Homework Assignment #3

15 points

Due Date: Beginning of Class on **Tuesday, March 4, 2014**

**Instructions**: Make sure your answers are precise, complete and legible, with plenty of explanation for why you did what you did. If I can’t read your answer, you won’t get credit for it. Don’t forget to label all items on graphs. Show all your work or points may be taken off.

Budget constraint questions:

1. (2 points) If the price of good 1 doubled and the price of good 2 triples, does the budget line become flatter or steeper? Illustrate your answer and explain in words. (Put good 1 on the x-axis and good 2 on the y-axis).

2. (3 points) If Amy spent her entire allowance, she could afford 8 candy bars and 8 comic books a week. She could also just afford 10 candy bars and 4 comic books a week. The price of a candy bar is $0.50.

a) Draw Amy’s budget line. (Assume candy bars are on the x-axis).

b) What is Amy’s weekly allowance (i.e. what is her income)?

Indifference curve questions:

3. (3 points) What information is contained in the slope of an indifference curve? Why are these curves typically *convex to the origin*? (look this up in your textbook if the term is unfamiliar to you). Write a minimum of 4 sentences.

4. (2 points) If Joe views two candy bars and one piece of cake as perfect substitutes, what is his marginal rate of substitution between candy bars and cake?

True/False questions (5 points):

For each question below, please answer “true” or “false” and explain why. An answer without an explanation will result in no credit.

5. (2.5 points) Indifference curves cannot intersect.

6. (2.5 points) Bundles of goods on lower indifference curves are preferred to bundles of goods on higher indifference curves.