Assignment 5 (OPTIONAL)

Part A   True/ False/ Uncertain Questions

Explain why the following statement is True, False, or Uncertain according to economic principles. Use diagrams and / or numerical examples where appropriate. Unsupported answers will receive no marks. It is the explanation that is important. Each question is worth 10 marks.

A1.

The PPF of an economy will be concave shaped if there are many different ways to produce output. [Diagrams Required]

A2.

The distributional consequences of the delineation of property rights are eliminated when preferences are quasilinear. [Diagrams Required]

A3.

For a rational consumer, who is an expected utility maximizer, the utility of the expected value of wealth is greater than the expected utility of wealth.

A4.

If the consumer is a risk-averse, expected utility maximizer and if he is offered insurance against a loss, then he will optimally choose to fully insure.

Part B   Problem Solving Questions

Read each part of the question very carefully. Show all the steps of your calculations to get full marks.

B1.

Derive the calculus conditions for Pareto efficiency in an exchange economy.

B2.

Derive the calculus conditions for Pareto efficiency in an economy with production.

B3.

Derive the calculus conditions for the Pareto efficient allocations of the public good.