Microeconomics II

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https://elearning.tul.cz/course/view.php?id=8839

Credit:

Continuous control of the knowledge of lectured topics throughout the semester, evaluation of the activities during seminars.

Exam:

One test in the half of the semester, one final test at the end of the semester. One retake in the first week of examination period. Sum of the two more successful tests generates the final score for grading.

Consumer Behaviour Theory
1) Indifference analysis.
2) Effect of the change in income (ICC Curve, Engel's Curve, Engel's Expenditure Curve, the relationship with the income elasticity of demand).
3) Effect of changing the price on quantity demanded (PCC Curve). Breakdown of the price change into substitution and income effects. Individual demand curve.
4) Market demand, the bandwagon effect and snob effect.
5) Relationship between the shape of indifference curves and consumer's attitude to risk. Fair bet, fair and maximum insurance.

Business Decision Theory
1) Short-term production function. Production stages of the firm in terms of labor and capital productivity. Impact of technological progress in labor productivity.
2) Isoquant analysis - the relationship between total costs over the short and long periods.
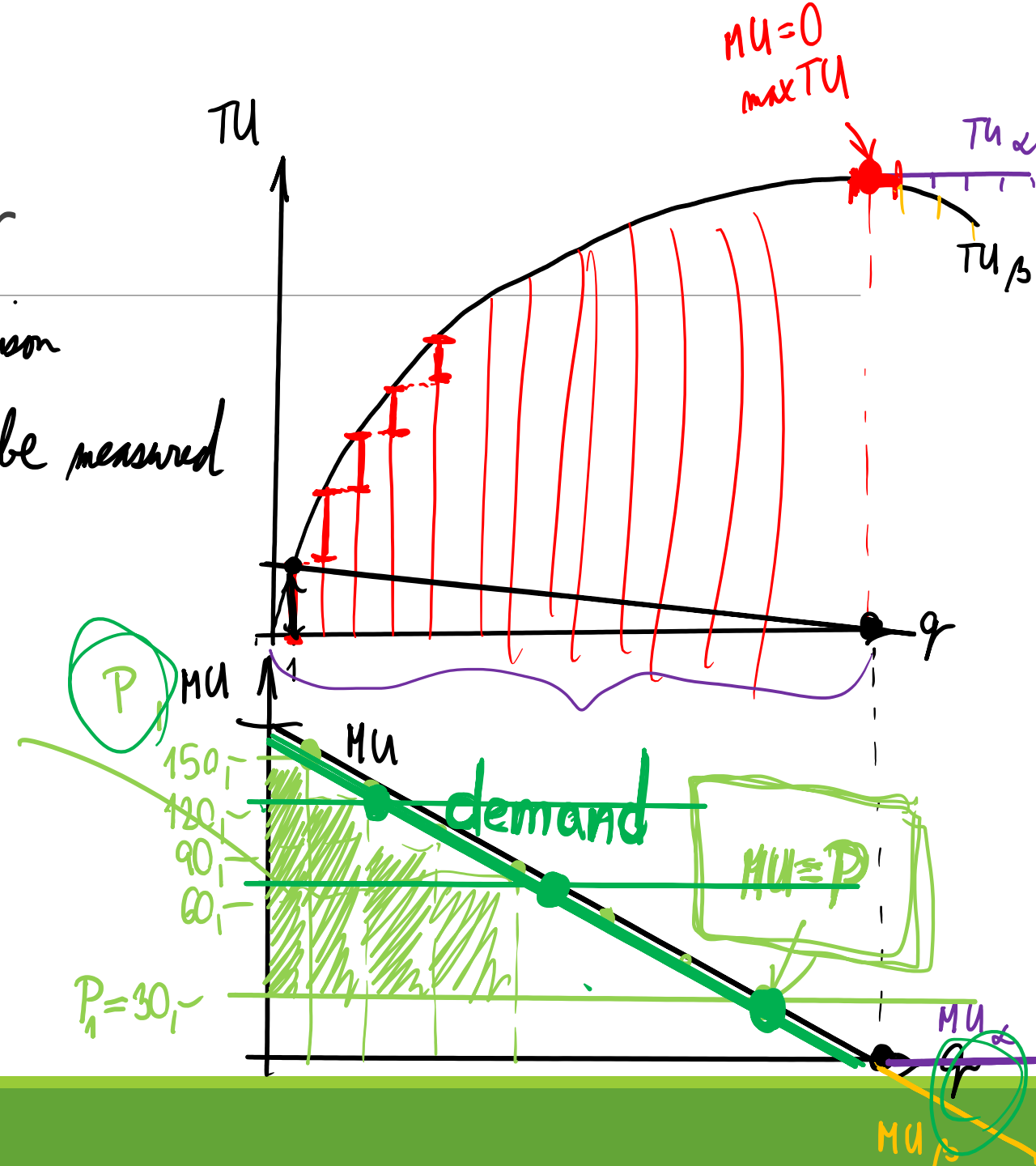
Competitive Environment
1) Company's behavior in perfect competition in a long-term. Curve of long industry supply at different input prices.
2) Imperfect competition: Monopoly, three degrees of price discrimination by monopoly.
3) Imperfect competition: Conditions for termination of production (closing the company). Comparison of the point of termination of production in case of perfect and monopolistic competition in the short and long term.
4) Comparison of the allocation and production efficiency of the market for perfect competition and monopoly. Tools to eliminate the inefficiency of imperfect competitive markets (antimonopoly policy) and their effectiveness.
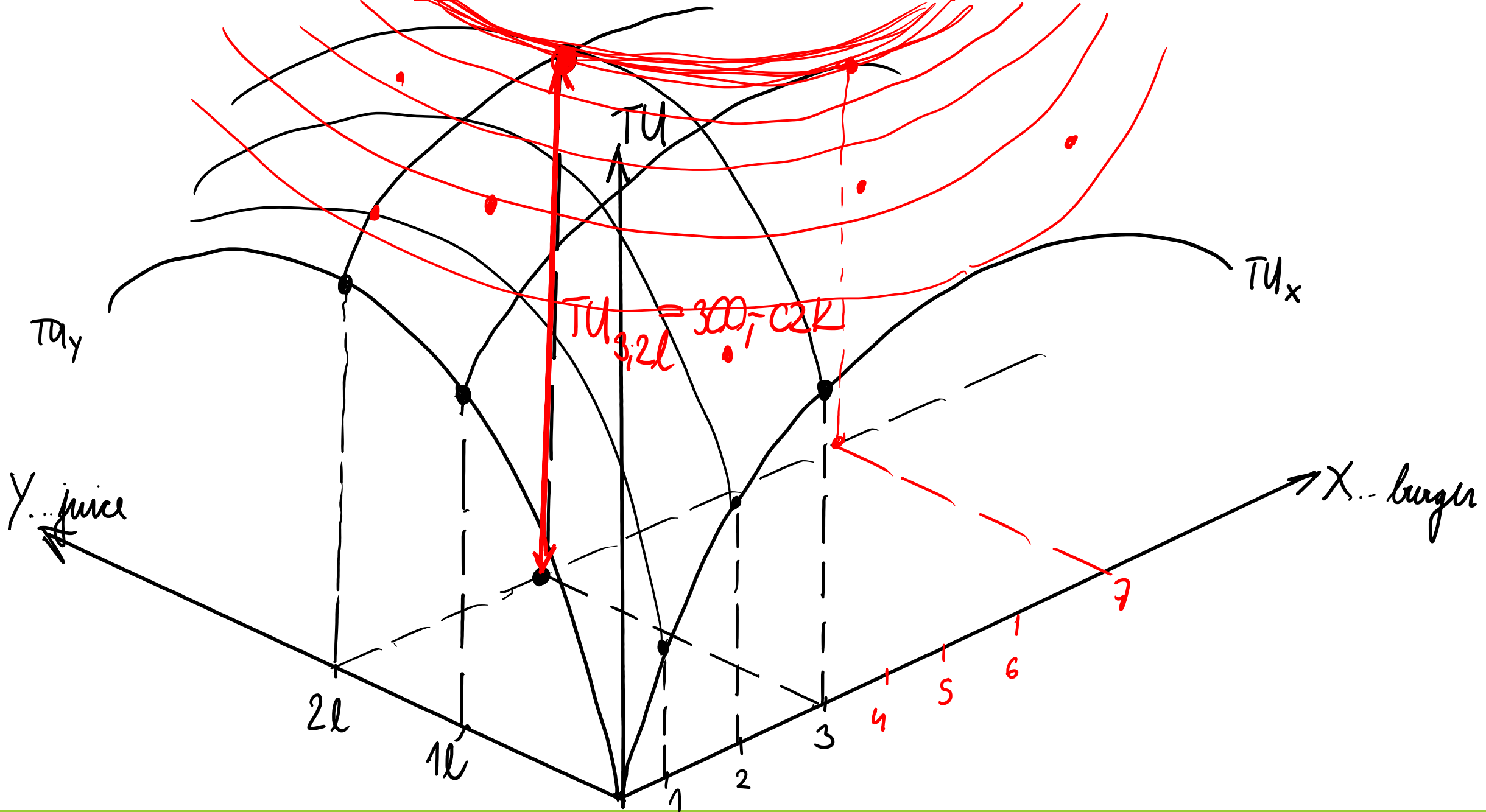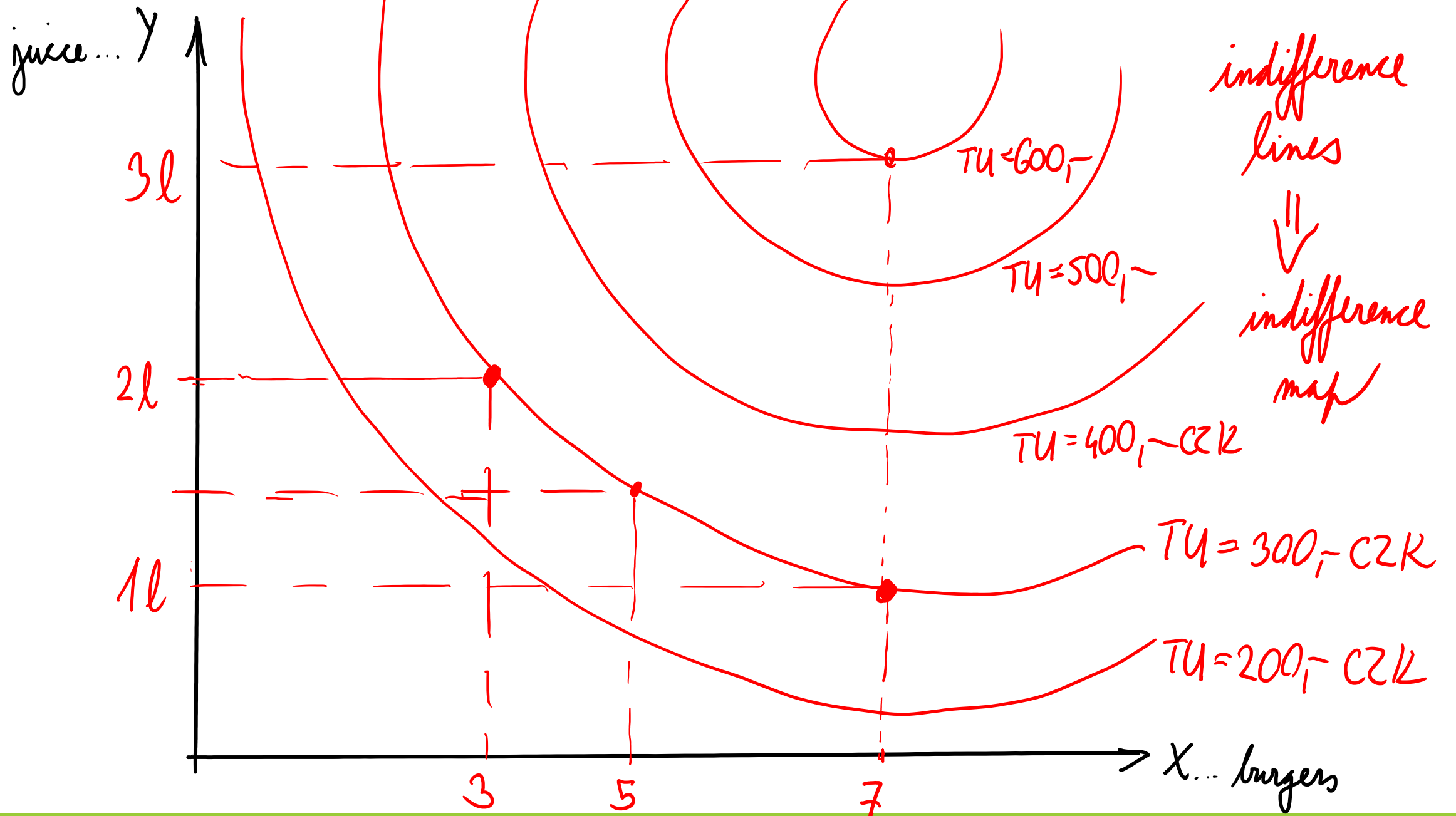
Consumer Behaviour

