

Instructions

- (1) Please read the instruction carefully. Also take this habit with you into the exam room.
- (2) Please read each question carefully and answer the questions straightforwardly. Always provide economic reasons at least a paragraph for your analysis, or a graph when necessary, even when the question does not indicate so.
- (3) Handing and submitting assignments are only available via BE Moodle.

Answering the questions and preparing answer sheets

- (1) Answers are to be handwritten, in either digital or analog form, in a blank canvas or any clean paper. Make sure that your handwriting is clearly visible and readable.
- (2) There is no need to rewrite the question. Just indicate the question number clearly for each of the answer, such as 1.a).
- (3) When done, for the digital case, collage all the pages into a single PDF file. For those who write on sheets of paper, take photo of all pages then convert all of them into a single PDF file as well.
- (4) **Name your PDF file as StudentID_YourNickname, such as 640123456_Bo.**

Submitting your answers

- (1) Make sure your file does not exceed 10MB. This is the maximum file size for BE Moodle upload.
- (2) Login to BE Moodle, head into the course, then the assignment topic.
- (3) Choose your file to submit. Done. There will be timestamp for your upload date and time, so please make sure to not submit later than that.

1. Belle is choosing ham (h) and cheese (c), which is assumed to be substitutable goods for her. Her total utility from each product is given in the table here.

Quantity	Total utility from ham (TU _h)	Total utility from cheese (TU _c)
1	15	12
2	26	21
3	35	27
4	41	32
5	45	35
6	48	37
7	49	38

Answer the following questions.

1.a) If Belle has \$7 budget and both ham and cheese cost \$1 each, how many units of ham and cheese she should purchase to maximize her utility? Explain your method clearly.

1.b) Provide a clear explanation why her utility will not be maximized if the condition that you apply in part a. is not yet satisfied.

1.a)	Q	TU _h	MU _h	MU _h / P _h	Q	TU _c	MU _c	MU _c / P _c
27	1	15	15	15	1	12	12	12
47	2	26	11	11	2	21	9	9
62	3	35	9	9	3	27	6	6
73	4	41	6	6	4	32	5	5
80	5	45	4	4	5	35	3	3
85	6	48	3	3	6	37	2	2
87	7	49	1	1	7	38	1	1

Firstly, we have to find the marginal utility of ham and cheese as the consumer equilibrium can be applied with MU_c/P_c and MU_h/P_h . Next, in order to maximize Belle's utility, there are two conditions that we need to consider: The MU/P of both ham and cheese must be equal to each other; and the budget must be all spent ($\$7$)

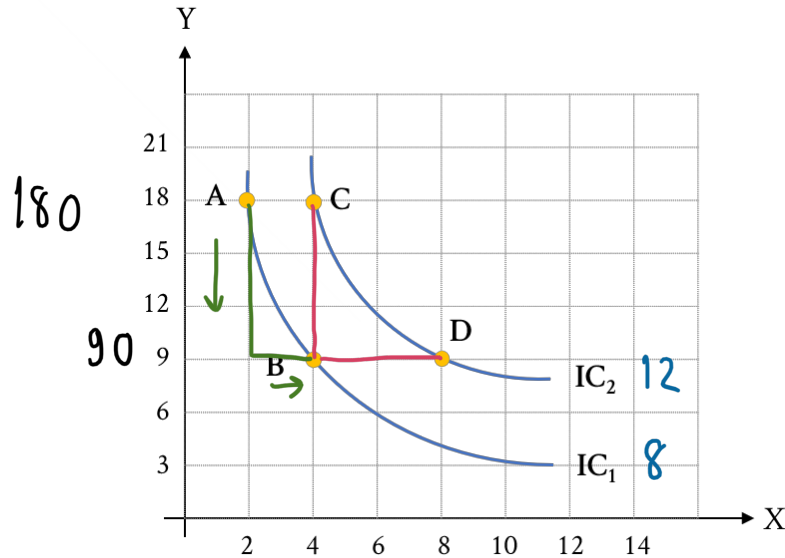
From the table, it can be seen that at $MU/P = 6$ with 4 hams and 3 cheeses, the expenditure will be $(\$1 \times 4) + (\$1 \times 3) = \$7$

1. b) Belle's utility in part a will not be maximized if the net benefits of every product is not equal to each other, and consumer may consider that choice to be more beneficial than this choice (if net benefit is more).

Assignment 2

Assigned on Sep 22th, 2021. To be submitted on Oct 7th, 2021 before midnight.

2. A consumer finds that for him/her avocado (X) and nuts (Y) are substitutes. Assumed that this consumer yields 8 and 12 utils on IC_1 and IC_2 respectively, show your work and answer the following questions.



2.a) Measured from point A to B, assumed P_y is 10 baht per unit, how much P_x must be to make you conclude that the consumer's equilibrium is on point B?

2.b) Measured from point A to B, assumed P_x is 180 baht per unit, how much budget does this consumer has to achieve the equilibrium on point B?

2.c) Measured from point C to point D, how much is the average marginal utility per unit of avocado?

2.d) Show that this consumer's utility received from consuming avocado is in accordance with the law of diminishing marginal utility, using any essential information from any point. (But highly recommend that you consider all the points)

2.a) P_y is 10 baht per unit, which means that at point A, nuts (Y) will be equal to 180 and equal to avocado (X) at 2. To make consumer equilibrium to be on point B, you need to reduce amount of product y and increase amount of product x.

$$|MRS_{xy}| = \left| \frac{\Delta Y}{\Delta X} \right| = \left| \frac{18-9}{2-4} \right| = \left| \frac{-9}{2} \right| = \frac{9}{2} = \frac{P_x}{10} \rightarrow x = 45$$

$\therefore P_x$ must equal to 45

2.b) $P_x = 180$, $P_y = ?$

$$MRS_{xy} = \frac{9}{2} \times \frac{180}{P_y} \rightarrow P_y = 10$$

$$\begin{aligned} \text{Budget} &= 180x + 10y \\ &= 180(4) + 10(9) = 810 \end{aligned}$$

\therefore Budget on point B is 810 baht

2.c) Since point C and D are on the same Indifferent curve which means they have the same utility.

From point C to point B, there is only the changes in value to y.

From point B to point D, there is only the change in value of x.

$$\text{Average MU} = \frac{\Delta TU}{\Delta U}$$

2.d) As consumption increases, the Marginal Utility derived from each unit will decline, like from point A to B and point C to D. Consumer's utility from consuming avocados (x) has increased from point B (4) to D (8).