**EE211 Homework Assignment | Semester 2/2018** **Student ID_________________**

**Due date**: Tuesday 19 March 2019 in class, before lecture begins!

1) Suppose good X is garbage and good Y is noise pollution. A consumer views the two goods as 'bad.', i.e., less of the goods is preferred to more of the goods.
   a) Draw indifference curves to describe the consumer's preferences
   b) Explain fully why marginal rate of substitution in this case is increasing.

2) Consider a portfolio investor. His utility depends on risk he faces and (expected) return he gets.
He views risk as ‘bad’, i.e., less is preferred to more and (expected) return as ‘good’, i.e., more is preferred to less.

a) Describe his preference by using indifference curves and indifference map.
b) In particular, fully explain why MRS is increasing from left to right

*Cogito, ergo sum (I think, therefore I am)*
*René Descartes*