CONSUMER THEORY

Exercise list 2

Exercise 1

Let $u(x_1,x_2) = kx_1^a x_2^{1-a}$, for $0 < a < 1$.

a) Solve the expenditure minimization problem and find the Hicksian demand functions.

b) Show that the indirect utility function is the inverse of the expenditure function.

Exercise 2

Let $u(x_1,x_2) = ax_1 + bx_2$, for $a, b > 0$. Solve the expenditure minimization problem and find the Hicksian demand functions.

Exercise 3

Let $u(x_1,x_2) = \min\{ax_1, bx_2\}$, for $a, b > 0$. Solve the expenditure minimization problem and find the Hicksian demand functions.