Quiz #2. 
ECON 310 – Fall 2006.

Multiple Choice (3 points each):

1) Which of the following inequalities describes the “competitive budget set” (or “set of affordable bundles”) for a consumer?
   a. $U(X) = x_1 + x_2$.
   b. $p_1 x_1 + p_2 x_2 \leq I$.
   c. $p_1 x_1 + p_2 x_2 \leq U(X)$.
   d. $U(X) \geq c$.
   e. $p_1 + p_2 \leq x_1 + x_2$.

2) Brad has income of $I = 100$. Each unit of $x_1$ (one pound of beef jerky) costs $p_1 = 4$; each unit of $x_2$ (five liter box of wine) costs $p_2 = 10$. The bundle $x_1, x_2 = (12, 5)$
   a. is not affordable for Brad.
   b. is affordable, and costs an amount exactly equal to his income.
   c. is affordable, and costs an amount less than his income.
   d. clearly maximizes his utility.
   e. More than one of the above answers is correct.

Additional Question:

1) Kerry has income of $I = 200$, and initially faces prices of $p_1 = 5$ and $p_2 = 1$. Suppose the price of good one decreases to $\hat{p}_1 = 4$. In a single graph, illustrate her initial budget line (at the initial price of $p_1 = 5$) and her new budget line (at the new price of $\hat{p}_1 = 4$). Label each intercept of each budget line. Graphically identify a consumption bundle that was not affordable under the initial prices, but is affordable after the decrease in the price of good one. (4 points)