

ECON301a: Advanced Microeconomics
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Fall 2010

Problem Set 6: Due Wed, 10/13

1. J + R 1.65-1.66
2. For this problem, assume a consumer has homothetic preferences. Answer the following two questions true, false, or uncertain with an explanation.
 - (a) If two goods are substitutes in terms of Hicksian demands then they must be substitutes in terms of Marshallian demands.
 - (b) If two goods are complements in terms of Hicksian demands then they must be complements in terms of Marshallian demands.
3. J + R: 2.17
4. J + R: 2.18
5. Consider a world where all prices are constant, except the price of energy. Consumers are one period utility maximizers over a bundle of goods, including energy. All goods are consumed in strictly positive quantities, and prices are also strictly positive. The friendly government announces that it will maintain all consumers at their current utility levels by covering all their expenses. Would it be cheaper, in terms of the consumer compensation to cover them for a randomly fluctuating energy price, or an energy price which is pegged at its expected value?