A. Text and workbook

    1. Text: Chapter 4; omit nothing.

    2. Study guide: Chapter 4; omit nothing.

        a. NOTE: The answers given in the back of the Study Guide to the following questions are <u>wrong</u> either in whole or in part (thus it is left to you, at least for now, to find the <u>right</u> answers!): p. 37, #2; p. 39, #s9&10.

B. Reading(s)

    1. With respect to analyzing the market (i.e., aggregate of individuals') demand for a particular good, what are the analytical disadvantages of the ordinary demand curve -- that is, of the demand curve obtained on the assumption of constant money incomes and prices of all other goods?

    2. What are the possible interpretations of "constant real income" when choosing among income compensated market demand curves? Why might one interpretation be preferred over another?

C. Puzzles

    1. The management of Campus Theater is reconsidering its budget for the forthcoming year. The university of which it is a part gives the theater the choice of financing itself through ticket sales, a charge on each university student's term bill, or a combination of the two. The theater conducts a poll among the students and finds that if it levies no term bill fee and charges $4.50 per ticket (plan A), each student will attend once per season. If it charges $2.00 per season on term bills and sets ticket prices at $1.50 (plan B), each student will attend four times. If it charges $5.00 on term bills and 50 cents per ticket (plan C), each student will attend seven times. Any of the three plans will provide the needed financing, but the theater's management failed to ask the students which plan they prefer. Can you help in interpreting the poll; i.e., can you tell which plan students prefer. Explain your reasoning and/or diagrams. (Assume that students' spending allowances are adjusted such that they effectively pay any additional term bill fees.)

    2. Lucy, who will soon be five, likes cookies and doesn't like milk. Lucy's father has an agreement with her. She is given one cookie for every two ounces of milk that she drinks. On these terms, Lucy eats two cookies a day and consumes four ounces of milk.

        a. Using indifference curves, show how Lucy arrived at this choice assuming that she acts so as to maximize her level of well-being. In drawing her indifference curve map, put Lucy's milk consumption on the horizontal axis so all students' graphs will read the same way. Assume that, for any given level of well-being, as she drinks more milk, Lucy must be given increasingly more cookies in order to induce her to drink an additional glass of milk.

        b. Suppose that Lucy's father decides that four ounces of milk a day is too little, and that he raises his offer to one cookie for each ONE ounce of milk that Lucy drinks, in the hope that

this will induce Lucy to drink more milk. Will Lucy's milk consumption increase, decrease, or stay the same as a result of this change? Illustrate and explain your answer in terms of indifference curve analysis.