Exercises for seminar week VIII, November 9 - 12, ECON3215/4215, fall 2010

A

Cowell problem 8.10 (page 222)

Hint: In question 3, the first-order condition found in question 2 should be differentiated with respect to t, in order to find how the optimal β^* depends on t.

B

Cowell problem 8.13 (page 223)

In question 1, it is assumed that the firm maximizes expected utility of its profit.

C

Cowell problem 8.14 and 8.15 (page 223 - 224)

The "optimal contract" in 8.14 question 2 refers to the contract that is optimal from Bill's point of view, subject to the condition that Alf is willing to accept the contract.