utility $=$
- ordinalist concept $=$ only comparison
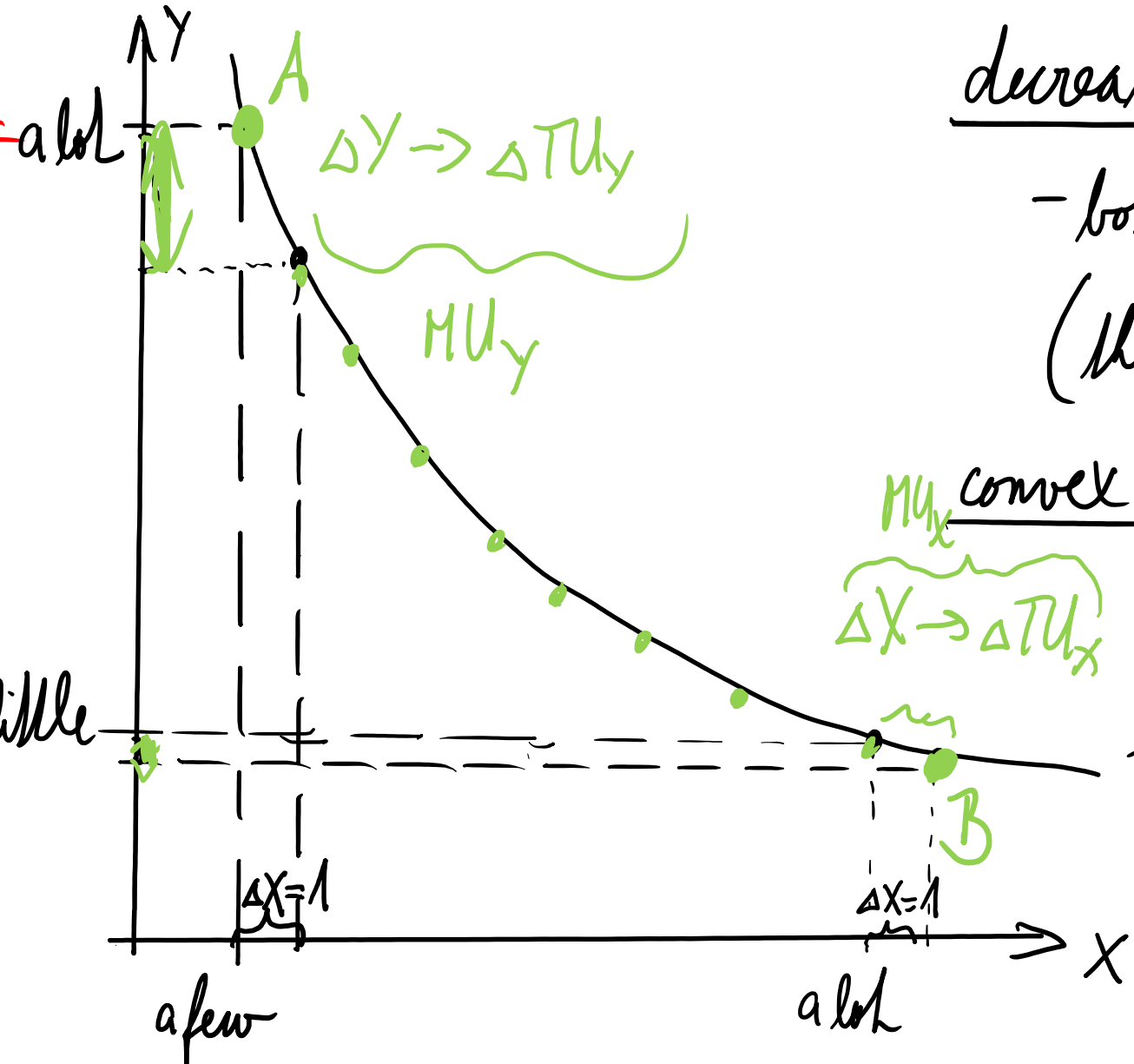- cardinalist concept $=$ utility can be measured
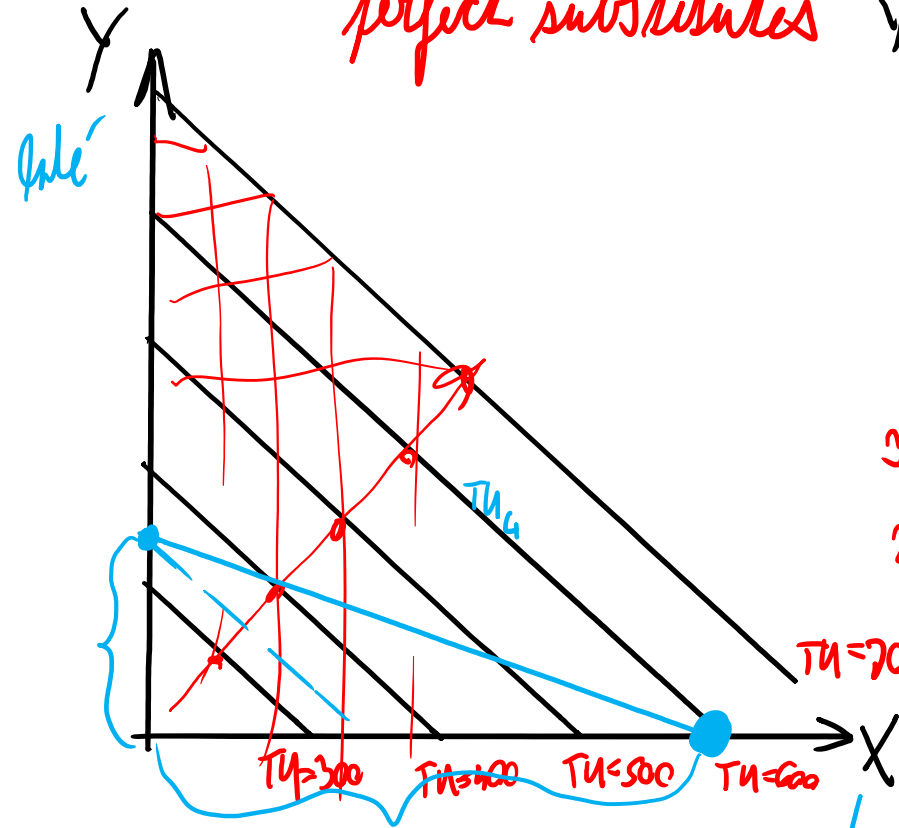
maximize consumer surplus

