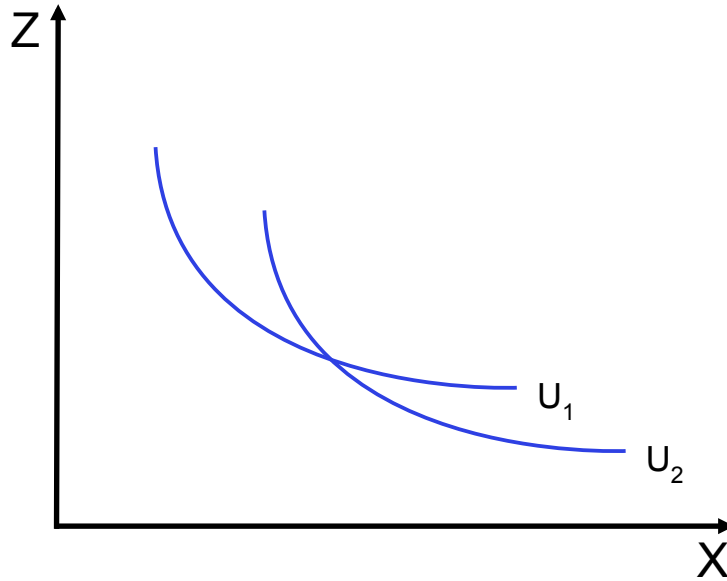


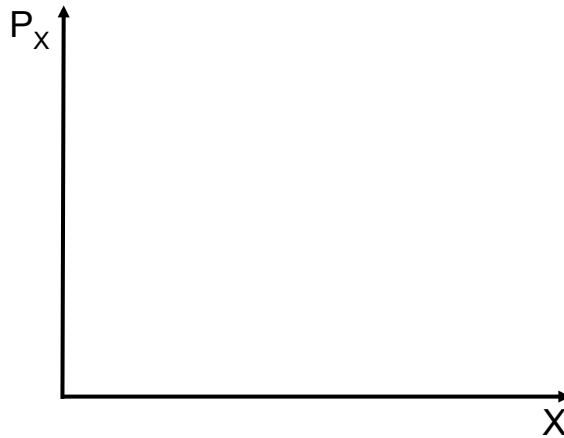
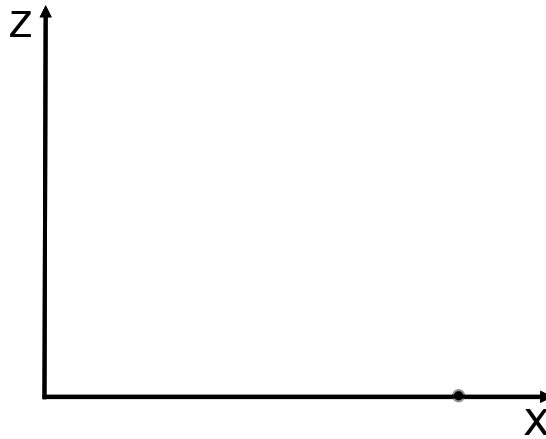
Tutorial 1

1. To you, what are the pros and cons of using the model of Rational Choice Theory to study human behavior? Do you agree with the notion that at any given moment in time, people do what brings them the most utility (not necessarily happiness)? Why or why not?
2. Consider the following figure



where U_1 and U_2 are iso-utility curves for Jan. Explain why the situation depicted cannot actually happen.

3. Derive the demand curve. Hint: Use this space.



4. The government has long taxed cigarettes in an effort to reduce tobacco consumption and in general it has worked. In recent years though, further increases in the tobacco tax have not been met with significant decreases in smoking. How do you think tobacco firms have responded to the taxes when setting prices? Why do you think the policy worked at first? Why do you think it is working less well now?
5. Mariah consumes music downloads M and concert tickets C . Her utility function is given by $U = 0.5M^2 + 2C^2$ where $MU_M = M$ and $MU_C = 4C$.
- Write an equation for MRS_{MC}
 - Would bundles of $(M = 4, C = 1)$ and $(M = 2, C = 2)$ be on the same indifference curve? How do you know?
 - Calculate MRS_{MC} when $(M = 4, C = 1)$ and when $(M = 2, C = 2)$.
 - If the price of $C = p_C = £16$ and the price of $M = p_M = £4$, and Mariah's income is £40, how much M and C will she consume?