Problem Set 7: What are they teaching kids today?

Overview: In this problem set you will examine payments in-kind versus payments in cash. As you probably know from personal experience, yes, this was one the most watched episodes of Teletubbies. Much like *Gulliver’s Travels*, *The Wizard of Oz*, and the *Simpsons*; the *Teletubbies* is social satire disguised as a children’s show.

Due Date: Friday, April 2nd at the beginning of class.

Step 1: The Work

a. Assume the following is true.
   - There are three individuals (Tinkie-Winkie, Po, and Dipsie) who are alike except for their preferences.
   - Each individual earns $15,000, below the poverty line in TelleTubbieLand, before any transfers.
   - Tubbie Toast, that great single source of nutrition, costs $10/unit
   - No one can re-sell any government supplied Tubbie Toast they get as a transfer.

b. Make a very neat graph either in a spreadsheet or on graph paper.
   - On the horizontal Axis put “Tubbie Toast”. Choose your scale so your budget lines and indifference curves fill up most of the graph.
   - On the vertical axis, put “All Other Goods”. Choose your scale so your budget lines and indifference curves fill up most of the graph.

c. In a Black solid line, if possible, draw a budget line for someone who earns $15,000 (same as above) and gets no transfers from the government. Label this line $B_{\text{NoTransfer}}$.

d. In another Black solid line, if possible, draw a budget line for someone who earns $15,000 (same as above) and gets $5,000 in Tubbie Toast as a transfer from the government. Label this line $B_{\text{InKind}}$.

e. In another Black dashed line, if possible, draw a budget line for someone who earns $15,000 (same as above) and gets $5,000 cash transfer from the government. Label this line $B_{\text{Cash}}$.

Note: You could also use a highlighter to distinguish $B_{\text{InKind}}$ from $B_{\text{Cash}}$.

f. In Blue (or better yet, purple if you have it), if possible, draw an indifference curve for someone (Tinkie Winkie) who is indifferent between receiving $5,000 of cash and $5,000 of Tubbie Toast. Label it $U_{TW}$. Further, assume Tinkie Winkie is not just barely
indifferent. If Tinkie Winkie’s preferences were changed slightly, he would still be indifferent.

g. **In Red**, if possible, draw an indifference curve for someone (Po) who is indifferent, but just barely so, between receiving $5,000 of cash and $5,000 of Tubbie Toast. Label it $U_{Po}$. Again, Po should be just barely indifferent. If Po’s preferences were changed ever so slightly, she would prefer one to the other.

h. **In Green**, if possible, draw an indifference curve for someone (Dipsie) who prefers one transfer system (in kind or cash) to the other. Label it $U_{Dipsie}$.

i. On a separate piece of paper, neatly **type** answers to the following questions.

1. What is an example of each type of transfer program?
2. Which gives the most “bang for the buck” to the recipient, transfers in kind of cash transfers? Explain why this is using your indifference curves as an illustration. Explain why this is in more intuitive terms (ex. how would you explain this to a smart, non-econ major friend?)
3. If one method (transfers in kind vs cash transfers) gives more “bang for the buck” to its recipients, why does the other method persist?

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**Step 2: The Aftermath**

- Turn this in.
- Bask in the knowledge and understanding you have gained.
- It’s okay. You can be sad too about the lost innocence this problem set invariably leads to. Tellytubies will never be the same, innocent, show it was. I cried too.
- Don’t let yourself get too down. Remember, there’s always Lala. She made it out of poverty and is now a thoracic surgeon with a highly successful practice in San Antonio.