

time : 50 minutes

Do all 3 questions. All count equally.

1. What is the equation of the production possibility frontier for an economy producing food and clothing from labour and capital, if food is produced using only labour, with production function

$$F = L_F$$

where F is the quantity produced of food and L_F is the number of person-hours of labour used in the food industry and if clothing is produced using labour and capital, using the production function

$$C = \sqrt{L_C K_C}$$

where C is the quantity produced of clothing, L_C the number of person-hours of labour used in clothing production, and K_C the number of machine-hours of capital used in clothing production if the economy is endowed with 100 person-hours of labour and 80 machine-hours of capital?

2. Would a risk-averse person ever want to invest any money in a risky asset, if the expected return on the risky asset was positive, but less than the return she could get on a risk-free asset? Explain briefly.

3. What are all the Nash equilibria to the following game in normal form?

	L	M	R
t	(5, 3)	(10, 0)	(1, 1)
b	(2, 2)	(6, 1)	(2, 10)