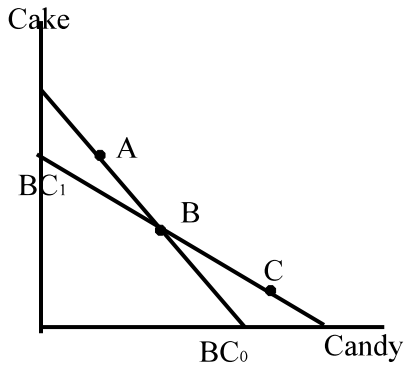
Wilf Csaplar Jr. Economics 301 Homework #3 **Due Monday 9/22**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) Refer the graph to the right when answering this question. Suppose that when facing budget constraint BC_0, this person chooses Point A. When facing budget constraint BC_1, they choose Point B. What can you tell me about the utility at the three points? Explain your logic.



3) (35 points) Draw the budget constraint for a person whose income is \$60, if the price of shoes is \$10/pair and the price of a coat is \$20/coat. Draw a second budget constraint to represent the price of shoes going up to \$15/pair, and a third budget constraint for the price of shoes going up to \$30/pair. State how you found each budget constraint. Draw indifference curves to find out how much the person will purchase at each price. Use your graph to find three points on the price-consumption path and three points on the demand curve. Draw both curves and explain how you found them. (Assume you can buy fractions of each item, like 1½ pairs of shoes or 2¼ coats.)

2) (20 points) Suppose the table to the right represents how much is consumed and the prices charged in each year. If 2012 is the base year, then calculate the Laspeyres and Paasche price indices for 2013. Show all work.

	2012 Price	2012 Quant.	2013 Price	2013 Quant.
Eggs	\$2/dzn	20 dzn	\$3/dzn	30 dzn
Ties	\$5/tie	12 ties	\$9/tie	10 ties

4) (30 points) Draw the budget constraint for a person whose income is \$60, if the price of shoes is \$20/pair and the price of sandals is \$10/pair. Draw a second budget constraint to represent the income going up to \$80, and a third budget constraint for the income going up to \$100. State how you found each budget constraint. Draw indifference curves to find out how much the person will purchase at each price assuming that the person thinks sandals are inferior goods. Use your graph to find three points on the income-consumption path. Explain how your graph shows that sandals are inferior and how you found the income-consumption path. (Assume you can buy fractions of each item, like 1½ pairs of shoes or 2¼ pairs of sandals.)