Consumer Theory

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1. How does the consumer make choices

1.1. Consumer Choice

- All the variations that the consumer have allow us to make choices out of millions out of everyday.

- Marginal utility: all the happiness that a good can give you in comparison with the cost. The consumer chooses on a marginal utility bases.

1.2. Budget Constraints

- Elements of consumer decisions:

    - Example: the division of labor.
    - Example: your salary.
    - Example: your productivity.
    - There are so many choices!

- The budget constraint is all the diferent combnations that you can buy of two certain goods, the slope that results is always sloped downwards, this is the budget constraints.

- This takes in to account the oportunity cost.

- Changes in your income don't affect the market prices, the tradeofs remains the same. It changes if the relative price of the goods changes.

1.3. Indiferencie curves

- Preferences are important.

- The more volume of the product the more preference it has.

- Combinations that make no diference, the indiference curve represents all the combinations that could give you the same utility.

- The slope changes, the slope is called the marginal rate of substitution. The way to find it is draw a straight line of the tangent in that point. Its a hiperbola, tha more you have the marginal utility decreases.

- The marginal rate of substitution is an extreme case, in this case the indiference curve will be a straight line.

- The indiference curve of complementary goods are right rectangles.

- Assume that more are beter, the further from the origin the better, for the "bads" the closer the better.

2. Episode 538: Is a Stradivarius just a violin?

- 1790 Stradivari violin made.

- $45,000,000 at the tops.

- Blinded test

- Dificult to describe somethings as they are.

3. Consumer optimization

- choices → dreams & wants

- when the budget constraint intersects one of the indiference curves that is the optimal point.

$$\frac{P_{\text{pizza}}}{P_{\text{coffe}}} = MRS$$

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