Homework 8

Exercise I

Maximize xy such that $p_x x + p_y y = w$

$$\mathcal{L} = xy + \lambda(p_x x + p_y y - w)$$

First order condtions

$$\frac{\partial \mathcal{L}}{\partial x} = y + \lambda p_x = 0$$

$$\frac{\partial \mathcal{L}}{\partial x} = y + \lambda \, p_x = 0$$
$$\frac{\partial \mathcal{L}}{\partial y} = x + \lambda \, p_y = 0$$

$$\frac{\partial \mathcal{L}}{\partial \lambda} = p_x \mathbf{x} + p_y \mathbf{y} - \mathbf{w} = 0$$

$$y + \lambda p_x = 0$$

$$y = -\lambda p_x$$

$$\lambda = \frac{-y}{p_x}$$

(1)
$$x - \frac{p_y}{p_x} y = 0$$

$$(2) p_x x + p_y y = w$$

We can interpret (1) as the quantity of x consumed must equal the ratio of the relative price $\frac{p_y}{p_x}$ times the the quantity of y consumed.

We can interpret 2 as the total amount spent on x and y must equal wages.

$$\begin{pmatrix} 1 & \frac{-p_y}{p_x} \\ p_x & p_y \end{pmatrix} \begin{pmatrix} x \\ y \end{pmatrix} = \begin{pmatrix} 0 \\ w \end{pmatrix}$$

$$\beta = \begin{pmatrix} 1 & \frac{-\rho_y}{\rho_x} \\ \rho_x & \rho_y \end{pmatrix}$$
$$c = \begin{pmatrix} 0 \\ w \end{pmatrix}$$

$$\Delta = 2 p_v$$

$$\beta^{-1} = \frac{1}{2p_y} \begin{pmatrix} p_y & \frac{p_y}{p_x} \\ -p_x & 1 \end{pmatrix} = \begin{pmatrix} \frac{1}{2} & \frac{1}{2p_x} \\ \frac{-1}{2p_x p_y} & \frac{1}{2p_y} \end{pmatrix}$$

$$\beta^{-1} c = \begin{pmatrix} \frac{1}{2} & \frac{1}{2\rho_x} \\ \frac{-1}{2\rho_x \rho_y} & \frac{1}{2\rho_y} \end{pmatrix} * \begin{pmatrix} 0 \\ w \end{pmatrix} = \begin{pmatrix} \frac{w}{2\rho_x} \\ \frac{w}{2\rho_y} \end{pmatrix}$$

Exercise 2

Reduced Form

$$dQ = Q_w dw + Q_{P_s} dP_s$$

$$dP = P_w dw + P_s dP_s$$

where

$$F_x = \frac{\partial F}{\partial x}$$

Structural Form

$$dQ = S_P dP + S_w dw$$

$$dQ = D_P dP + D_{P_s} dP_s$$

The signs of the partial derivatives are as follows:

 $S_P > 0$ (upward sloping supply curve)

 $S_w < 0$ (due to increasing labor costs)

D_P< 0 (downward sloping demand curve)

 $D_{P_s} > 0$ (goods are substitute

We can rewrite the above system as follows

1 dQ -
$$Q_w$$
 dw - Q_{P_S} dP_S + 0 dP = 0
0 dQ - P_w dw - P_S dP_S + 1 dP = 0
1 dQ - S_w dw - 0 dP_S - S_P dP = 0

$$1 dQ - 0 dw - D_{P_s} dP_s - D_p dP = 0$$

$$\begin{pmatrix} 1 & -Q_w & -Q_{P_s} & 0 \\ 0 & -P_w & -P_s & 1 \\ 1 & -S_w & 0 & -S_P \\ 1 & 0 & D_{P_s} & -D_P \end{pmatrix} \begin{pmatrix} dQ \\ dw \\ dP_s \\ dP \end{pmatrix} = \begin{pmatrix} 0 \\ 0 \\ 0 \\ 0 \end{pmatrix}$$

