

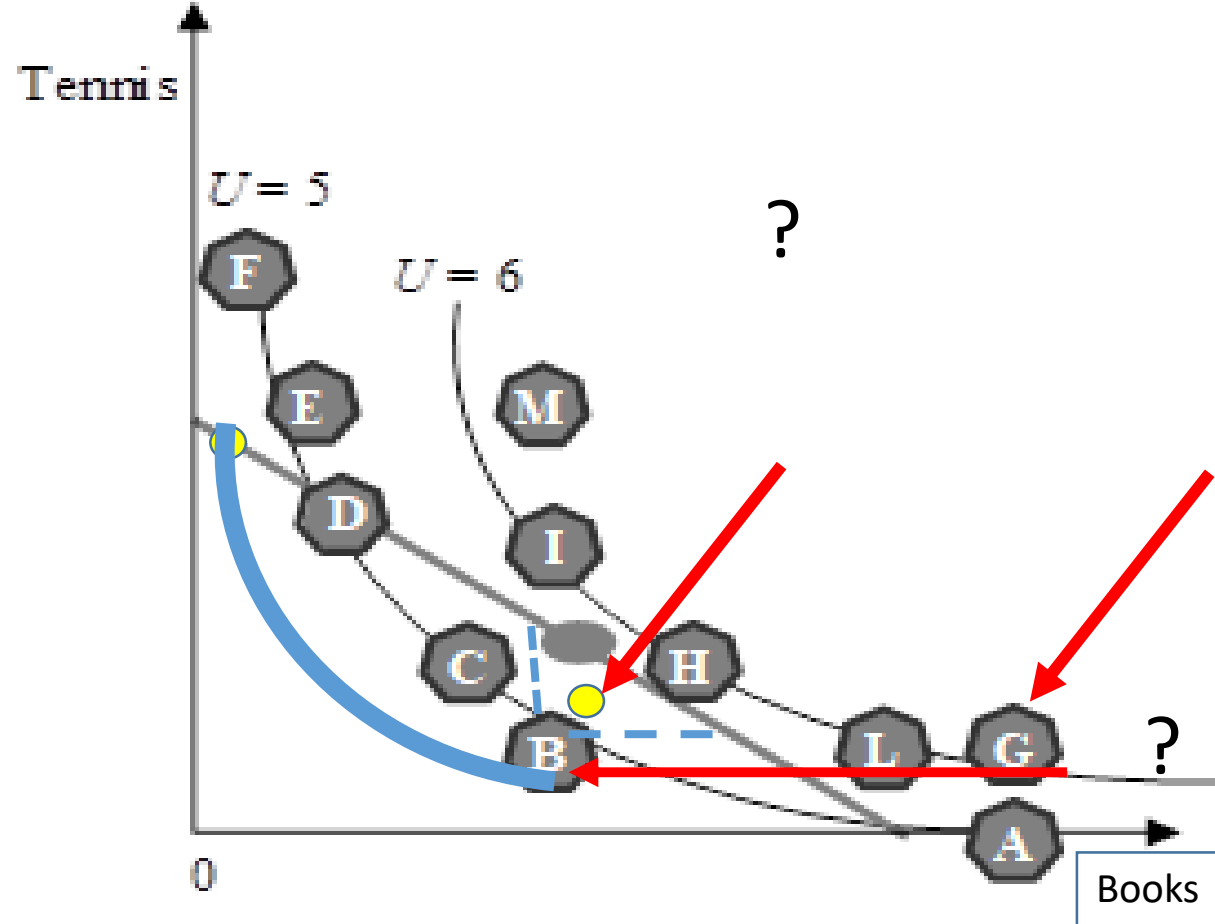


John's choice

$P_B = 50$ euro

$P_T = 100$ euro (relative price?)

