

Economics 314
Daily Question #17

Spring 2013
April 1

Consider a household living on an island with no contact with other households. There is no investment and no government, so all production is consumed. The production function is linear and we measure output in units that make one unit of labor effort produce one unit of output, thus

$Y = L$. Household utility is given by $U = C - \frac{1}{\gamma}L^\gamma$.

1. What is the marginal disutility of labor effort, $-\frac{\partial U}{\partial L}$? Intuitively, should the marginal disutility increase or decrease as L gets larger? What condition on γ assures that this is true?

2. What is the household's utility-maximizing choice of L , Y , and C ?