$$CS = TU - P_x \cdot X$$

TU

MU $= 0$
max TU

TU_α

TU_β

q

P MU

MU

150
120
90
60

demand

MU $= P$

$P_1 = 30$

MU_α

q

MU_β

TU

TU_x

TU_y

$TU_{3;2\ell} = 300_{;}C2K$

Y...juice

X...burger

2ℓ

1ℓ

1

2

3

4

5

6

7

Consumer Behaviour Theory – Indifference Analysis

Consumer Behaviour Theory – Indifference Analysis

perfect substitutes

Laté

Capuccino

TU=300   TU=400   TU=500   TU=600

perfect complements

3

2

TU=700

1   2   3

TU=500

TU=100

TU=300

X is neutral

3

2

1

TU=500

TU=400

TU=300

BL

X and Y are bads

TU=500   TU=400   TU=300
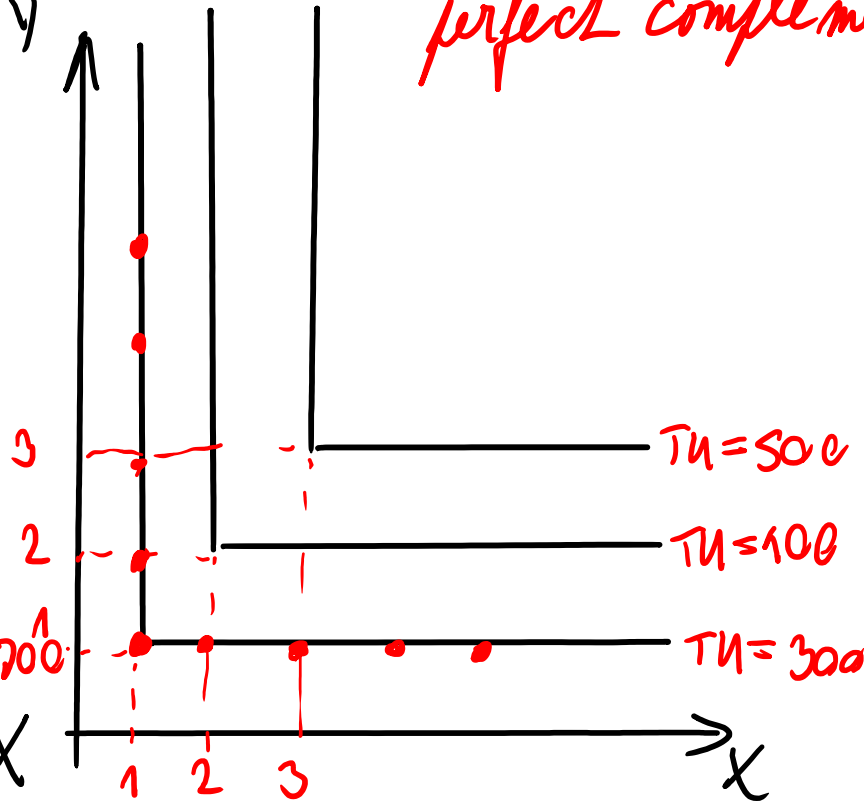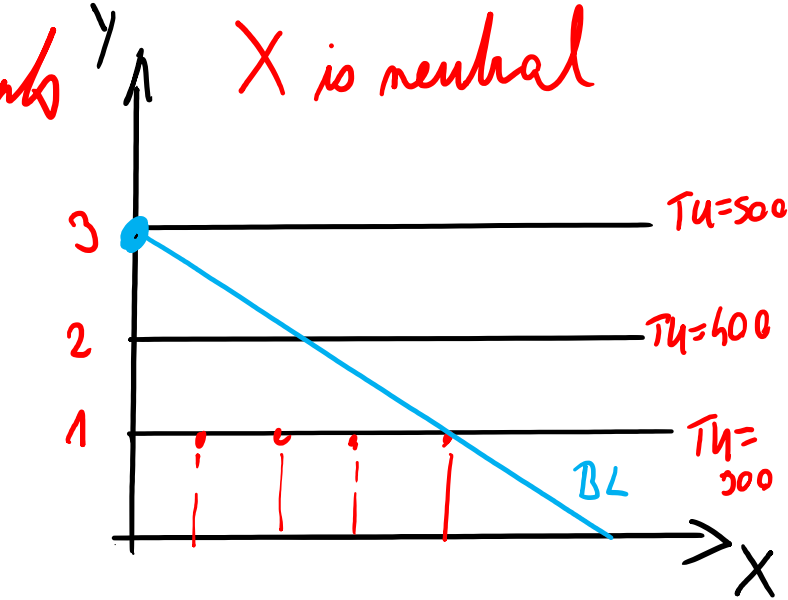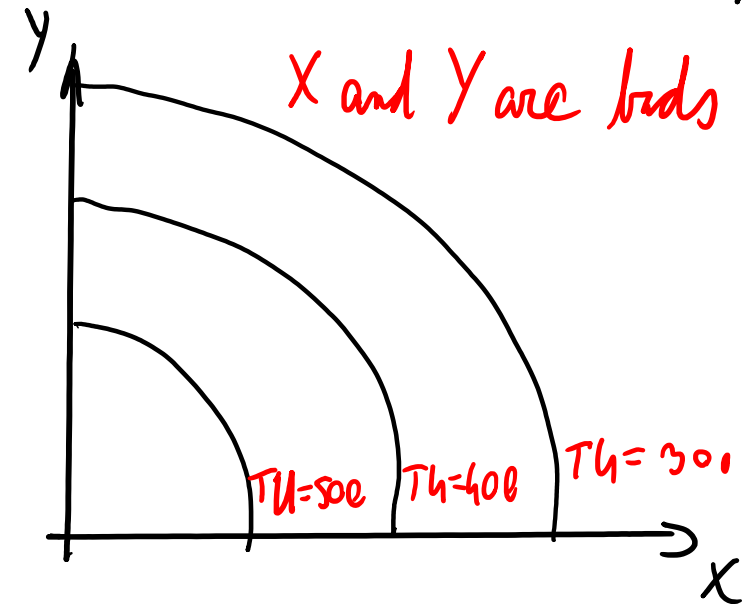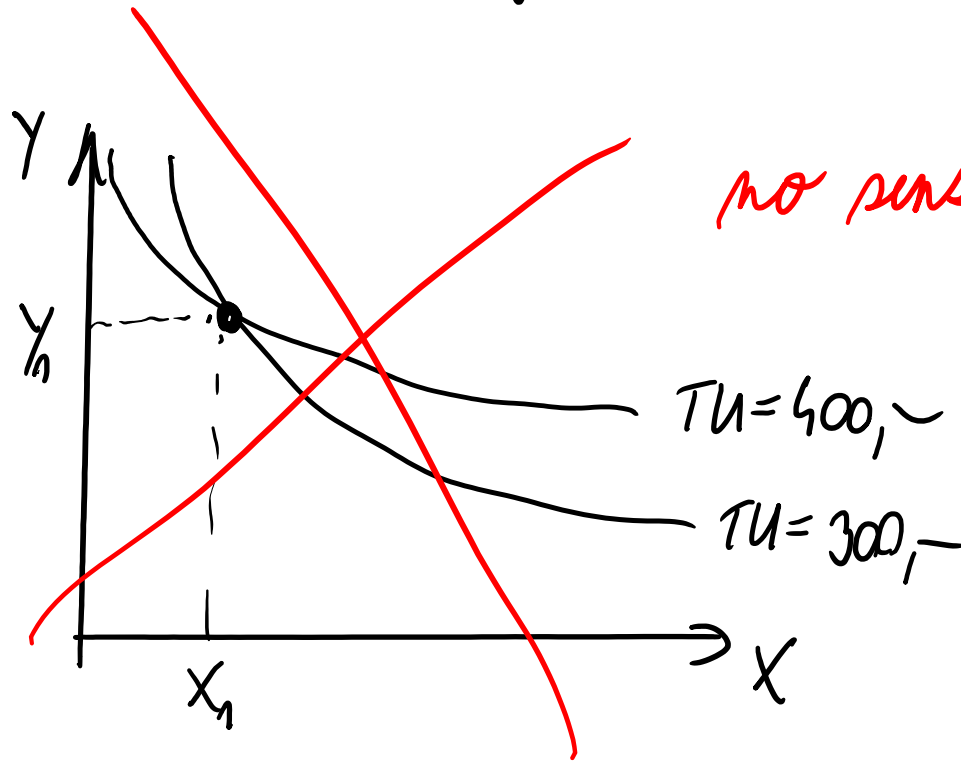
Axioms of IC = attributes of IC

