

Problem Set # 5

Econ 1015

- 1) Draw a production possibilities curve for an economy in which the goods are consumption today and consumption tomorrow. Describe the PPF. What is the slope of the production possibilities curve? Show how technological progress will affect the production possibilities curve.
- 2) Draw an indifference curve in which a consumer is choosing between consumption today and consumption tomorrow. Describe what the indifference curve is. What is the slope of the indifference curve?
- 3) (Difficult) Can a country accumulate capital too fast? In other words, what if a country spent too little on consumption today. Draw a picture that depicts too much capital accumulation. Explain why people are worse off in this setting.
- 4) What happens if the last dollar spent on consumption tomorrow has a higher marginal utility than the last dollar spent on consumption today? Explain how a person would change their consumption pattern. Specifically, identify how their quantity of consumption today would change? How about quantity of consumption tomorrow?