

Economics 308: Intermediate Microeconomics  
Department of Economics, Finance and Legal Studies  
University of Alabama  
Spring, 2016

Midterm I

The exam is worth 100 points. Each question (six questions on six pages) is of equal value. There will be no communication with the exam proctors; if you believe a question contains an error or ambiguity, say so on your written examination, make an assumption to correct the alleged error or to resolve the ambiguity, and answer the question as well as you can.

1. True or False (Explain briefly and use an example and/or state assumptions if necessary)? A consumer maximizes his/her utility when the marginal rate of substitution between every pair of commodities is equal to the ratio of prices of those two commodities (for simplicity assume a market with only two goods).
2. J. Trueblue always spends one-third of his income on American flags. Show his income elasticity of demand for such flags.
3. Show why indifference curves cannot cross. Use a graph and at least one assumption about utility that we discussed in lecture. Explain briefly.
4. True or False (Explain briefly and use an example and/or state assumptions if necessary)? When the interest rate rises, a borrower will necessarily become a lender.
5. True or False (Explain briefly and use an example and/or state assumptions if necessary)? If good Z is an inferior good, then good W must be a normal good.
6. A Rawlsian welfare function counts only the welfare (utility) of the worst off agent (assume a world with at least 2 individuals). The opposite of the Rawlsian welfare function might be called the “Nietzschean” welfare function – a welfare function that says the value of an allocation depends only on the welfare of the best off agent. What mathematical form would the Nietzschean welfare function take? What kind of allocations represent welfare maxima of the Nietzschean welfare function?