- decreasing and convex
- position (the further from the beginning, the larger the TU)
- no intersecting

no sense in that!

TU = 400,~

TU = 300,—

Budget Line = BL

= budget = income I spent on burgers X and juice Y

income

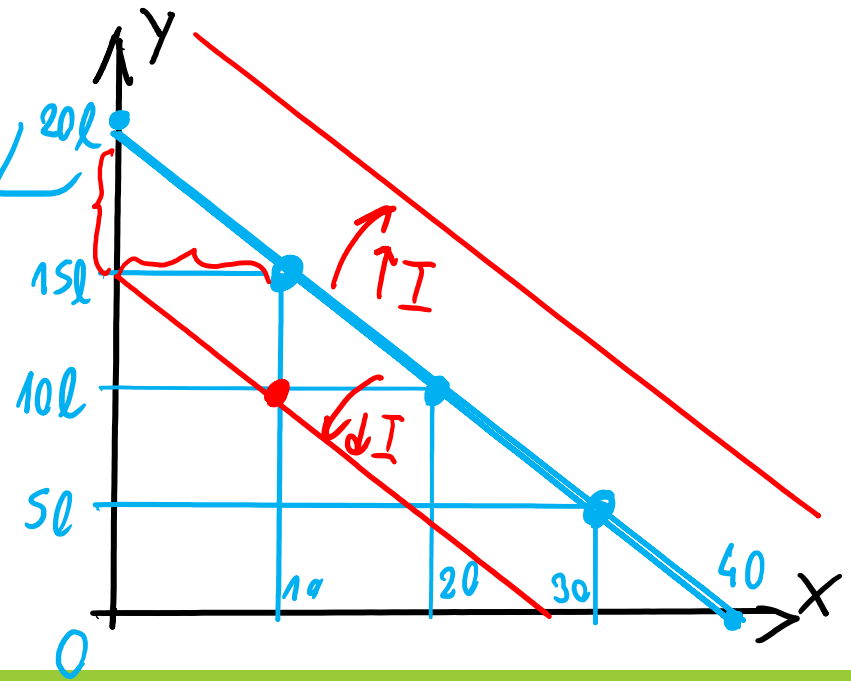$$I = X \cdot P_x + Y \cdot P_y$$

expenses on burgers

