

Answer on Question # 70372, Economics / Microeconomics

Question

Indirect utility function $v(p_1, p_2 : m) = m / \min(p_1, p_2)$

What is expenditure function, demand function and direct utility function

Answer

If indirect utility function $v(p_1, p_2 : m) = m / \min(p_1, p_2)$, then expenditure function is $E(p_1, p_2, U)$, where $U = X^* + Y^*$

Then demand function is $x = -(dv/dp_1)/(dv/dm)$, $y = -(dv/dp_2)/(dv/dm)$.

Then direct utility function is $U(x, y) = \sqrt{x} + \sqrt{y}$