We can invert the coefficient matrix thusly:

$$\begin{split} & \text{In}[6] = \ b = \{\{1, -Q_w, -Q_{P_a}, 0\}, \ \{0, -P_w, -P_s, 1\}, \ \{1, -S_w, 0, -S_P\}, \ \{1, 0, D_{P_s}, -D_P\}\} \\ & b \text{Inv} = \text{Inverse[b]} \\ & b \text{Inv} // \ \text{MatrixForm} \\ & c = \{\{0\}, \ \{0\}, \ \{0\}, \ \{0\}\} \} \\ & \text{Out}[6] = \{\{1, -Q_w, -Q_{P_s}, 0\}, \ \{0, -P_w, -P_s, 1\}, \ \{1, -S_w, 0, -S_P\}, \ \{1, 0, D_{P_s}, -D_P\}\} \end{split}$$

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Out[7]= \{ \{ (-D_{P_s} P_w S_P - D_{P_s} S_w + D_P P_s S_w) / \}
                                                                                                                           \left( \, D_{P_{s}} \, \, Q_{W} \, - \, D_{P} \, \, P_{S} \, \, Q_{W} \, + \, D_{P} \, \, P_{W} \, \, Q_{P_{S}} \, - \, D_{P_{S}} \, \, P_{W} \, \, S_{P} \, + \, P_{S} \, \, Q_{W} \, \, S_{P} \, - \, P_{W} \, \, Q_{P_{S}} \, \, S_{P} \, - \, D_{P_{S}} \, \, S_{W} \, + \, D_{P} \, \, P_{S} \, \, S_{W} \, - \, Q_{P_{S}} \, \, S_{W} \right) \, , 
                                                                                                              (D_{P_{S}} Q_{W} S_{P} - D_{P} Q_{P_{S}} S_{W}) / (D_{P_{S}} Q_{W} - D_{P} P_{S} Q_{W} + D_{P} P_{W} Q_{P_{S}} - D_{P_{S}} P_{W} S_{P} + P_{S} Q_{W} S_{P} - D_{P_{S}} P_{W} S_{P_{S}} + P_{P_{S}} Q_{W} S_{P_{S}} - D_{P_{S}} P_{W} S_{P_{S}} - D_{P_{S}} P
                                                                                                                                                      P_{W} Q_{P_{S}} S_{P} - D_{P_{S}} S_{W} + D_{P} P_{S} S_{W} - Q_{P_{S}} S_{W}, (D_{P_{S}} Q_{W} - D_{P} P_{S} Q_{W} + D_{P} P_{W} Q_{P_{S}})
                                                                                                                        (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W),
                                                                                                            (P_S Q_W S_P - P_W Q_{P_S} S_P - Q_{P_S} S_W) /
                                                                                                                            (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W) \},
                                                                                              \{ (-D_{P_s} + D_P P_s - P_s S_P) / (D_{P_s} Q_w - D_P P_s Q_w + D_P P_w Q_{P_s} - D_{P_s} P_w S_P + P_s Q_w S_P - P_s P_w S_P - P_w S_P_w S_P - P_w S_P_
                                                                                                                                                      P_{W} Q_{P_{S}} S_{P} - D_{P_{S}} S_{W} + D_{P} P_{S} S_{W} - Q_{P_{S}} S_{W}), (-D_{P} Q_{P_{S}} + D_{P_{S}} S_{P} + Q_{P_{S}} S_{P}) /
                                                                                                                            (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W),
                                                                                                             \left( \, D_{P_S} \, - \, D_P \, \, P_S \, + \, Q_{P_S} \, \right) \, \, / \, \, \left( \, D_{P_S} \, \, Q_W \, - \, D_P \, \, P_S \, \, Q_W \, + \, D_P \, \, P_W \, \, Q_{P_S} \, - \, D_{P_S} \, \, P_W \, \, S_P \, + \, P_S \, \, Q_W \, \, S_P \, - \, P_S \, \, Q_W \, \, S_P \, + \, P_S \, \, Q_W \, \, S_P \, + \, P_S \, \, Q_W \, \, S_P \, + \, P_S \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, \, S_P \, + \, Q_{P_S} \, \, Q_W \, 
                                                                                                                                                    P_{W} Q_{P_{S}} S_{P} - D_{P_{S}} S_{W} + D_{P} P_{S} S_{W} - Q_{P_{S}} S_{W}), (-Q_{P_{S}} + P_{S} S_{P}) /
