Barick Chung

Employment:
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2012-2014 Lecturer, School of Economics and Finance, University of Hong Kong.
2006-2012 Instructor, Department of Economics, CUHK – Hong Kong.

Education:
2003-2007 Ph.D. (Business) Indiana University – Bloomington.
1987-1991 BS.Sc. (Economics) Chinese University of Hong Kong – Hong Kong.

Research paper:
Chung, Barick, "Two Level Price Discrimination and Vertical Relationship" (March 05, 2012). Available at SSRN: http://ssrn.com/abstract=1997070.

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ECO 2011 (Sections L07-10) Basic Microeconomics

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Optimal choice

Pindyck and Rubinfeld, 2014, p.86:

The consumer's problem is to maximize satisfaction, given the limited budget available to them.

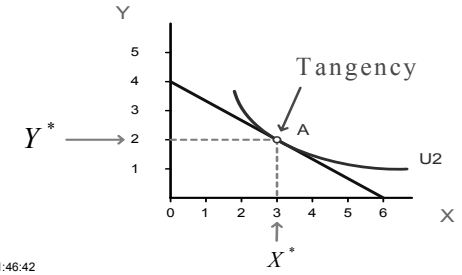
The optimal bundle satisfies two conditions:

1) It must be located on the budget line.

2) It must give the consumer the most preferred combination of goods and services.

Two conditions

Bundle A is optimal:



Tangency implies:

(i) The optimal bundle { X*, Y* } lies on the budget line:

$$P_X \cdot X^* + P_Y \cdot Y^* = I$$

$\frac{P_x}{P_y} = \frac{MU_x}{MU_y}$

(ii) The slope of the budget line (i.e., negative price ratio) is equal to the slope of indifference curve (i.e., negative marginal rate of substitution) at the optimal bundle { X*, Y* }:

$\Rightarrow \frac{MU_x}{P_x} = \frac{MU_y}{P_y}$

Slope of budget line = $-\frac{P_X}{P_Y}$

Slope of indifference curve = $-MRS_{X,Y}(X,Y) = -\frac{MU_X(X,Y)}{MU_Y(X,Y)}$

Optimization condition is : $\frac{MU_X(X^*,Y^*)}{P_X} = \frac{MU_Y(X^*,Y^*)}{P_Y}$

Pindyck and Rubinfeld, 2014, p.96:

Equal Marginal principle is the principle that utility is maximized when the consumer has equalized the Marginal utility per dollar of expenditure across all goods.

$$\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$$

My remark #10a:

The consumer's problem is to solve:

$$\left\{X^*, Y^*\right\} \text{ solves } \left\{\underset{X,Y}{\text{Max}}\, U(X,Y) \quad \text{s.t.} \quad P_X \cdot X + P_Y \cdot Y = I\right\}$$

Pindyck and Rubinfeld, 2014, p. 89:

A **corner solution** is a situation in which the Marginal rate of substitution of one good for another in a chosen market basket is not equal to the slope of the budget line.

max U st C

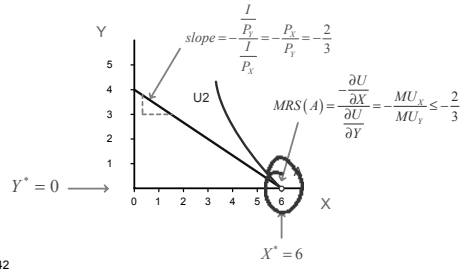
2 situations

V solution ← corner
interior

Remark #15:

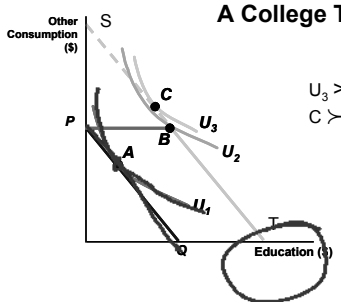
Corner solutions arise at a "corner:"

Corner solutions



A: Consumption before the setting up of the trust fund (The trust fund shifts the budget line)
B: Requirement that the trust fund must be spent on education
C: If the trust could be spent on other goods

A College Trust Fund



$U_3 > U_2 > U_1$
$C \succ B \succ A$

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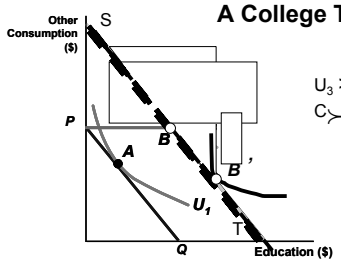

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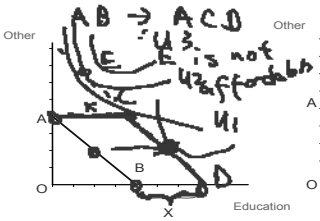
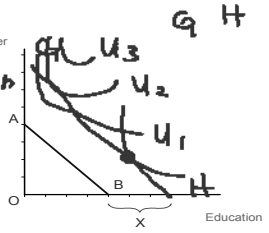
Case (i) : Giving education (the good)

Subsidy in kind



Case (ii) : Giving cash

Subsidy in cash



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