

Problemset 5, Econ 980w, Spring 2019:
Equivalent variation

1 By hand exercises

Suppose you have the following data-set on net consumption of rice and beans (in pounds) of several households, as well as their income.

Rice	Beans	Income
3	1	100
4	3	140
3	4	190
5	6	220
4	6	280

Suppose a trade liberalization would raise the price of rice by 50 cents, and lower the price of beans by 1\$.

1. For each household, calculate the equivalent variation of this price change.
2. Calculate the 2-nearest-neighbor estimate of the conditional expectation of equivalent variation given income, for the income levels 100, 150, 200, 250.