

THEORY OF CONSUMER CHOICE

CONSUMER'S PREFERENCES :
WHAT DOES A CONSUMER WANT/LEAVE ?

CONSUMER AFFORDABILITY :
WHAT A CONSUMER CAN AFFORD ?

CONSUMER'S UTILITY MAXIMIZATION PROBLEM :
HOW A CONSUMER OPTIMALLY CHOOSES ?

TOOLS : INDIFFERENCE CURVES

BUDGET LINES

OPTIMIZATION
↓
CHOOSES
A BEST AFFORDABLE CHOICE.

I CONSUMER'S PREFERENCES/TASTES

4 ASSUMPTIONS ABOUT A CONSUMER'S PREFERENCE THAT A CONSUMER WHOM WILL BE INVESTIGATED MUST COMPLY :

① HE MUST BE ABLE TO RANK.

IN CHOOSING BETWEEN TWO BASKETS OF GOODS : BASKET A
HE MUST BE ABLE TO GIVE VS BASKET B,
ONE OF THREE POSSIBLE ANSWERS

① I LIKE A MORE THAN B. $A \succ B \iff U(A) > U(B)$

② I LIKE B MORE THAN A. $B \succ A \iff U(B) > U(A)$

③ A AND B ARE EQUALLY ATTRACTIVE. $A \sim B \iff U(A) = U(B)$