

Price Theory I 2021 - Applied Economics “Shortcuts”

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This is a list of “shortcuts” which are often helpful in Price Theory problem set questions (and beyond). You should feel free to use these in your answers as long as they don’t contradict the question or make it trivial and uninteresting.

The list:

- Assume normal goods.
- Ignore income effects (quasilinear utility).
- Assume continuously differentiable utility.
- Assume marginal utility goes to ∞ as less is consumed and/or 0 as more is consumed ($\lim_{x \rightarrow 0} U'(x) = \infty$, $\lim_{x \rightarrow \infty} U'(x) = 0$).
- Assume constant marginal costs.
- Assume diminishing returns at the firm level, constant returns at the industry level.
- Assume a representative agent, or that agents are ex-ante identical.
- Use an i.i.d. distribution.
- Ignore integer constraints.
- Use only two goods.
- Use composite commodities.
- And so on...