                                                                                                                            (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W) \},
                                                                                               \{ \; (-\,D_P\,\,P_W\,+\,P_W\,\,S_P\,+\,S_W) \; / \; (\,D_{P_S}\,\,Q_W\,-\,D_P\,\,P_S\,\,Q_W\,+\,D_P\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,+\,P_S\,\,Q_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,S_P\,-\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,-\,D_{P_S}\,\,P_W\,\,Q_{P_S}\,
                                                                                                                                                      P_W \; Q_{P_S} \; S_P - D_{P_S} \; S_W + D_P \; P_S \; S_W - Q_{P_S} \; S_W) \; \text{,} \quad \left(D_P \; Q_W - Q_W \; S_P - D_P \; S_W\right) \; \text{/}
                                                                                                                            (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W),
                                                                                                            (D_P P_W - Q_W) / (D_{P_S} Q_W - D_P P_S Q_W + D_P P_W Q_{P_S} - D_{P_S} P_W S_P + P_S Q_W S_P -
                                                                                                                                                    P_{W} Q_{P_{S}} S_{P} - D_{P_{S}} S_{W} + D_{P} P_{S} S_{W} - Q_{P_{S}} S_{W}), (Q_{W} - P_{W} S_{P} - S_{W}) /
                                                                                                                          (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W) \},
                                                                                              \{(-D_{P_s} P_w + P_s S_w) / (D_{P_s} Q_w - D_P P_s Q_w + D_P P_w Q_{P_s} - D_{P_s} P_w S_P + P_s Q_w S_P - P_s Q_w S_P - P_s P_w S_P + P_s Q_w S_P - P_s P_w S_P - P_w
                                                                                                                                                    P_{W} Q_{P_{S}} S_{P} - D_{P_{S}} S_{W} + D_{P} P_{S} S_{W} - Q_{P_{S}} S_{W}), (D_{P_{S}} Q_{W} - D_{P_{S}} S_{W} - Q_{P_{S}} S_{W}) /
                                                                                                                            (D_{P_s} Q_W - D_P P_S Q_W + D_P P_W Q_{P_s} - D_{P_s} P_W S_P + P_S Q_W S_P - P_W Q_{P_s} S_P - D_{P_s} S_W + D_P P_S S_W - Q_{P_s} S_W),
                                                                                                               \left( \, D_{P_{S}} \, \, P_{W} - P_{S} \, \, Q_{W} + P_{W} \, \, Q_{P_{S}} \, \right) \, \, / \, \, \left( \, D_{P_{S}} \, \, Q_{W} - D_{P} \, \, P_{S} \, \, Q_{W} + D_{P} \, \, P_{W} \, \, Q_{P_{S}} - D_{P_{S}} \, \, P_{W} \, \, S_{P} + P_{S} \, \, Q_{W} \, \, S_{P} - D_{P_{S}} \, \, P_{W} \, \, S_{P} + P_{S} \, \, Q_{W} \, \, 
                                                                                                                                                  P_{W} Q_{P_{S}} S_{P} - D_{P_{S}} S_{W} + D_{P} P_{S} S_{W} - Q_{P_{S}} S_{W}), (P_{S} Q_{W} - P_{W} Q_{P_{S}} - P_{S} S_{W}) /
                                                                                                                          \left(D_{P_{S}}Q_{W}-D_{P}\ P_{S}\ Q_{W}+D_{P}\ P_{W}\ Q_{P_{S}}-D_{P_{S}}\ P_{W}\ S_{P}+P_{S}\ Q_{W}\ S_{P}-P_{W}\ Q_{P_{S}}\ S_{P}-D_{P_{S}}\ S_{W}+D_{P}\ P_{S}\ S_{W}-Q_{P_{S}}\ S_{W}\right)\,\big\}\,\big\}
