

EE211 Assignment #2 (Section 2 Semester 2/2020)

Instructions:

- Assigned date is Thursday the 4th, March 2021. **Due date is Thursday the 11th, March 2021 before 11.00 PM.**
- Submission is only received through BE Moodle platform as PDF file.
- Name your file as StudentID_nickname, such as 1234567489_Bo. **Please also comply to this instruction. It would be a lot easier to handle with your files.**
- There is no need to rewrite the question into your answer sheets. Indicating clearly question and item number is sufficient.
- Write your nickname and student ID on top-right corner of the first page.
- For those who do not have a digital device to write on, you can write your answers in sheets of paper, take pictures, convert them into a single PDF then submit in on Moodle.

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.

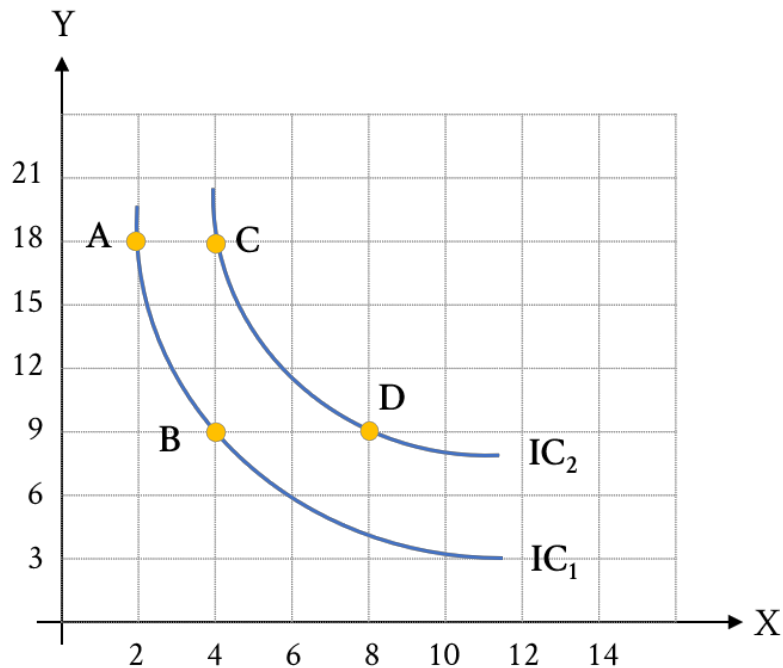
- (a) If Belle has \$7 budget and both ham and cheese cost \$1 each, how many units of ham and cheese she should purchase to maximize her utility? Explain your method clearly.
- (b) Provide a clear explanation why her utility will not be maximized if the condition that you apply in part a. is not yet satisfied.

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a.) To use utility maximisation with a constant budget, Belle should compare between marginal utility of product X per its price, MU_x/P_x , product Y either, MU_y/P_y , which both costs \$1 each. Then choose the product she gains benefit more. To sum up, she can purchase 4 hams and 3 cheeses to have utility maximisation.

b.) Without a constant budget, her utility cannot be maximised. From marginal utility of each products, they cannot indicate where marginal utility of product X and Product Y are equal zero, $MU_x = MU_y = 0$. If $MU_x = MU_y = 0$, she can purchase ham and cheese with utility maximisation.

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 IC1 and IC2 respectively, show your work and answer the following questions.



(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?

(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?

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

(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.) point A : (2, 18)
 point B : (4, 9)
 $|MRS_{xy}(B)| = |\frac{-9}{2}| = 4.5$

$MRS = MRMS$
 $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$
 $4.5 = \frac{P_x}{10}$
 $P_x = 45$

b.) $MRS = MRMS$
 $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$
 $4.5 = \frac{180}{P_y}$
 $P_y = 40$

$1 \geq P_x \cdot x + P_y \cdot y$
 $1 \geq 180 \cdot 4 + 40 \cdot 9$
 $1 \geq 1080$

 c.) From Point C \rightarrow D : $MU_x = 4 \cdot 12 = 48$; $U(1) = 12$
 Average $\frac{MU_x}{x} = \frac{48}{4} = 12$

d.) The consumers are equally pleased to have any avocado and nut from point C \rightarrow D, they consume less nut because they are more willing to pay higher price for avocado. Suppose that the price of avocado is increase, they prefer to consume less avocado at any point, from D \rightarrow B and C \rightarrow A, and it indicates on IC₁ curve.