expenses on juice

$P_x = 25,- CZK$

$P_y = 50,- CZK$

$I = 1000,- CZK$

Slope of BL

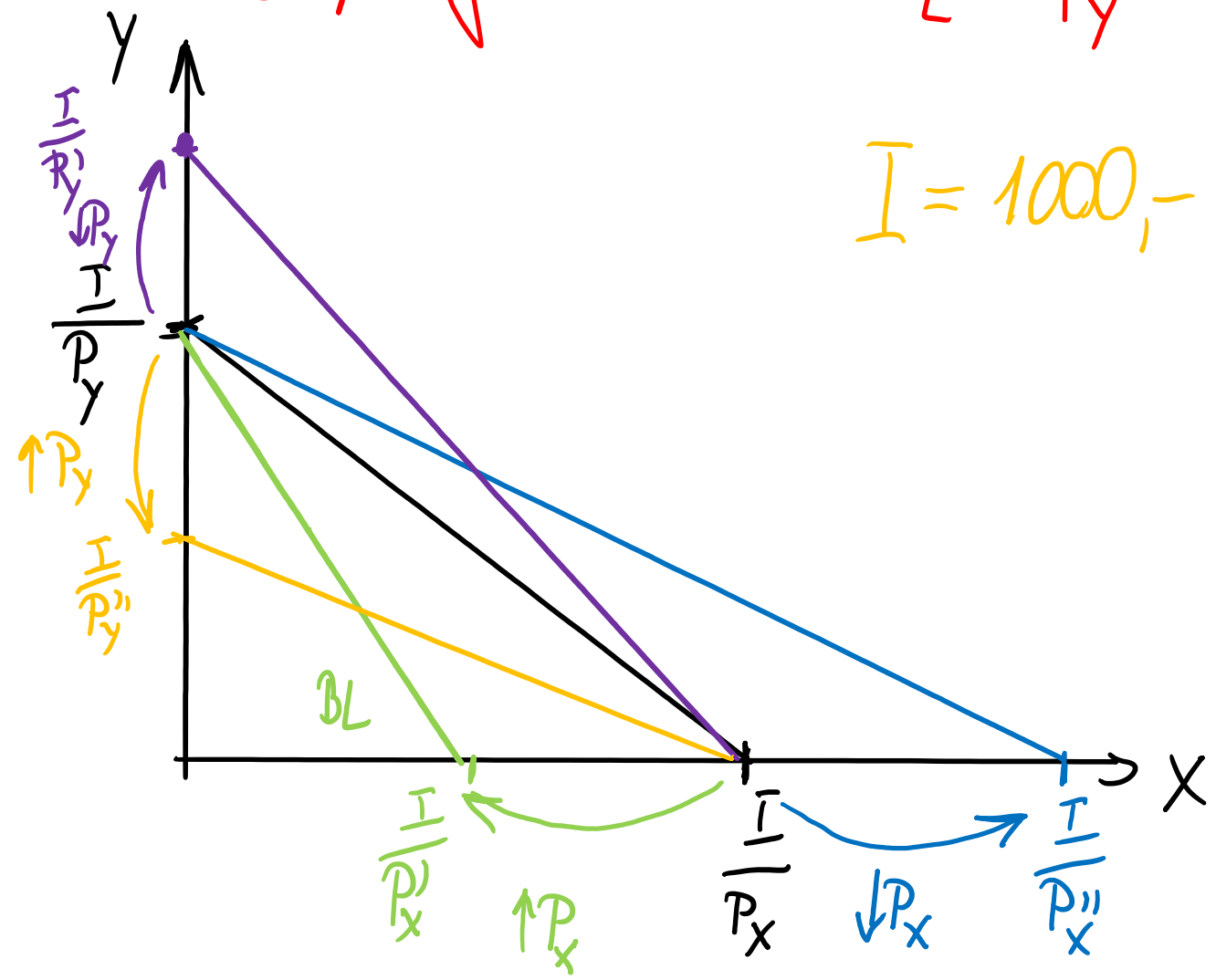$$MRS_E = \frac{P_x}{P_y}$$

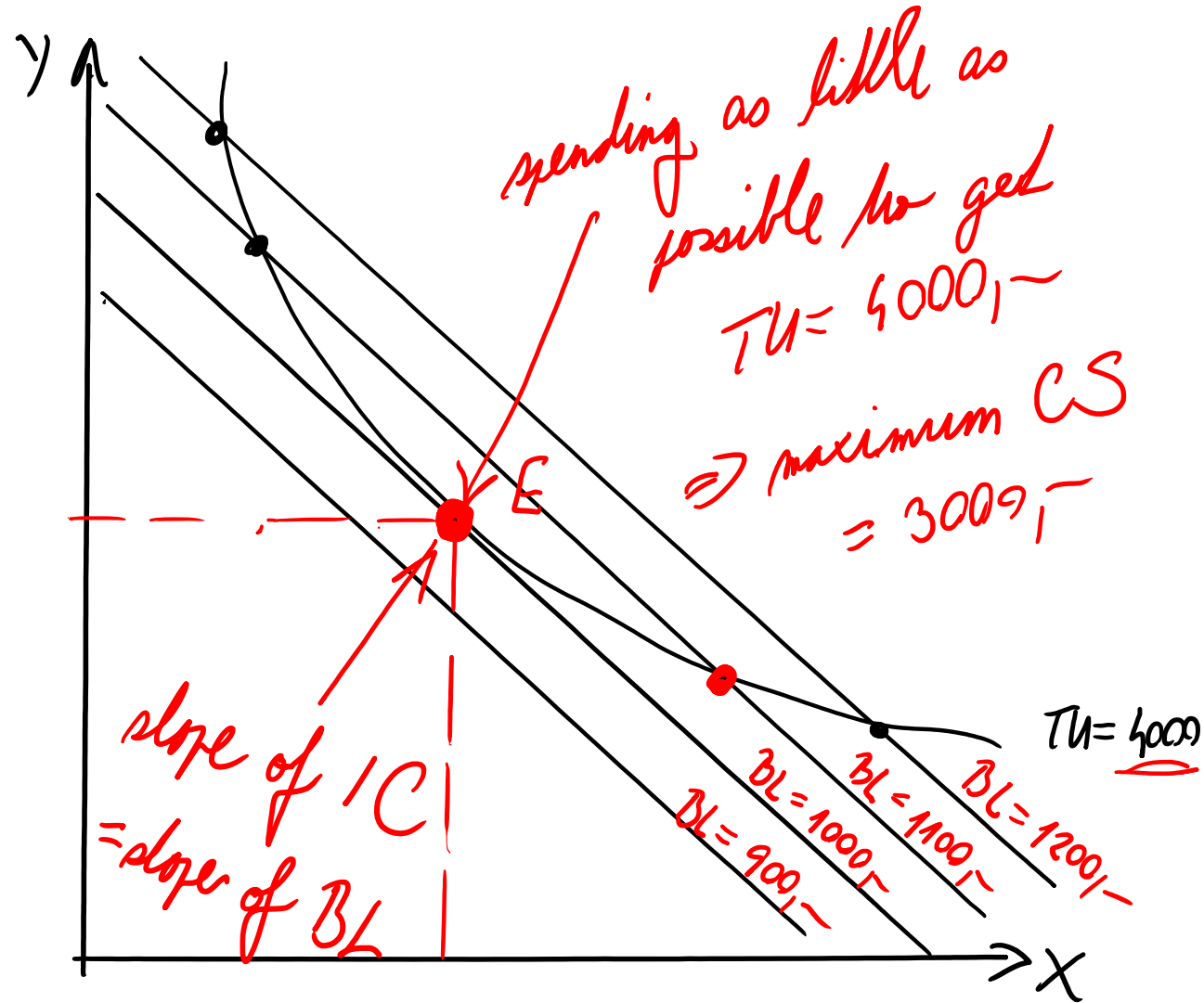in exchange

Slope of BL = $MRS_E = \frac{P_x}{P_y}$

$I = 1000,- CZK$

Consumer Behaviour Theory – Indifference Analysis
