

Unit 2

Ch 3 Homework Key

#3 Solution in text

#5 Solution in text

#11 Boston: $U \max \Rightarrow \frac{MU_A}{MU_T} = MRS = \frac{P_A}{P_T} = 2$

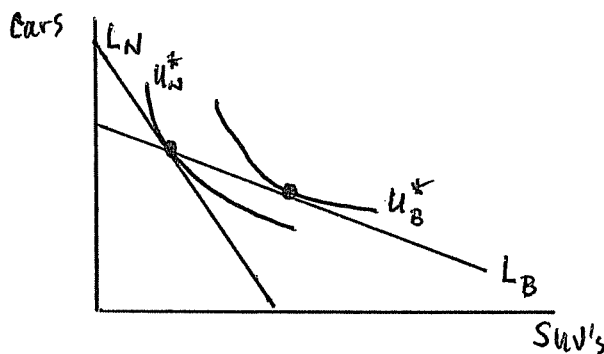
San Diego: $U \max \Rightarrow \frac{MU_A}{MU_T} = MRS = \frac{P_A}{P_T} = \frac{1}{2}$

\Rightarrow MRS is higher in Boston

#12 Budget line slopes = $\frac{P_{SUV}}{P_{Car}}$

If indifference curves are 'normal', need more info to determine optimal Q's of SUV's and cars for each.

Nigel will buy more cars



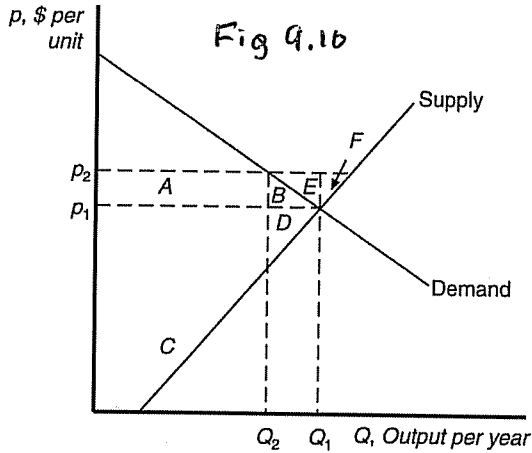
#24 $MRS = \frac{3g_2}{g_1} = \frac{MU_1}{MU_2} = \frac{P_1}{P_2} = \frac{1}{2} \Rightarrow g_1 = 6g_2$

Sub into budget eqn $\Rightarrow 100 = 2g_2 + 1g_1$
 $\Rightarrow 100 = 2g_2 + 1(6g_2)$
 $\Rightarrow 100 = 8g_2 \Rightarrow g_2 = 12.5, g_1 = 75$

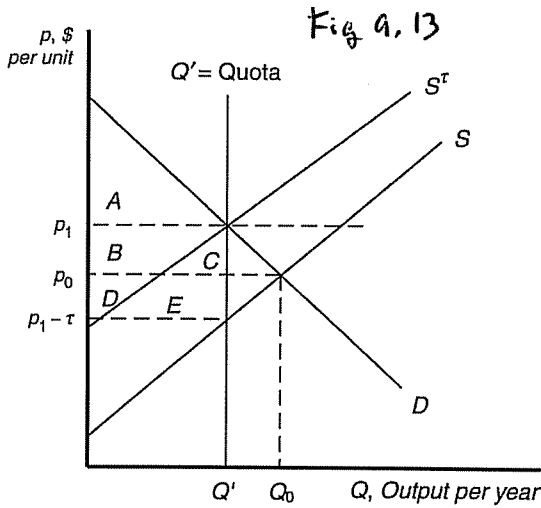
Unit 2

Ch 9 Homework Key

- # 9. See Figure 9.10. With the price increase, producers gain A , but lose D . The payment x must be enough to compensate producers for their net loss from the price increase ($x = D - A$). With this payment, producer welfare is unchanged, but consumer welfare falls by $A + B$. With a price support program, consumer surplus would be the same as with the lump sum payment program, but producer surplus would be $A + B + C + D + E + F$. A quota set at Q_1 , producer surplus is $A + B + C + D + E$. With the quota set at Q_2 , producer surplus is $A + C$.



- # 12. See Figure 9.13. The government prefers the tariff. In either case, consumer surplus is reduced to area A. With the quota, the government collects no revenue. With the tariff, the government collects $B + C + D + E$ as revenue.



#30 Solution in text

#34 Solution in text