Youngberg

Econ 304—Bethany College

**Homework 01**

Answer all the following on a ***typed, stapled*** (if applicable)separate sheet of paper. Make sure that you justify your answers, use your own words, and show your work. All questions are equally weighted.

1. Consider a total cost curve of 4+Q2 and a total revenue equation of Q. Find the total profit or loss. Find the price which results in zero economic profit.
2. One way to interpret the Second Welfare Theorem is that politicians shouldn’t mess around with prices to achieve a just society. Assuming the theorem is correct, why would this be an interpretation?
3. In class I used a P.O.W. camp as a real-world example of a (near) pure exchange economy. What is another example (either from fiction or a real example…do not make up a hypothetical example)? Be sure to indicate what the endowments are.
4. Consider the following Edgeworth box for Andrea Alpha (red) and Betty Beta (blue). The number adjacent to the curve is the utility value for that curve. How many Pareto efficient points do the illustrated indifference curves show? Draw a ***smooth*** contract curve for this Edgeworth box.

Waterα

Powerα

0

20

40

80

100

60

0

20

40

60

100

80

20

40

60

80

20

40

60

80

Powerβ

Waterβ

100

100

0

0

**3**

**5**

**8**

**9**

**4**

**5**

**8**

**10**

1. Consider again question 4. Suppose Andrea Alpha is a down-and-out car thief who has trouble making ends meet and Betty Beta is a trophy wife who was born into a wealthy family. We can imagine an egalitarian claiming the best allocation would be fifty units of each good to each consumer. Locate the point or range in the Edgeworth the other three philosophies of fairness we discussed would consider ideal. (For utilitarianism, assume the only indifference curves of relevance are the ones with a defined utility.)