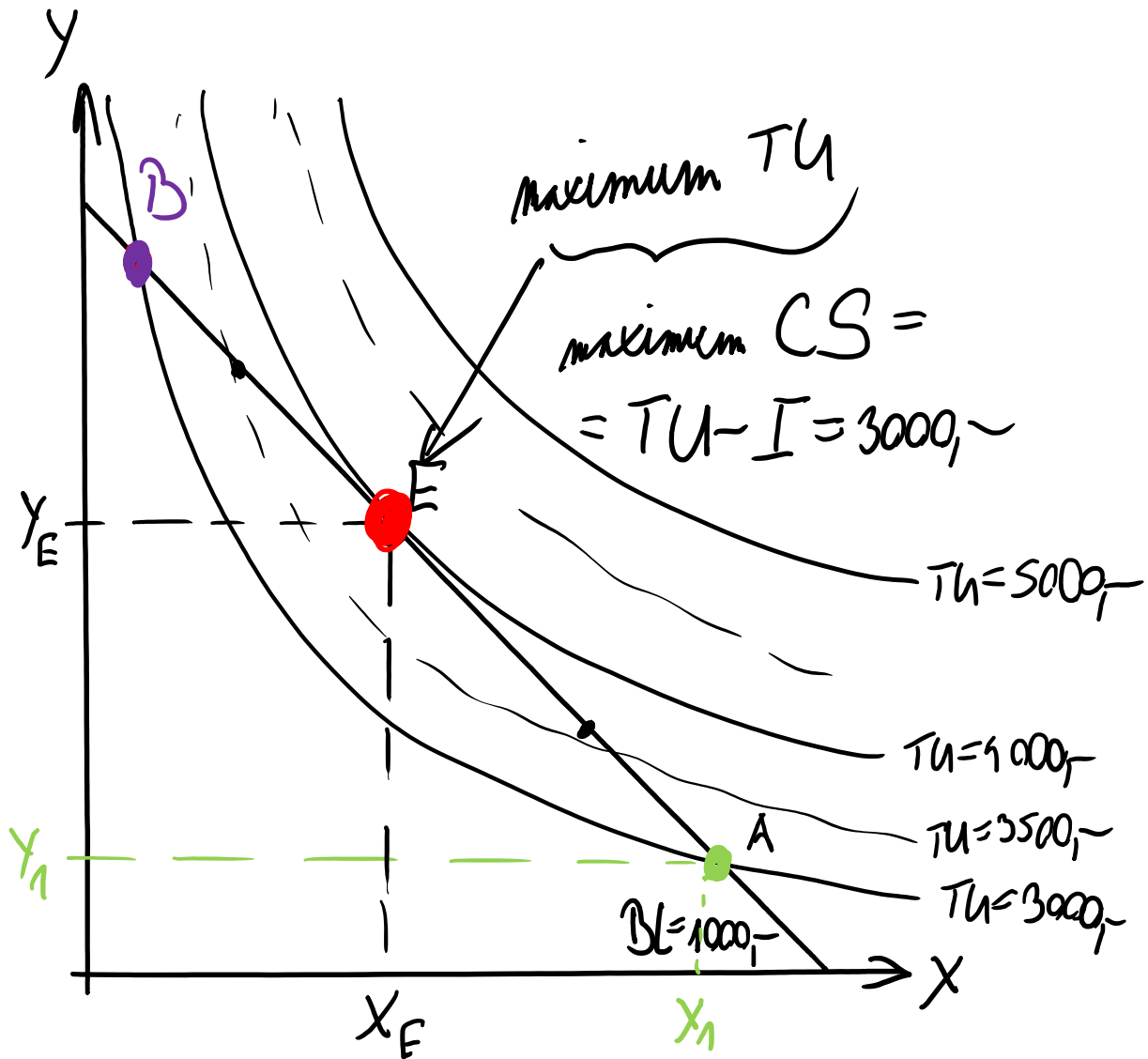
$$MRS_C \ldots \text{slope of } IC = \frac{MU_x}{MU_y}$$

$$MRS_E \ldots \text{slope of } BL = \frac{P_x}{P_y}$$

Optimum: $MRS_C = MRS_E$

$$\frac{MU_x}{MU_y} = \frac{P_x}{P_y} \implies \frac{MU_x}{P_x} = \frac{MU_y}{P_y} = \frac{MU_z}{P_z} = \ldots \frac{MU_m}{P_m}$$