Name: .... I.D. ....

Quiz 3: Intertemporal Choice

Answer all the questions in 10 minutes.

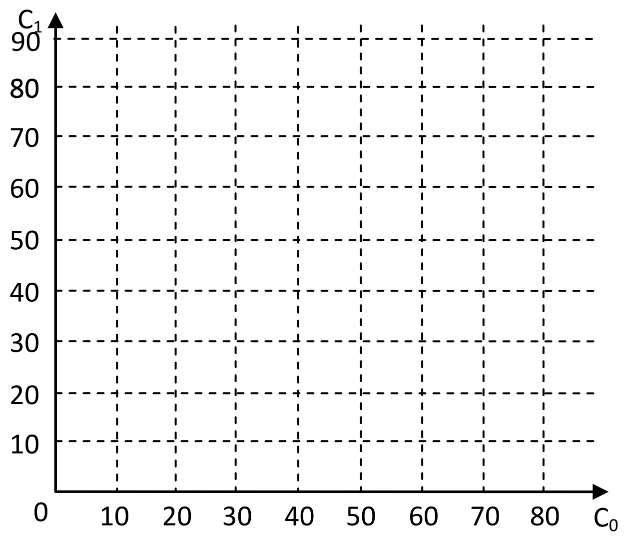
1. Somchai is a manager in a small startup firm. His income today is relatively small (Y_0 = 10) but he expects to become very rich in the future period (Y_1 = 60).

a) (4 points) Depicts Somchai's budget line assuming that he can borrow and save at the interest rate r = 100%.

b) (6 points) Suppose Somchai's preferences can be represented by the function

$$U = Min(C_0, C_1).$$

Specify Somchai's optimal consumption plan and explain your answer.



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