Econ 301 Discussion - 12/8/2023

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Content Review

- Open Economy and Tariffs

- General Equilibrium in an Endowment Economy

Practice Questions

1. Two consumers in an endowment economy have utilty $u_1(a, b) = a^2 b$, $u_2(a, b) = ab^2$, and initial endowments for both $(a_i, b_i) = (6, 6)$. Is the initial endowment Pareto efficient? If not, give an example allocation that is a Pareto improvement. If $P_a = P_b$ in equilibrium, find the competitive equilibrium allocation.

2. Consider the economy of Economowoc, Wisconsin, in which there lives 2 people, Isaac and Joe. Isaac and Joe can trade 2 goods, beer b and cheese c, with preferences given by $u_i(b, c) = min\{b, c\}$ and $u_j(b, c) = b + 2c$. Isaac has an endowment of $(y_i^b, y_i^c) = (6, 3)$ and Joe has an endowment of $(y_j^b, y_j^c) = (2, 4)$. Graph the indifference curves and endowment for Isaac and Joe in the Edgeworth Box. Characterize the set of Pareto efficient allocations, as well as the competitive equilibrium.