

**1.A.** To show the function is quasi-convex, it is sufficient to show it is monotonic. This is the case for  $r > 2$ .

$$\frac{\partial \left( \frac{r^6}{(r^3-8)^2} \right)}{\partial r} = \frac{6r^5}{(r^3-8)^2} - \frac{6r^8}{(r^3-8)^3}$$

$$\frac{6r^5}{(r^3-8)^2} - \frac{6r^8}{(r^3-8)^3} < 0$$

$$r > 2$$

**1.B.** Notice that the utility is decreasing in the square of the term  $\frac{243}{676} - \frac{1}{3} \frac{r^6}{(r^3-8)^2}$  and this term can be made zero, which is necessary (and sufficient) for maximization.

$$\frac{243}{676} - \frac{1}{3} \frac{r^6}{(r^3-8)^2} = 0$$

$$r = 6$$

**1.C.** Now the relevant cannot be made to be zero since  $\frac{1}{2} \frac{r^6}{(r^3-8)^2}$  is always larger than  $\frac{1}{2}$ . Instead, we need to minimize this term:

$$\left( \frac{243}{676} - \frac{1}{2} \frac{r^6}{(r^3-8)^2} \right)^2$$

Looking for where this is stationary will fail. That's because it is decreasing above  $r > 2$ . So, the optimal is just to choose the largest  $r$  possible  $r = 100$

**2.A.** We get a lot from strict monotonicity here.  $(4, 0) \succ (2, 0), (0, 4) \succ (0, 2), (2, 2) \succ (1, 1), (2, 2) \succ (0, 2), (2, 2) \succ (2, 0)$ .

**2.B.** From the choice, we can infer that  $(2, 0) \succ (0, 2)$  and  $(2, 0) \succ (1, 1)$ . In addition to these and the inferences from monotonicity, we can now also infer  $(1, 1) \succ (0, 2)$  by convexity.

**2.C.** By Homotheticity, we can additionally infer that  $(4, 0) \succ (0, 4), (4, 0) \succ (2, 2), (2, 2) \succ (0, 4)$

**2.D.** At this point the only comparison that is left is  $\{(0, 4), (2, 0)\}$  and  $\{(0, 4), (1, 1)\}$

**3.A.**  $(x_1 + 1)(x_2 + 1) = e^{\ln((x_1+1)(x_2+1))} = e^{\ln(x_1+1) + \ln(x_2+1)}$  this is a monotonic transformation of  $\ln(x_1 + 1) + \ln(x_2 + 1)$  which is a sum of concave functions and thus concave. Since  $(x_1 + 1)(x_2 + 1)$  is a monotonic transformation of this, it is quasi-concave.

**3.B.**  $x_1 = \frac{m-p_1+p_2}{2p_1}, x_2 = \frac{m+p_1-p_2}{2p_2}$  if  $m \geq p_2 - p_1$  and  $m \geq p_1 - p_2$ .

Notice that  $m$  has to be greater than at least one of  $m \geq p_2 - p_1$  and  $m \geq p_1 - p_2$ . But if either fails, we hit a corner.

$x_1 = 0, x_2 = \frac{m}{p_2}$  if  $m < p_2 - p_1$

$x_1 = \frac{m}{p_1}, x_2 = 0$  if  $m < p_1 - p_2$

**3.C.**  $\frac{\partial \left( \frac{m-p_1+p_2}{2p_1} \right)}{\partial p_1} \frac{p_1}{\frac{m-p_1+p_2}{2p_1}} = \frac{2p_1^2 \left( -\frac{m-p_1+p_2}{2p_1^2} - \frac{1}{2p_1} \right)}{m-p_1+p_2}$  if  $m \geq p_2 - p_1$  and  $m \geq$

$p_1 - p_2$ .

-1 if  $m < p_1 - p_2$

0 if  $m < p_2 - p_1$

**3.D.**

$x_1 = \frac{\sqrt{p_2}\sqrt{u}-\sqrt{p_1}}{\sqrt{p_1}}, x_2 = \frac{\sqrt{p_1}\sqrt{u}-\sqrt{p_2}}{\sqrt{p_2}}$  if  $u \geq \frac{p_2}{p_1}$  and  $u \geq \frac{p_1}{p_2}$ . Notice that  $u \geq 1$

for any  $(x_1, x_2)$ . Thus, only one of the two of these can fail.

$x_1 = 0, x_2 = u - 1$  if  $u < \frac{p_2}{p_1}$

$x_1 = u - 1, x_2 = 0$  if  $u > \frac{p_1}{p_2}$