

MICROECONOMIC THEORY I

PROBLEM SETS 3 AND 4

PS 3 DUE DATE: TUESDAY, OCTOBER 1 (IN CLASS)

PS 4 DUE DATE: FRIDAY, OCTOBER 4 (SLIDE UNDER MY DOOR BY 5:00PM)

Instructions: To keep us on task, I have combined the next two problem sets. The first is due on Tuesday October 1st whereas the second is due on Friday October 4th by 5:00pm (slid under my door is fine). As before, please clearly identify your solution (e.g., circle your answer) so that I can quickly identify your answer. Print your entire name at the top left of every page. I will not accept late assignments. See syllabus for grading scheme. Staple or paperclip your answers to this handout, and be neat.

And finally, please note that all questions are from Nicholson and Snyder's 11th edition (hereafter: NS11). Please be sure if you are using an earlier edition that you are answering the correct questions. I will not accept answers that do not follow these instructions.

1. Problem set 3 (due Tuesday Oct 1 in class)

- (NS11 chapter 4 (pp. 136-140)): 4.1, 4.3, 4.10, 4.14
- Read Robert Jensen and Nolan H. Miller's 2008 *American Economic Review* article "Giffen Behavior and Subsistence Consumption" and answer the following questions:
 - What importance do the authors claim from distinguishing between "Giffen goods" and "Giffen behavior"?
 - Describe the authors' theory of the circumstances in which "Giffen behavior" is likely to occur. Include an explanation of Figure 1 in your answer.
 - Describe the empirical methodology the authors use to answer their research questions in detail. Where did it take place, how was it implemented, how are prices exogenously varied and why do they claim that an experiment is preferable to some alternative methodology?
 - Summarize their evidence and what you learned from the study regarding consumer theory, "Giffen behavior" and poverty.

2. Problem set 4 (due Friday, Oct 4 by 5:00pm in my office):

- (NS11 chapter 5 (pp. 177-180)): 5.4, 5.5, 5.12
- (NS11 chapter 6 (pp. 200-203)): 6.1, 6.12¹

¹You may find it useful to carefully read Borchering and Silberberg's 1978 *Journal of Political Economy* article, "Shipping the Good Apples Out – the Alchian-Allen Theorem Reconsidered" when attempting problem 6.12. The article is posted to my website, along with the Jensen and Miller (2008) article.