I , monetary income, equals 500 euro

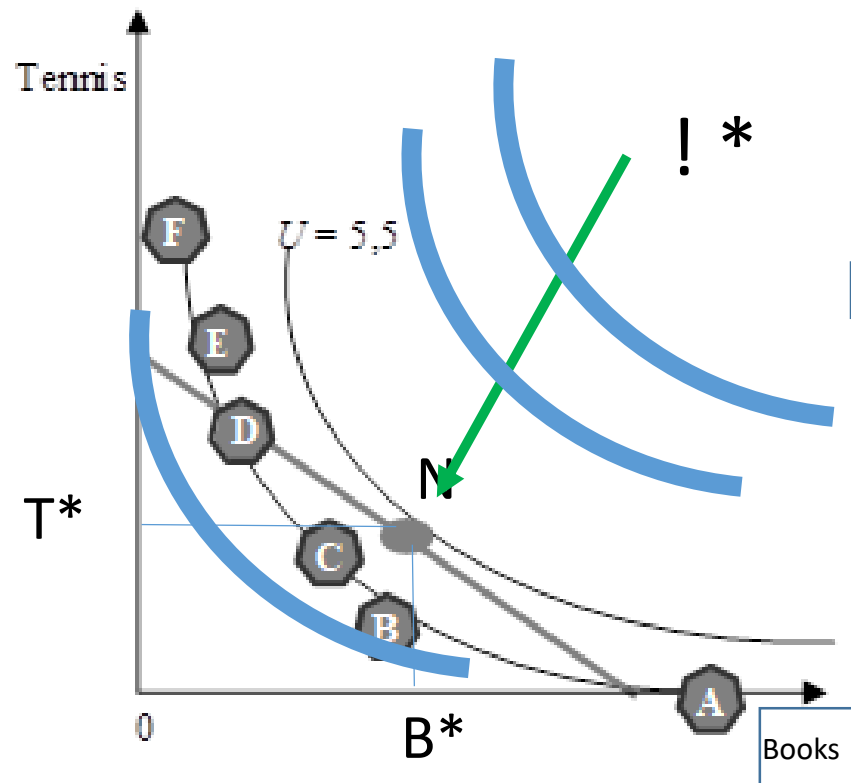


Basket	Books (quantity B)	Tennis (hours T)	Utility
A	10	0	5
B	7	1	5
C	5	2	5
D	4	3	5
E	3	5	5
F	2	8	5
G	10	1	6
H	8	2	6
I	7	3	6
L	9	1	?
M	7	5	?

G?
B? C?
D?



Optimum point and conditions (preferred basket)



$$I = (P_B B^*) + (P_T T^*)$$

$$\text{MRS}(B^*, T^*) = \frac{P_B}{P_T}$$

$$I = (P_B B) + (P_T T)$$

$$\text{MRS} = \frac{P_B}{P_T}$$

And if they... differ?

$$MRS = -\frac{\partial T}{\partial B} = 3 > \left(\frac{P_B}{P_T} \right) = \frac{1}{2}$$

You have **a basket** such that what above holds which exhausts your income. Are you at an optimum point of choice?

So you can do better. How?

Now to try to give up 1 tennis lecture (-1T). With the remaining money, what can you buy?

2 books (+2B). A new basket.

But how much were you willing to pay for those 2 books?

6 tennis lessons! **How do you feel now?**

Your basket has changed ... and you are **better off**. **That initial basket is not the optimal one (usually), you can do better.**