Out[8]//MatrixForm=
                                                                                                                                                                                                                                                                                                     -Dp. Pw Sp-Dp. Sw+Dp Ps Sw
                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      DP. Ow Sp-Dp Op. Sw
                                                                                                    \mathsf{D}_{\mathsf{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{W}} - \mathsf{D}_{\mathsf{P}} \; \mathsf{P}_{\mathtt{S}} \; \mathsf{Q}_{\mathtt{W}} + \mathsf{D}_{\mathsf{P}} \; \mathsf{P}_{\mathtt{W}} \; \mathsf{Q}_{\mathsf{P}_{\mathtt{S}}} - \mathsf{D}_{\mathsf{P}_{\mathtt{S}}} \; \mathsf{P}_{\mathtt{W}} \; \mathsf{S}_{\mathsf{P}} + \mathsf{P}_{\mathtt{S}} \; \mathsf{Q}_{\mathtt{W}} \; \mathsf{S}_{\mathsf{F}} - \mathsf{P}_{\mathtt{W}} \; \mathsf{Q}_{\mathsf{P}_{\mathtt{S}}} \; \mathsf{S}_{\mathtt{W}} + \mathsf{D}_{\mathsf{P}} \; \mathsf{P}_{\mathtt{S}} \; \mathsf{S}_{\mathtt{W}} - \mathsf{Q}_{\mathsf{P}_{\mathtt{S}}} \; \mathsf{S}_{\mathtt{W}} - \mathsf{Q}_{\mathsf{P}_{\mathtt{S}}} \; \mathsf{S}_{\mathtt{W}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{W}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{W}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} + \mathsf{Q}_{\mathtt{W}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{W}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{S}} \; \mathsf{Q}_{\mathtt{W}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{S}} \; \mathsf{Q}_{\mathtt{W}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{S}}} + \mathsf{Q}_{\mathtt{P}_{\mathtt{P}_{\mathtt{S}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{S}}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{S}}}} \; \mathsf{Q}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{P}_{\mathtt{
                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            D_{P_s} \ Q_W - D_P \ P_S \ Q_W + D_P \ P_W \ Q_{P_S} - D_{P_S} \ P_W \ S_P + P_S \ Q_W \ S_P - P_W \ Q_{P_S} \ S_P - D_{P_S} \ S_W + D_{P_S
                                                                                                                                                                                                                                                                                                                                  -DP* +DP Ps-Ps SP
                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             -DP QP +DP SP +QP SP
                                                                                                  -Dp Pw+Pw Sp+Sw
                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       DP Qw-Qw SP-DP Sw
                                                                                                  -DP. Pw+Ps Sw
                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               DP. Qw-DP. Sw-QP. Sw
                                                                                                  \begin{array}{c} D_{P_1} Q_{W} - D_{P_1} P_{S_1} Q_{W} + D_{P_2} P_{W_1} Q_{P_3} - D_{P_3} P_{W_1} S_{P_1} + P_{S_1} Q_{W_2} S_{P_2} - D_{P_3} S_{W} + D_{P_2} P_{S_2} S_{W} + D_{P_3} P_{S_3} Q_{P_3} S_{W} \\ \end{array} \\ \begin{array}{c} D_{P_3} Q_{W} - D_{P_3} P_{S_3} Q_{W} + D_{P_3} P_{W_3} Q_{P_3} - D_{P_3} P_{W_3} P_{P_4} P_{S_3} Q_{P_3} S_{W} \\ D_{P_3} Q_{W} - D_{P_3} P_{S_3} Q_{W} + D_{P_3} P_{W_3} P_{P_4} P_{S_3} P_{P_4} P_{S_3} P_{P_4} P_{S_3} P_{P_4} P_{S_3} P_{P_4} P_{S_4} P_{P_4} P_{P_4} P_{P_4} P_{P_4} P_{P_4} P_{P_4} P_{P_5} P_{P_5
