



Barick Chung

Employment:

2014-present Senior Lecturer, Department of Economics, CUSZ – Shenzhen.
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>.

Homepage: Deleted

Facebook: Deleted

Wechat ID: barickchung

11:46:42

1

ECO 2011 (Sections L07-10) Basic Microeconomics

Barick Chung
Department of Economics
235-18822
Zhiren Building, 409
barickchung@cuhk.edu.cn

11:46:42

2



Pindyck and Rubinfeld, 2014, p.76:

Perfect substitutes are two goods for which the Marginal rate of substitution of one for the other is a constant.

Perfect complements are two goods for which the MRS is zero or infinite; the indifference curves are shaped as right angles.

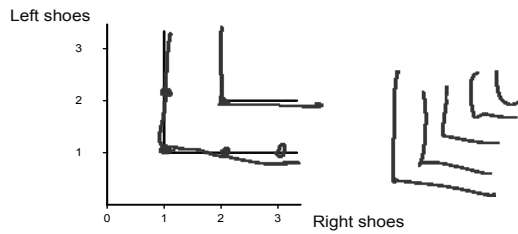
Bad is good for which less is preferred rather than more.

 Three extreme cases

11:46:42

3

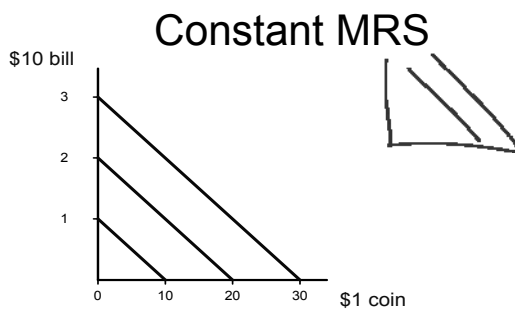
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11:46:42

4

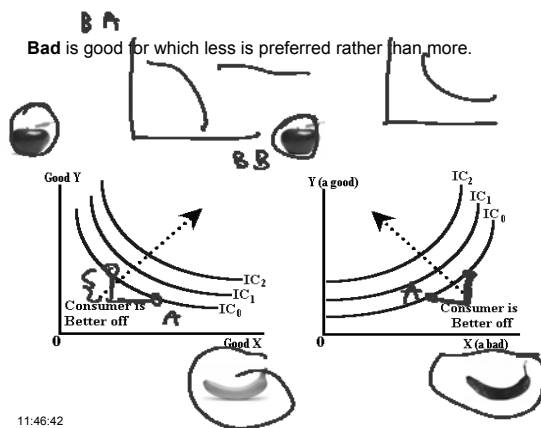
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11:46:42

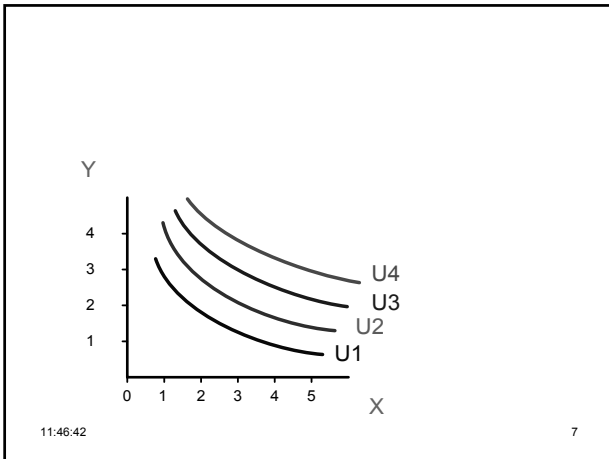
5

Bad is good for which less is preferred rather than more.



11:46:42

6



We assign numbers to represent the consumer's preference, so that $U(A) \geq U(B)$ if and only if bundle A is preferred to bundle B, i.e., $A \succeq B$.

