

Homework # 3

1) The following table shows the maximum amount of money you would be willing to pay for increasing numbers of chicken pieces at Fastfood:

Chicken Pieces	Maximum Payment
1	\$3.00
2	5.70
3	8.10
4	10.20
5	12.00
6	13.50
7	14.70
8	15.60
9	16.20
10	16.50
11	16.50

- Find the marginal utility (MU) for each chicken piece. What is the meaning of the MU of the 11th piece?
- If the price of chicken pieces is \$1.55 each, how many will you buy?
- If the price falls to \$1.00, how many will you buy? Explain carefully why you will not buy one more.
- Suppose that Fastfood stops selling chicken pieces individually, and only sells them in 4-packs. The price of a 4-pack is \$4.00. How many chicken pieces will you consume? Reconcile your answers to c and d.
- Are you better off buying the chicken pieces individually (as in part c) or in packages of 4 (as in part d)? Explain why and provide calculations to support your answer.
- Calculate your elasticity of demand when the price falls from \$1.80 to \$1.20.

(2) You have 5 hours left to study for two exams tomorrow. The relationship between hours of study and test scores is as follows:

Economics		Business Law	
Hours	Score	Hours	Score
1	50	1	75
2	65	2	85
3	75	3	90
4	80	4	93
5	85	5	95

How should you allocate your study time?

3) a. If Clint's elasticity of demand for cigars is zero, can you say anything about the relative magnitudes of the income and substitution effects associated with a change in the price of cigars for Clint? Explain why or why not.

b. If Clint's elasticity of demand for cigars is equal to zero, are cigars a normal or an inferior good for Clint? Explain.