

Review Notes – Consumer Preferences and Utility

- Preferences
 - define consumption bundle, preferred (strictly and weakly), and indifferent
 - rationality
 - completeness (what's that?)
 - transitivity (what's that?)
 - indifference curves
 - how are points on, and off, an indifference curve related?
 - two points on the same indifference curve?
 - a point above and a point on an indifference curve?
 - a point below and a point on an indifference curve?
 - what do they look like?
 - how many are there?
 - in which direction is the consumer better off?
 - can indifference curves cross?
 - what do different examples of indifference curves look like?
 - Examples of indifference curves
 - Perfect Substitutes
 - Perfect Complements
 - Bads
 - Neutrals
 - Satiation
 - Well Behaved Preferences
 - Why must preferences generally be well-behaved?
 - What does “well behaved” mean?
 - Monotonic preferences.
 - Convex preferences
 - What is the Marginal Rate of Substitution?
 - Algebraically?
 - Graphically?
 - Interpretation of the MRS
 - Examples
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- Utility
 - what does utility measure?
 - How does utility correspond to preferences?
 - What is a utility function?
 - Examples of utility functions
 - Monotonic utility functions

- From Preferences to utility
 - If $A \succ B \succ C \succ D \Rightarrow U(A) > U(B) > U(C) > U(D)$ – what does this mean?
 - If $A \sim B \sim C \sim D \Rightarrow U(A) = U(B) = U(C) = U(D)$ – what does this mean?
 - what happens to utility as we move to a higher indifference curve?
 - Examples of utility functions
 - What is the marginal rate of substitution?
 - $MRS = \text{slope of the indifference curve}$
 - what is marginal utility?
 - $MRS = -MU_1/MU_2$ - how do we know this is true?
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