

1. Using mathematics (but not diagrams), show that when there is aggregate risk, there is a disjuncture between relative price and relative risk. Also show the direction of difference. The proof can be confined to one good in two states of the world where utility is not state-contingent. (6)
2. Assume that there are no externalities and there exists a consumption-only economy. Making use of an Edgeworth-Bowley box, show that if a Walrasian equilibrium exists, then the equilibrium is Pareto optimal (3). Then show a situation where a Pareto optimal outcome exists, but the Pareto optimal outcome is not a Walrasian equilibrium (2)
3. What problems would arise if stock ownership did not imply limited liability for the firm? Explain. There are three parts. (6)
4. Which tastes better cranberry juice cocktail or Cran-raspberry cocktail? Explain (0)