                  Out[9]= \{\{0\}, \{0\}, \{0\}, \{0\}\}\}
                  In[10]:= bInv.c
             Out[10]= \{\{0\}, \{0\}, \{0\}, \{0\}\}
```

Exercise 3

1.

 $\forall_{x \in S} (x, x) \in R \text{ (by reflexivity)}$ $\forall_{x, y, z \in S} (x, y) \in R \land (y, z) \in R \Rightarrow (x, z) \in R_t \text{ (by definition of transitivity)}$ $\therefore (x, x) \in R \land (x, x) \in R \Rightarrow (x, x) \in R_t$ 2.

 $(x, y) \in R \land (y, x) \in R \Rightarrow (x, y) \in R_t (y, x) \in R_t (y,$ closure)

∴ R_t is symmetric

3.

Exercise 4

For the symmetric component, we have the subset of $I \subseteq R$ such that $\{(x, x') \in I\} \Leftrightarrow \{(x', x) \in I\}$. But by transitivty of R we know that $(x, x') \in R \land (x', x'') \in R \Rightarrow (x, x'') \in R$. By symmetry we have $(x', x'') \in I \Leftrightarrow (x'', x') \in I$. Therefore it must be the case that $(x', x') \in I \land (x', x'') \in I$ \Rightarrow (x, x") \in I.

We know the original relation R is transitive, meaning

 $\forall_{x,y,z\in X}(\{x,y)\in R\} \land (\{y,z)\in R\} \Leftrightarrow \{(x,z)\in R\}$. For the asymettric component, we have the subset of R which is $\{(x, x') \in P\} \Rightarrow \{(x', x) \notin P\}$. Replacing y with x', and noting the transitive nature of the original we obtain that $\forall_{x,y \in X} (\{x, x') \in R\} \land (\{x', z) \in R\} \Leftrightarrow \{(x, z) \in R\}$

By symmetry and transitivity we can replace y in the relationship $(x P y) \land (y I z)$ to obtain (x P z).

Similarly, by symmetry and transitivity, we can replace the second y in $(x \mid y) \land (y \mid z)$ to obtain $(x \mid z)$.

Exercise 5

 $\forall_{x, y, z \in S} \neg (x, y) \in R \land \neg (y, z) \in R \Leftrightarrow \neg (x, z)$

An example of such a relationship is the "=" relationship over \mathbb{R} .

$$\neg (x = y) \land \neg (y = z) \Rightarrow \neg (x = z)$$

Yes. Since consumer preferences are both transitive and complete, they must also be negatively transitive.

Exercise 6

AAC means that if $\forall_{x,y \in y,x \neq y} x P y \Rightarrow \neg y P x$. That is, if x is preferred to y then y is not preferred to x.This guarantees the existence of maximal elements. Completeness means that every pair of (x, y) can compared. That means that maximal elements can be compared to each other to find the element that is "bigger" than all maximal elements. So a best element must exist.

Exercise 7

A cover C of a set S is a collection {Cn} of sets such that $S \subseteq \bigcup C_n$. That is, the set S is included in the union of the sets Cn, which may be infinite in number. An open cover of S is a cover of S containing only open sets. If C and C0 each cover S, but C in smaller in the sense that $C \subset C0$, we call C a subcover from C0.

A set $S \subseteq X$ is compact iff every open cover $\{Cn\}$ of S has a finite subcover $\{Cnk\}_{k=1}^K$ (such that $S \subseteq X$) $\cup C_{n_k}$).

This is to say that there is a finite subcover of S.

(0, 1) is not compact. Consider [0, 1] as the smallest cover of (0, 1). Consider finite subsets of [0, 1] such as Cn = [0, 0.99], [0, 0.999] etc. No finite unions U Cn of these sets will give the back the set [0,1]. Thus, (0, 1) is not compact.

Consider any finite set $S=\{x, y, z...\}$. By definition of cover, at least one set in C_n is S. This set is a subcover of some other set. Therefore it is compact.

Computational Exercise I

The matrix representation **G** of a binary relation G on set S is formed by a matrix whose i^{th} row and k^{th} column is 1 iff the $(j, k) \in G$ and 0 otherwise.

