

1. Jack can produce honey ( $H$ ) and yogurt ( $Y$ ) on his farm. If he produces no yogurt, he can make 400 pounds of honey. If he makes no honey, he can make 300 pounds of yogurt. The prices at the local market are  $p_h$  and  $p_y$ .
  - (a) Draw Jack's PPF and label its intercepts. Indicate what the slope means. (5 points)
  - (b) Depict Jack's optimal production bundle using a well-labeled diagram. Explain. (5 points)
  - (c) Redraw your depiction of Jack's optimal bundle to show the change in his production of honey when the price of yogurt rises. (5 points)
  - (d) Using your analysis in part (c), sketch a supply curve for honey. Now show what happens to this supply curve (if anything) when the price of yogurt rises. (10 points)
  
2. Cressida spends all of her income on honey and yogurt, which she considers to be perfect complements.
  - (a) List (but don't justify) the restrictions that Cressida's indifference curves must respect. (5 points)
  - (b) Depict Cressida's optimal consumption bundle using a well-labeled diagram. (5 points)
  - (c) Show, using a diagram, that both honey and yogurt are normal goods. (7 points)
  - (d) What happens to the demand curve for yogurt when the price of honey falls? Support your answer with a diagram. (8 points)