

One-Variable Calculus: Applications

CH3

`mailto:econMath.namun+2016f@gmail.com` (한신대)

`mailto:ku.econ205+2016f@gmail.com` (고려대)

2016년 8월 31일

Table of Contents

- 1 Using the First Derivatives for Graphing
- 2 Second Derivatives and Convexity
- 3 Graphing Rational Functions
- 4 Tails and Horizontal Asymptotes
- 5 Maxima and Minima
- 6 Applications to Economics

Positive Derivative implies Increasing Function

Theorem (3.1)

f : continuous \wedge differentiable at x_0

- ① $f'(x_0) > 0 \Rightarrow \exists \bar{\alpha}, \bar{\beta} \in \mathbb{R} \text{ s.t. } x_0 \in (\bar{\alpha}, \bar{\beta}) \wedge f \text{ is increasing on } (\bar{\alpha}, \bar{\beta})$
- ② $f'(x_0) < 0 \Rightarrow \exists \bar{\alpha}, \bar{\beta} \in \mathbb{R} \text{ s.t. } x_0 \in (\bar{\alpha}, \bar{\beta}) \wedge f \text{ is decreasing on } (\bar{\alpha}, \bar{\beta})$

Theorem (3.2)

- ① $f' > 0 \text{ on } (\bar{a}, \bar{b}) \subset D \Rightarrow f \text{ is increasing on } (\bar{a}, \bar{b})$
- ② $f' < 0 \text{ on } (\bar{a}, \bar{b}) \subset D \Rightarrow f \text{ is decreasing on } (\bar{a}, \bar{b})$
- ③ $f \text{ is increasing on } (\bar{a}, \bar{b}) \Rightarrow f' \geq 0 \text{ on } (\bar{a}, \bar{b})$
- ④ $f \text{ is decreasing on } (\bar{a}, \bar{b}) \Rightarrow f' \leq 0 \text{ on } (\bar{a}, \bar{b})$

Graph Sketching using First Derivatives

Procedure

(STEP 1) Find all x_i^* s.t. $f'(x_i^*) = 0$ (critical points), boundary points, and around undefined points

(STEP 2) Calculate $f(x_i^*)$

(STEP 3) Make table for graph sketch

- $f' > 0 \Rightarrow \nearrow$

- $f' < 0 \Rightarrow \searrow$

$$f(x) = x^4 - 8x^3 + 18x^2 - 11 \quad (\text{Ex3.1})$$

Convexity and Concavity

Definition (Convex (Concave up), Concave (Concave down))

f is convex on (\bar{a}, \bar{b}) iff:

$$f((1-t)\bar{a} + t\bar{b}) \leq (1-t)f(\bar{a}) + tf(\bar{b}), \quad \forall t \in [0, 1]$$

f is concav on (\bar{a}, \bar{b}) iff:

$$f((1-t)\bar{a} + t\bar{b}) \geq (1-t)f(\bar{a}) + tf(\bar{b}), \quad \forall t \in [0, 1]$$

	$f' > 0$	$f' < 0$
$f'' > 0$		
$f'' < 0$		

Using Second Derivative for Graph Sketch

Procedure

- (STEP 1) Find all x_i^* s.t. $f'(x_i^*) = 0$ (critical points), $f''(x_i^*) = 0$, boundary points, and around undefined points
- (STEP 2) Calculate $f(x_i^*)$
- (STEP 3) Make table for graph sketch

$$f(x) = x^4 - 8x^3 + 18x^2 - 11 \quad (\text{Ex3.1})$$

Graphing Rational Function

Procedure

- (STEP 1) Find all x_i^* s.t. $f'(x_i^*) = 0$ (critical points), $f''(x_i^*) = 0$, boundary points, convergence toward undefined points, and tail (*i.e.*, convergence toward $\pm\infty$)
- (STEP 2) Calculate $f(x_i^*)$
- (STEP 3) Make table for graph sketch

$$f(x) = \frac{16(x+1)}{(x-2)^2} \quad (\text{Ex3.6})$$

Tail

Tails of Polynomial

Only two cases: diverge to $\pm\infty$

Tails of Rational Function

$$g(x) = \frac{\bar{a}_0 x^{\bar{k}} + \bar{a}_1 x^{\bar{k}-1} + \cdots + \bar{a}_{\bar{k}}}{\bar{b}_0 x^{\bar{m}} + \cdots + \bar{b}_{\bar{m}}}$$