3 strange statements on the value of a good

$$I = (P_B B^*) + (P_T T^*)$$

$$\boxed{\text{MRS}}(B^*, T^*) = \frac{P_B}{P_T}$$

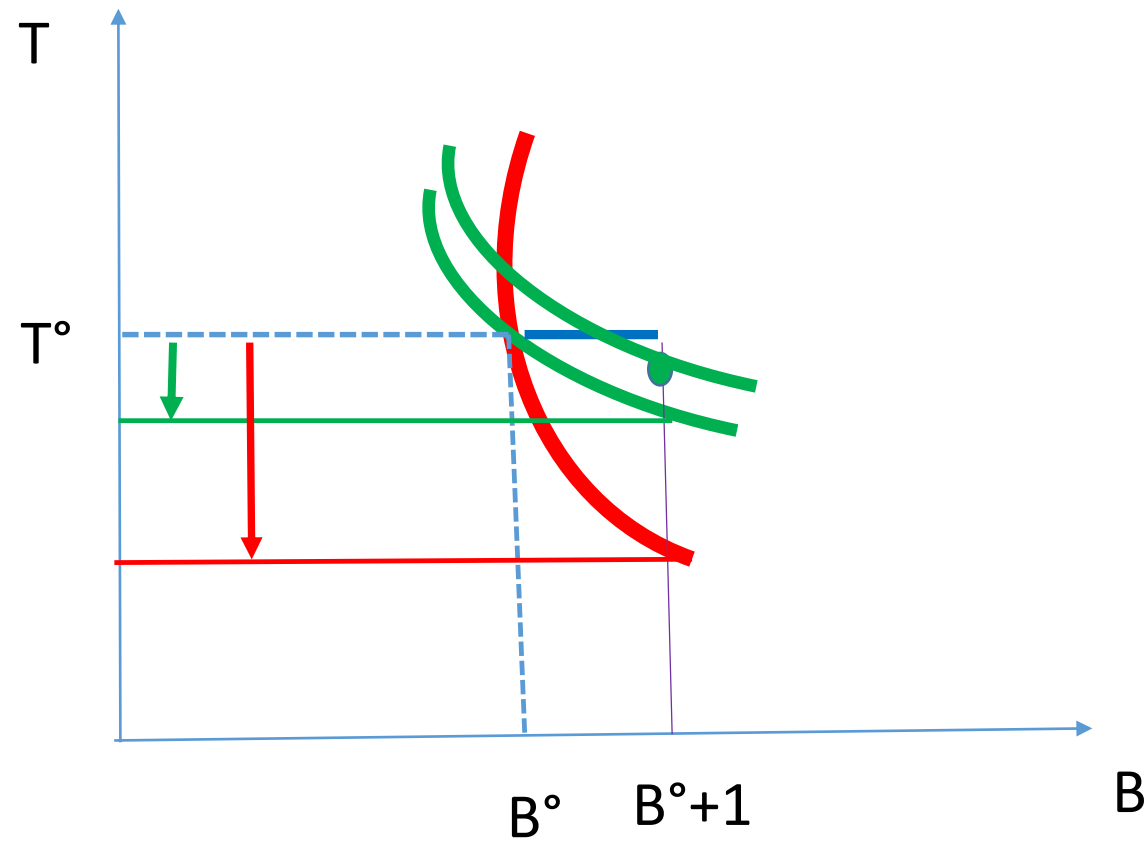
The MRS is thus observable.

**Exchange value of one additional unit of a good (appropriately defined) =
= Subjective value of one additional unit of a good (appropriately defined)**

MRS in equilibrium must be the same across all consumers.

