8 Book Notes

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Applications and Extensions of Consumer Theory

Compensation Indexing and Compensating Differentials

H = housing costs

$V(H, E)$

$M = RH + E$

Individual Choice, Individual Demand, and Market Demand

Market demand is the sum of individual demand

Willingness to Pay and Consumer Surplus

V = WTP

WTP − Market cost = Consumer surplus

↳ $CS(q) = V(q) - P_q$

↳ $\frac{dcs}{dq} = \frac{dv}{dq} - p = 0$

$V'(q)$ = marginal WTP

↳ $P = V'(q)$