Tails of $g(x)$ is determined by $\frac{\bar{a}_0}{\bar{b}_0} \frac{x^{\bar{k}}}{x^{\bar{m}}}$

- $k > m$: Same as polynomials with degree $k - m$
- $k = m$: Converges to $\frac{a_0}{b_0}$ (Horizontal asymptote)
- $k < m$: converges to 0 (Horizontal asymptote)

Boundary Max and Interior Max

Theorem (3.3: First Order Condition (FOC))

x_0 is an interior max or min of $f \Rightarrow x_0$ is a critical point of f . i.e.,
 $f'(x_0) = 0$ (Inverse is not always true)

Theorem (3.4: Second Order Condition (SOC))

- ① $f'(x_0) = 0 \wedge f''(x_0) < 0 \Rightarrow x_0$ is local max of f
- ② $f'(x_0) = 0 \wedge f''(x_0) > 0 \Rightarrow x_0$ is local min of f
- ③ $f'(x_0) = 0 \wedge f''(x_0) = 0 \Rightarrow x_0$ can be max, min, or neither

Global Maxima and Minima

- Finding global max (or min) is not easy problem
- These cases guarantee the existence of global max (or min)
 - Domain of f is an interval $\wedge f$ has only one critical point
 - $f'' > 0 \vee f'' < 0$ in domain of f
 - Domain of f is compact (closed and bounded) (\exists global max, global min)
- Below case guarantees the nonexistence of global max (or min)
 - Strictly increasing (or decreasing) functions with open domain

Producer's Problem in Perfect Competitive Market

Producer's Problem in perfect competitive market

$$\arg \max_x \Pi(x)$$

$$x = f(L)$$

(Production Function)

Exogenous (Given) variables

- \bar{w} : unit price of labor
- \bar{p} : unit price of end product

Assumptions

Assumptions

- $f : D \rightarrow \mathbb{R} \in \mathbf{C}^2$
- f is increasing: $f'(L) > 0 \forall L \in D$
- $\exists \bar{a} \geq 0$ s.t. (1) $f''(L) > 0 \forall L \in [0, \bar{a})$ (i.e., convex on $[0, \bar{a})$) and (2) $f''(L) < 0 \forall L \in (\bar{a}, \infty]$ (i.e., concave on $(\bar{a}, \infty]$)
- Quantity of input (labor) L is the only factor for production

Cost Functions

Big Picture for problem solving

Production Function \rightarrow Cost Function (in terms of x) \rightarrow Profit Function $\Pi(x)$ \rightarrow Finding x^* maximizing $\Pi(x)$

Definition (Total Cost, Marginal Cost, and Average Cost)

- $TC(x)$: Total cost for producing x
- $MC(x) := TC'(x)$
- $AC(x) := \frac{TC(x)}{x}$

Theorem (3.7c)

At interior minimum of AC (i.e., $AC' = 0$), $AC = MC$

Revenue and Profit Functions

Definition (Total Revenue, Marginal Revenue)

$$TR(x) := \bar{p}x$$

$$MR(x) := TR'(x)$$

Definition (Profit Function)

$$\Pi(x) := TR - TC$$

Producer's problem in Monopoly Case

In monopoly, p is endogenous

Producer's Problem in Monopoly

$$\arg \max_{p,x} \Pi(x)$$

However, firm is facing demand directly in monopoly

$$x = D(p) \quad (\text{Demand Function})$$

Definition (A Elasticity of B)

$$\epsilon_{B,A} := \frac{\frac{dB}{B}}{\frac{dA}{A}} = \frac{A}{B} \frac{dB}{dA}$$

- $\frac{\Delta x}{x}$: rate of change
- Elasticity: ratio of rate of change
 - $|\epsilon| < 1$: inelastic
 - $|\epsilon| > 1$: elastic
 - $|\epsilon| = 1$: unit elastic

Functions with Constant Demand

- Elasticity of linear demand function is not constant (not realistic)

$$x = D(p) = \bar{a} - \bar{b}p, \quad \bar{a}, \bar{b} > 0$$

- Example of constant elasticity demand function (more realistic)

$$x = D(p) = \bar{k}p^{-\bar{r}}, \quad \bar{k}, \bar{r} > 0$$