

Workout Book Problems:

(Monopoly) 25.1,25.2,25.4

(Monopoly Behavior) 26.1,26.2,26.5,26.7,26.8

Apples and Bananas Part 1

1. Alan Apple and Betsy Banana consume apples (good 1) and bananas (good 2). Alan has an endowment of only apples $\omega_1^A = 20, \omega_2^A = 0$. Betsy has an endowment of only bananas $\omega_1^B = 0, \omega_2^B = 20$.

A) Write down Alan and Betsy's budget equations.

B) Alan's utility is cobb douglass with the same exponents: $u(x_1^A, x_2^A) = (x_1^A)(x_2^A)$. What is his demand?

C) Betsy's has perfect complements preferences $u(x_1^B, x_2^B) = \min\{x_1^B, x_2^B\}$. What is her demand?

D) Suppose $p_1 = 1$ and $p_2 = 2$. What are the consumer's demands?

E) Is $p_1 = 1$ and $p_2 = 2$ an equilibrium?

F) Assume $p_1 = 1$. What must p_2 be in equilibrium?

Apples and Bananas Part 2

2. Alan Apple and Betsy Banana consume apples (good 1) and bananas (good 2). Alan has an endowment of only apples $\omega_1^A = 20, \omega_2^A = 0$. Betsy has an endowment of only bananas $\omega_1^B = 0, \omega_2^B = 30$.

A) Alan's utility is cobb douglass with the same exponents: $u(x_1^A, x_2^A) = (x_1^A)(x_2^A)$. What is his demand?

B) Betsy's utility is cobb douglass with different exponents: $u(x_1^B, x_2^B) = (x_1^B)^2 (x_2^B)^1$. What is her demand?

C) Assume $p_1 = 1$. What must p_2 be in equilibrium?