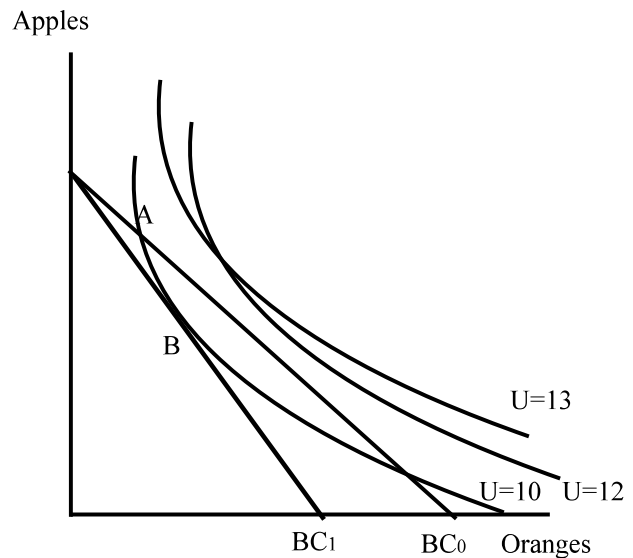


Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (35 points) Draw an indifference curve/budget constraint diagram for a individual who buys only peanut butter and jelly. Illustrate an increase in the price of jelly. Show the income and substitution effects on the diagram. Explain how you found the effects. As drawn are the goods substitutes or complements? Explain your logic.

2) (10 points) The diagram on page 134 has an interesting feature. Would you say that good X and good Y are substitutes or complements? Explain your logic and explain why I think it is so interesting.

3) (15 points) What is wrong with the diagram to the right? It is supposed to be showing a decrease in the price of oranges. Point A is supposed to be the before point and Point B is the after point. Find at least two errors. Explain how you know they are wrong.



4) (25 points) What is meant by the *identification problem*? Use it to show how it is possible to come to the conclusion that the demand curve might look like it slopes up.

5) (15 points) Explain the problems with using consumer surveys to determine the demand curve. (My guess is that is why the Blue Moose did not succeed.)