```
In[104]:= symmetricClosure[x_] := Module[{result = x}, Do[
        If[result[[i]][[j]] == 1, result[[j]][[i]] == 1,],
        {i, 1, Length[result]}, {j, 1, Length[result]}];
       Return[result]]
In[12]:= reflexiveClosure[x_] := Module[{result = x},
       Do[
        result[[i]][[i]] = 1,
        {i, 1, Length[x]}];
       Return[result]]
     transitiveCLosure[x_] := Module[{result = x}, Return[result.result]]
```

The transitive closure is formed by squaring the original binary matrix of the relation. The reflexive closure is formed by setting all diagonal elements to 1. The symmetricClosure is formed by checking whether (a, b) is in the original relation and then adding (b, a) to the new relationship.

```
ln[18]:= a = \{\{1, 1, 0\}, \{0, 0, 1\}, \{0, 0, 1\}\};
     b = \{\{0, 0, 1\}, \{0, 1, 0\}, \{1, 0, 0\}\};
     c = \{\{0, 0, 0\}, \{1, 0, 0\}, \{1, 1, 0\}\};
     a // MatrixForm
     b // MatrixForm
     c // MatrixForm
```

Out[21]//MatrixForm=

$$\left(\begin{array}{ccc}
1 & 1 & 0 \\
0 & 0 & 1 \\
0 & 0 & 1
\end{array}\right)$$

Out[22]//MatrixForm=

$$\left(\begin{array}{ccc}
0 & 0 & 1 \\
0 & 1 & 0 \\
1 & 0 & 0
\end{array}\right)$$

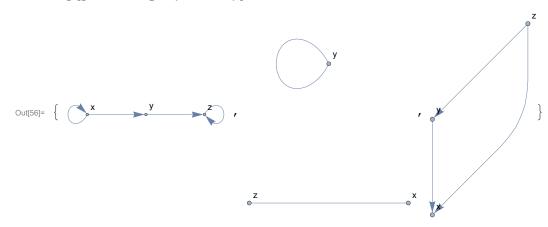
Out[23]//MatrixForm=

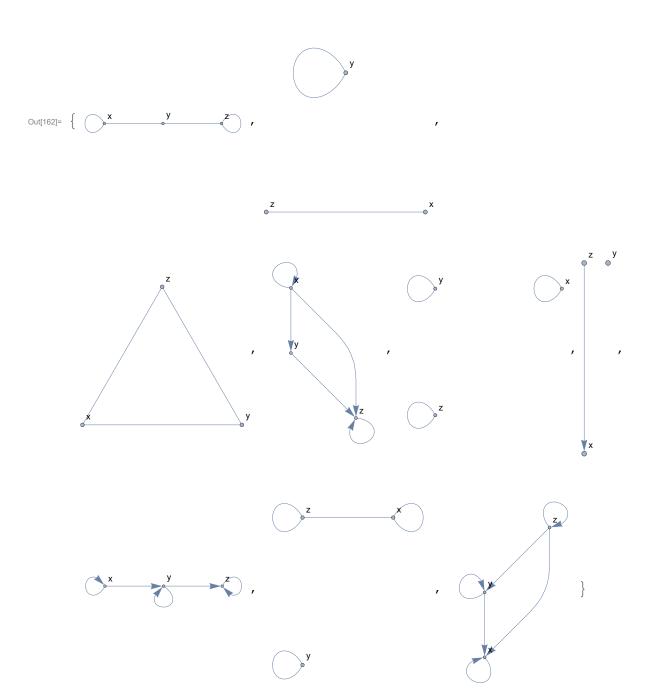
$$\left(\begin{array}{ccc} 0 & 0 & 0 \\ 1 & 0 & 0 \\ 1 & 1 & 0 \end{array}\right)$$

xAx, xAy, yAz, zAz xBz, yBy, zBx yCx, zCx, zCy

In[55]:= plotNicely =

 $\texttt{Function}[\texttt{x}, \texttt{AdjacencyGraph}[\texttt{x}, \texttt{VertexLabels} \rightarrow \{1 \rightarrow \texttt{"x"}, 2 \rightarrow \texttt{"y"}, 3 \rightarrow \texttt{"z"}\}]];$ Map[plotNicely, {a, b, c}]





Computational Exercise 2

