

Review:

calculator? Yes.

Topics:

- constrained optimization ✓
- exogenous vs endogenous. ✓
- normative vs positive analysis ✓
- supply, demand, equilibrium. ✓
- elasticity: back of the envelope calculation
- properties of preferences.
- utility function
- indifference curve
- budget constrain
- utility maximization.

perfect sub/complements

kinked budget line

Revealed Preferences:

- if A and B are both on the budget line and A is chosen, then A is preferred to B.

Ex: $I = 30$ At prices $p_x = 3$ $p_y = 3$. the consumer choose $x = 7$ $y = 3$ (A)

At prices $p_x = 4$ $p_y = 2$. $x = 5$ $y = 5$ (B).

is this consistent?

B at the old price: $5 \times 3 + 5 \times 3 = 30 \leftarrow$ affordable at old price.

so $A \succ B$

A at new price: $7 \times 4 + 3 \times 2 = 34 \leftarrow$ unaffordable

when A is affordable

consistent with utility maximization.



Consumer optimization

$$u(x, y) = x^{1/4} y^{3/4}$$

marginal