**End of Chapter Questions for Chapter 1, Microeconomics**

1. Explain why microeconomic courses can (and have) been called “Price Theory.”
2. The consumer choice model can be presented with two goods, X and Y. In what equivalent way can portfolio choice be modeled? In answering this question, explain the similarities and differences between the consumer choice model and the portfolio choice model.
3. Identify the budget constraint in the consumer choice model and its equivalent in the Capital Asset Pricing Model and contrast the two.
4. Identify the family of indifference curves in the consumer choice model and those in the Capital Asset Pricing Model and contrast the two.
5. With price on the vertical axis and the number of shares on the horizontal axis, draw a vertical line that is located by a company’s number of shares outstanding. Explain why or why not this vertical line can be considered a supply curve of shares that could be matched with a market demand curve to holds shares so as to determine the equilibrium price of shares.
6. We have derived a downward sloping demand curve to hold shares of a risky asset. Given this curve, how do we obtain an equilibrium price of shares?
7. Contrast the price determination procedure you have described in answer to question 6 above with price determination in standard microeconomics analysis.
8. Explain why, in the pricing of equity shares, an equilibrium value may not be achieved in a perfectly competitive market if participants do not know the equilibrium value of shares before they submit their orders to the market.
9. With reference to the Capital Asset Pricing Model, explain how (and why) an increase in the riskfree rate of return will affect the price of the market portfolio.
10. The consumer choice model and the Capital Asset Pricing Model are both based on simplifying assumptions. What are they, and how realistic are each of the assumptions individually? Does assuming away many of the complexities of reality enable these models to deliver important insights into the operations of markets and market participants?