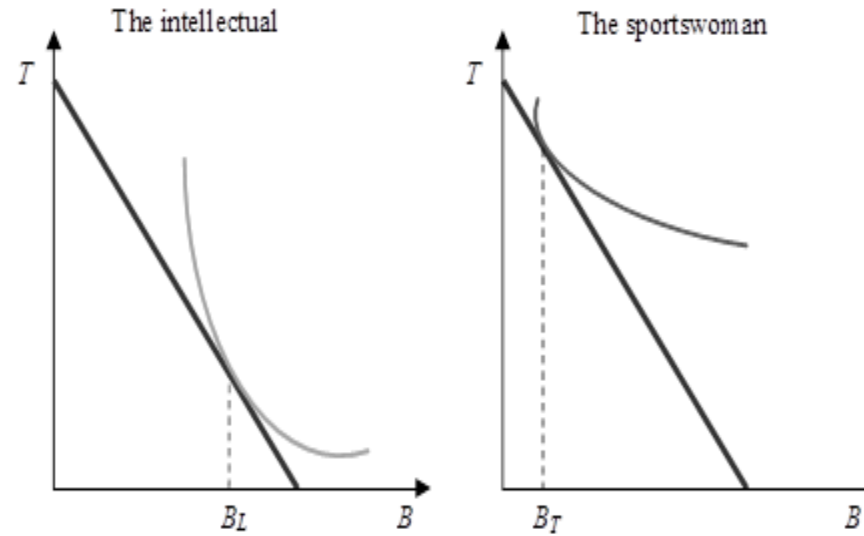


The sportswoman and the intellectual



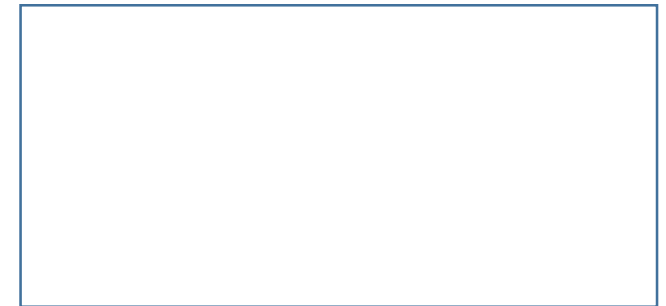
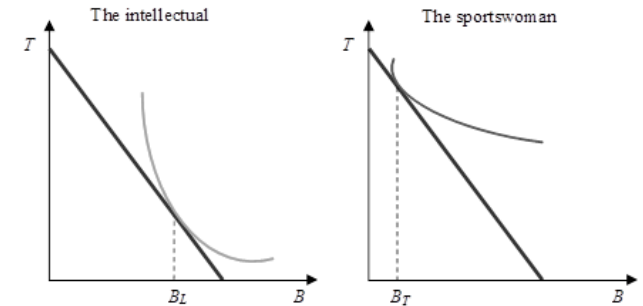
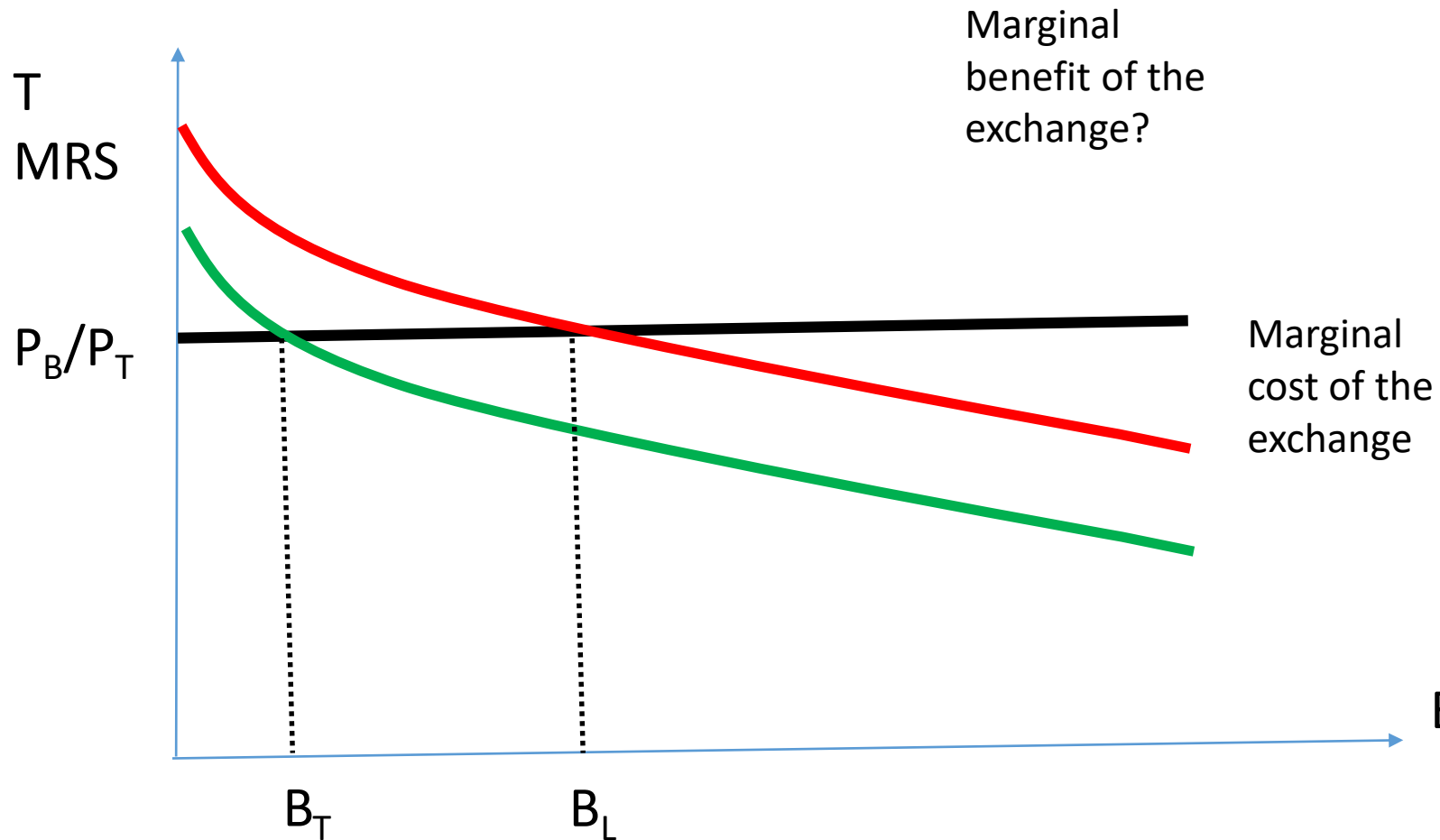