```
ln[166]:= data = Table[{x, y}, {x, 1, 10}, {y, 1, 10}]
\text{Out}[166] = \{\{\{1, 1\}, \{1, 2\}, \{1, 3\}, \{1, 4\}, \{1, 5\}, \{1, 6\}, \{1, 7\}, \{1, 8\}, \{1, 9\}, \{1, 10\}\}, \{1, 10\}\}, \{1, 10\}\}, \{1, 10\}\}
         \{\{2, 1\}, \{2, 2\}, \{2, 3\}, \{2, 4\}, \{2, 5\}, \{2, 6\}, \{2, 7\}, \{2, 8\}, \{2, 9\}, \{2, 10\}\},
         \{\{3, 1\}, \{3, 2\}, \{3, 3\}, \{3, 4\}, \{3, 5\}, \{3, 6\}, \{3, 7\}, \{3, 8\}, \{3, 9\}, \{3, 10\}\},
         \{\{4,1\},\{4,2\},\{4,3\},\{4,4\},\{4,5\},\{4,6\},\{4,7\},\{4,8\},\{4,9\},\{4,10\}\},
         \{\{5, 1\}, \{5, 2\}, \{5, 3\}, \{5, 4\}, \{5, 5\}, \{5, 6\}, \{5, 7\}, \{5, 8\}, \{5, 9\}, \{5, 10\}\},
         \{\{6, 1\}, \{6, 2\}, \{6, 3\}, \{6, 4\}, \{6, 5\}, \{6, 6\}, \{6, 7\}, \{6, 8\}, \{6, 9\}, \{6, 10\}\},
         \{\{7, 1\}, \{7, 2\}, \{7, 3\}, \{7, 4\}, \{7, 5\}, \{7, 6\}, \{7, 7\}, \{7, 8\}, \{7, 9\}, \{7, 10\}\},
         \{\{8, 1\}, \{8, 2\}, \{8, 3\}, \{8, 4\}, \{8, 5\}, \{8, 6\}, \{8, 7\}, \{8, 8\}, \{8, 9\}, \{8, 10\}\},
         \{\{9, 1\}, \{9, 2\}, \{9, 3\}, \{9, 4\}, \{9, 5\}, \{9, 6\}, \{9, 7\}, \{9, 8\}, \{9, 9\}, \{9, 10\}\},
         \{\{10, 1\}, \{10, 2\}, \{10, 3\}, \{10, 4\}, \{10, 5\},
           \{10, 6\}, \{10, 7\}, \{10, 8\}, \{10, 9\}, \{10, 10\}\}\}
 In[167]:= MatrixForm[data]
Out[167]//MatrixForm=
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 In[168]:= u[{x_, y_}] := Return[x * y]
 ln[173]:= util = Table[u[{x, y}], {x, 1, 10}, {y, 1, 10}]
\{3, 6, 9, 12, 15, 18, 21, 24, 27, 30\}, \{4, 8, 12, 16, 20, 24, 28, 32, 36, 40\},
         {5, 10, 15, 20, 25, 30, 35, 40, 45, 50}, {6, 12, 18, 24, 30, 36, 42, 48, 54, 60},
         \{7, 14, 21, 28, 35, 42, 49, 56, 63, 70\}, \{8, 16, 24, 32, 40, 48, 56, 64, 72, 80\},
         {9, 18, 27, 36, 45, 54, 63, 72, 81, 90}, {10, 20, 30, 40, 50, 60, 70, 80, 90, 100}}
```

```
In[174]:= util // MatrixForm
Out[174]//MatrixForm=
        7
           14 21 28 35 42 49 56 63
                                          70
        8 16 24 32 40 48 56 64 72 80
9 18 27 36 45 54 63 72 81 90
       10 20 30 40 50 60 70 80 90 100,
 ln[178]:= equivalentClass[\{j_, k_\}] := Position[util, j * k]
 In[179]:= equivalentClass[{6, 5}]
Out[179]= \{\{3, 10\}, \{5, 6\}, \{6, 5\}, \{10, 3\}\}
 ln[181]:= getLower[{j_, k_}] := Position[util, _? (# < j * k) &]
```