

**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.

## Assignment 2

Assigned on Sep 22<sup>th</sup>, 2021. To be submitted on Oct 7<sup>th</sup>, 2021 before midnight.

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 <sub>h</sub> ) |    |    | Total utility from cheese (TU <sub>c</sub> ) |    |    |
|----------|-------------------------------------------|----|----|----------------------------------------------|----|----|
| 1        | 15                                        | 15 | 15 | 12                                           | 12 | 12 |
| 2        | 26                                        | 11 | 11 | 21                                           | 9  | 9  |
| 3        | 35                                        | 9  | 9  | 27                                           | 6  | 6  |
| 4        | 41                                        | 6  | 6  | 32                                           | 5  | 5  |
| 5        | 45                                        | 4  | 4  | 35                                           | 3  | 3  |
| 6        | 48                                        | 3  | 3  | 37                                           | 2  | 2  |
| 7        | 49                                        | 1  | 1  | 38                                           | 1  | 1  |

$MU_h$     $MU_h / P_h$     $MU_c$     $MU_c / P_c$

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.

a) BL:  $I = P_x X + P_y Y$

$7 = X + Y$

$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

1.)  $h = 3, c = 2$    BL:  $3 + 2 = 5$

2.)  $h = 4, c = 3$     $4 + 3 = 7$

3.)  $h = 6, c = 5$     $6 + 5 = 11$

4.)  $h = 7, c = 7$     $7 + 7 = 14$

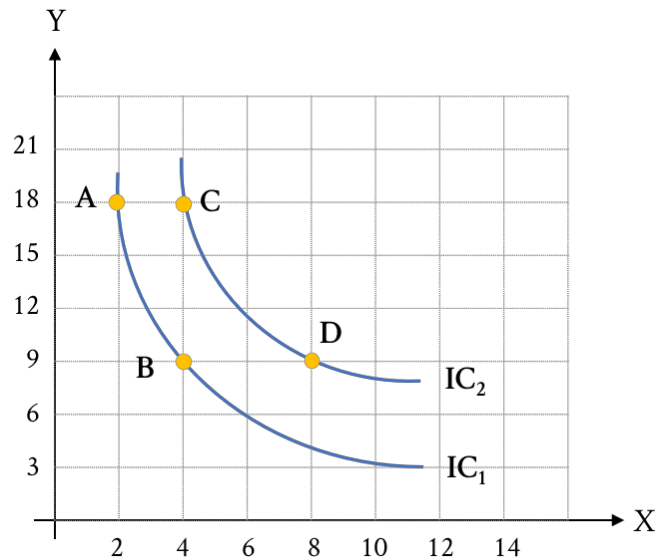
b) If  $\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$ , then she should consume more x and consume y less to increase utility.

But, if  $\frac{MU_y}{P_y} > \frac{MU_x}{P_x}$ , then she should consume more y and consume x less to increase her utility.

## Assignment 2

Assigned on Sep 22<sup>th</sup>, 2021. To be submitted on Oct 7<sup>th</sup>, 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)

a.) Max U : slope BL = MRS

$$-\frac{P_X}{10} = \frac{\Delta Y}{\Delta X}$$

$$-\frac{P_X}{10} = \frac{18-9}{2-4} \quad ; P_X = 45$$

b.)  $P_Y : -\frac{P_X}{P_Y} = -\frac{9}{2}$

$$\frac{180}{P_Y} = \frac{9}{2} \quad ; P_Y = 40$$

$$\% BL = I = P_X(X) + P_Y(Y)$$

$$= 180(4) + 40(9) = 1080$$

c.) average MU of avocado =  $\frac{MU}{Q}$

at c, have 4  
at d, have 8 } if increase from 4 → 8

we will get MU ↑ by 4 utils

$$\frac{MU}{Q} = \frac{4 \text{ utils}}{4 \text{ units}} = 1$$

d.) from A → B we are willing to sacrifice 9 nuts for 2 avocados

$$\% MRS = 4.5$$

from c → d we are willing to sacrifice 9 nuts for 4 avocados

$$\% MRS = 2.25$$

the more we have avocado, the less willing we sacrifice nuts

due to the fact that the marginal utility avocado decreases as the Q increase