need Axioms 4 and 5 to be obeyed to define a cardinal utility function.
- [ ] Axioms 4 and 5 are not necessary for a theory of rational choice. ✔

Explanation

Diminishing marginal rate of substitution means that, the more of something you have, the less you value it at the margin. Given Axioms 1- 3 are obeyed, we can always define a utility function that represents the individual's preference. Axioms 4 and 5 simplify problems greatly, but they are not necessary for a theory of rational choice.

Calculator