

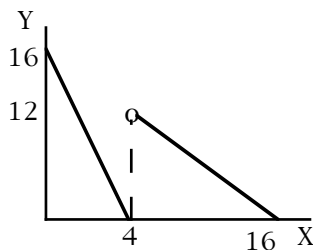
Answers to Review Problems for the Final Exam

I do not show my work. You would need to show your work to get full credit on the exam.

- A. (1) True. The compensated change in quantity demanded is always opposite in sign to the price change.
 (2) True. This is the definition of the long run.
 (3) False. All agents need to have quasilinear preferences.
 (4) False. It is similar, but not identical to the prisoner's dilemma (see Varian pp. 675-676).
 (5) False. Consider the example of purchasing a TV in Varian pp. 671-674.
 (6) True by definition.

- B. (1) $\frac{Y}{2\sqrt{X}}$ (2) See Varian pp. 102-103.
 (3) The player assigns a probability to each strategy and randomly chooses which strategy to play.
 (4) All market equilibria are Pareto efficient.
 (5) The price at which a consumer is just willing to purchase one unit.
 (6) One person's consumption or production directly affects another's utility.

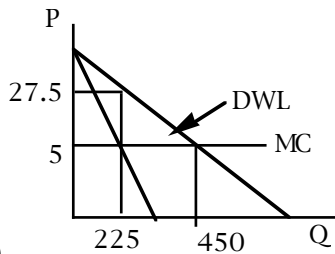
- C. (1) $\sqrt{\frac{Y}{X}}$ (2) $X = \frac{(M)(P_Y)}{(P_X)(P_X + P_Y)}$ (4) 0.8 unit



(3) & (5)

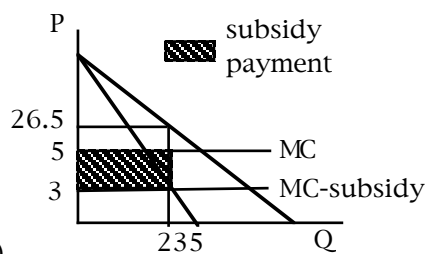
(6) decrease by 4.8 units

- D. (1) P = \$5, Q = 450



(3)

- (2) P = \$27.50, Q = 225



(5)

- (4) P = \$26.50, Q = 235

- (6) before = \$5062.50, after = \$5522.50