Economics 58
Fall 2010

Problem Set # 3

Due 10/6/09

1. Text Problem 5.5 (this problem may appear on the test, probably with a different utility function).

2. Recreate the equation for compensating variation (CV) with a constant elasticity demand function shown in class ($x = kp_x^b$). Now illustrate with some numerical examples how the size of CV depends on the assumed value for the price elasticity of demand (b).

3. Return to the Hausman article on the CPI and derive the set-off equation on page 27. You may not use Hausman's formula for "virtual price" in your derivation. (Note that this formula applies precisely only for a linear demand curve).