

Ch 4. Consumer Behavior

4.1 Consumer Preferences + Utility

- Preferences

- Completeness

(Completeness and rankability)

- given any set of alternatives (bundles) an individual has a preference or indifference between every pair.

ex: 1 apple vs 1 banana

1 apple \succeq 1 banana

1 apple \preceq 1 banana

1 apple \sim 1 banana

- for most goods, more is better than less

- free disposal

- If the good is a bad, just flip the relationship

- Caveat: Satiation points

- Transitivity

if $a \succeq b$

and $b \succeq c$

then $a \succeq c$

- "The more a consumer has of a good, the less she is willing to give up of something else to get more of that good"
→ decreasing marginal benefit

Utility

- "measure of how satisfied a consumer is"
- Utility is mapped directly from preferences

Utility functions

- Can include non-tangible inputs (experiences, behavioral...)

$$\text{ex: } U(x, y) = X + y$$

$$= X \cdot y$$

$$= X^{.75} y^{.25}$$

$$= \min(X, y)$$

Marginal Utility

- the extra utility a

consumer receives from a

1 unit increase in consumption.

$$MU_x = \frac{\Delta U(x, y)}{\Delta x}$$

$$= \frac{dU}{dx}$$

$$MU_y = \frac{\Delta U(x, y)}{\Delta y}$$

$$= \frac{dU}{dy}$$