

Problem Set # 2

Due 9/23/09

1. Text Problems 3.13
2. Two of the simplest utility functions are:
 1. Fixed Proportions: $U(x, y) = \text{Min}[x, y]$.
 2. Perfect Substitutes: $U(x, y) = x + y$
 - a. For each of these utility functions, compute the following
 - Demand functions for x and y .
 - Indirect Utility Function
 - Expenditure Function
 - b. Discuss the particular forms of these functions you calculated – why do they take the specific forms they do?
3. The Stone-Geary Utility Function is used in many applications.
 - a. Do problem 4.12 in the text
 - b. Read the paper “How Inefficient are Multiple in-kind Transfer Programs?” by Michael Murray.
 - c. Answer the following questions about the Murray paper
 - How does the Equation on page 211 generalize the one in problem 4.12?
 - Explain what Equation 1 on page 212 means (you may wish to consult the appendix for this).
 - Explain the meaning of the figures in Table III. Give a numerical example of what these numbers mean
 - Discuss specifically Murray’s results for Medicaid.