$u(A) \geq u(B)$

$A \underline{\succeq} B$

11:46:42

8

Example #02:

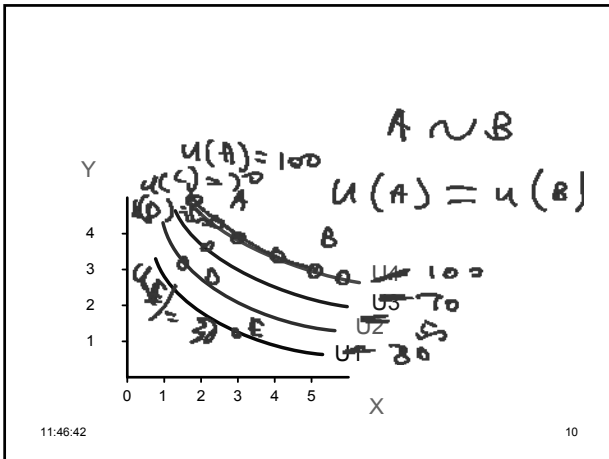
For example: given that $A \succ B$.


We can assign:
 $U(A) = 5$; $U(B) = 3$

Alternatively, we can also assign:
 $U(A) = 17$; $U(B) = 2$

11:46:42

9



 Pindyck and Rubinfeld, 2014, p.80:


Ordinal utility function is a utility function that generates a ranking of market baskets (bundles) in order of most to least preferred.

Cardinal utility function is a utility function describing by how much one market basket is preferred to another.

Definition

$u_1 = 1000$ 1 $u_2 = 999$
 $u_2 = 200$ 2
 $u_3 = 10$ 3

11:46:42 11

 Pindyck and Rubinfeld, 2014, p. 82:

Budget constraints are constraints that consumers face as a result of limited incomes.

11:46:42 12

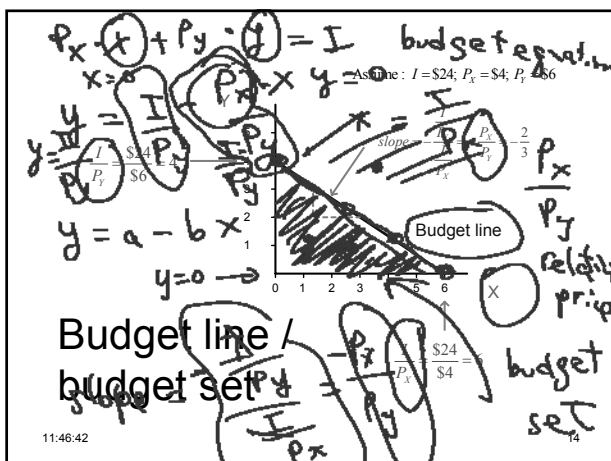
My remark #11:

The consumer's constraint is call budget constraint:

$$\text{Total expenditure} = \underbrace{P_X \cdot X}_{\text{expenditure on X}} + \underbrace{P_Y \cdot Y}_{\text{expenditure on Y}} = I = \text{Total income}$$

11:46:42

13



11:46:42



Pindyck and Rubinfeld, 2014, p. 82:

Budget line are all combinations of goods for which the total amount of money spent is equal to income.

11:46:42

15

Exercise #01:

If income falls (prices are unchanged), what happens to the budget line?

Income ↓

11:46:42

16

Exercise #02:

If income rises (prices are unchanged), what happens to the budget line?

Income ↑

11:46:42

17

Exercise #03:

If P_x rises (I and P_y are unchanged), what happens to the budget line? *wavy line*

$P_x \uparrow$

11:46:42

18



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:

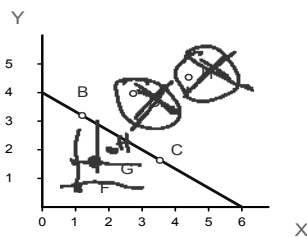
- ✓ 1) It must be located on the budget line.
- ✗ 2) It must give the consumer the most preferred combination of goods and services.

Two conditions

11:46:42

19

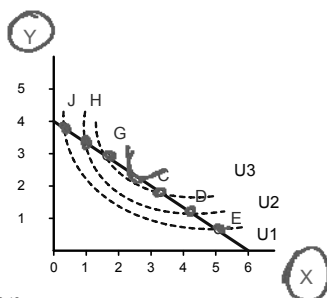
Bundle D and H is not feasible, and bundles G and F are not optimal:



11:46:42

20

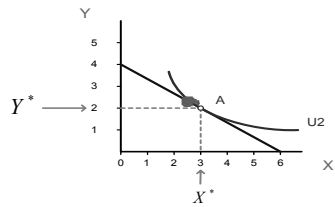
Bundles E and J are not optimal. Similarly, bundles H, G, C, D, ..., are not optimal.



11:46:42

21

Bundle A is optimal:



11:46:42

22



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.

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

11:46:42

23
