

Midterm Exam October 24 2012 2:30 – 3:30 pm

Do all 3 questions. All count equally.

1. Derive the Slutsky equation, which shows the relationship between the derivatives of the Marshallian and Hicksian demand functions.

2. If someone is risk averse (but we do not know how risk averse), what are the possible values for this person's risk premium for a gamble

$$g = (0.5 \circ 40, 0.5 \circ 80) \quad ?$$

3. What is the cost function $C(w_1, w_2, y)$ for a firm with a production function

$$f(x_1, x_2) = \frac{1}{2}(\ln(x_1 + 1) + \ln(x_2 + 1))$$

where "ln" is the natural logarithm?