

ECO135 (05) Quiz 4 Dec. 5 2017

ID

Name

1. (a) Calculate the price elasticity of demand using $P = 1000 - 10Q$, and $(Q, P) = (50, 500)$. (b) Calculate how much Q will change given an increase in P by 1%.

2. Given $P_x = 10$, $P_y = 30$ and I (budget) = 1500, (a) Derive the budget constraint, (b) Draw the budget line, (c) Add a new budget line if P_y increases to 50.

3. If Mehmet's Marginal Rate of Substitution of Y for X is 8 and $P_x = 50$, $P_y = 5$. "He is spending too much of his income on Y ." Do you agree with this statement? Explain.