The sportswoman and the intellectual

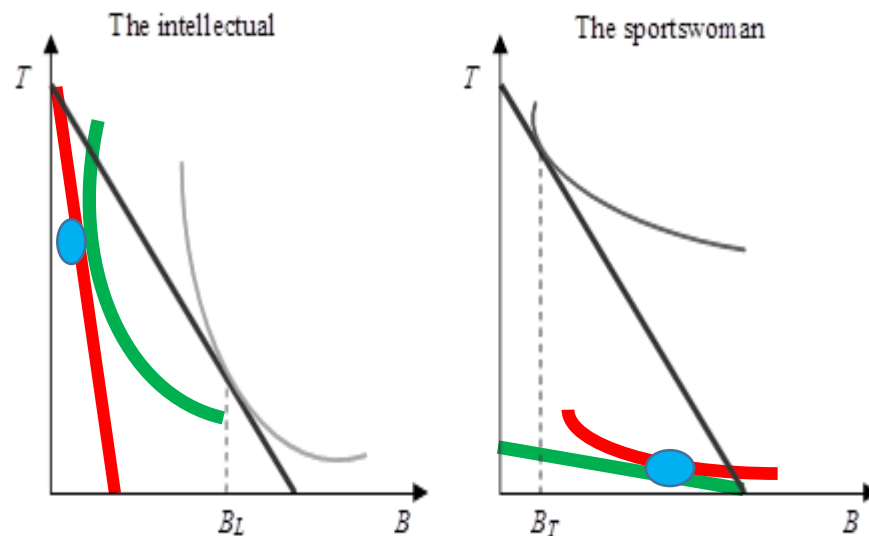




The sportswoman and the intellectual



Alcaraz, the intellectual; Sandel, the tennisplayer





The sportswoman and the intellectual

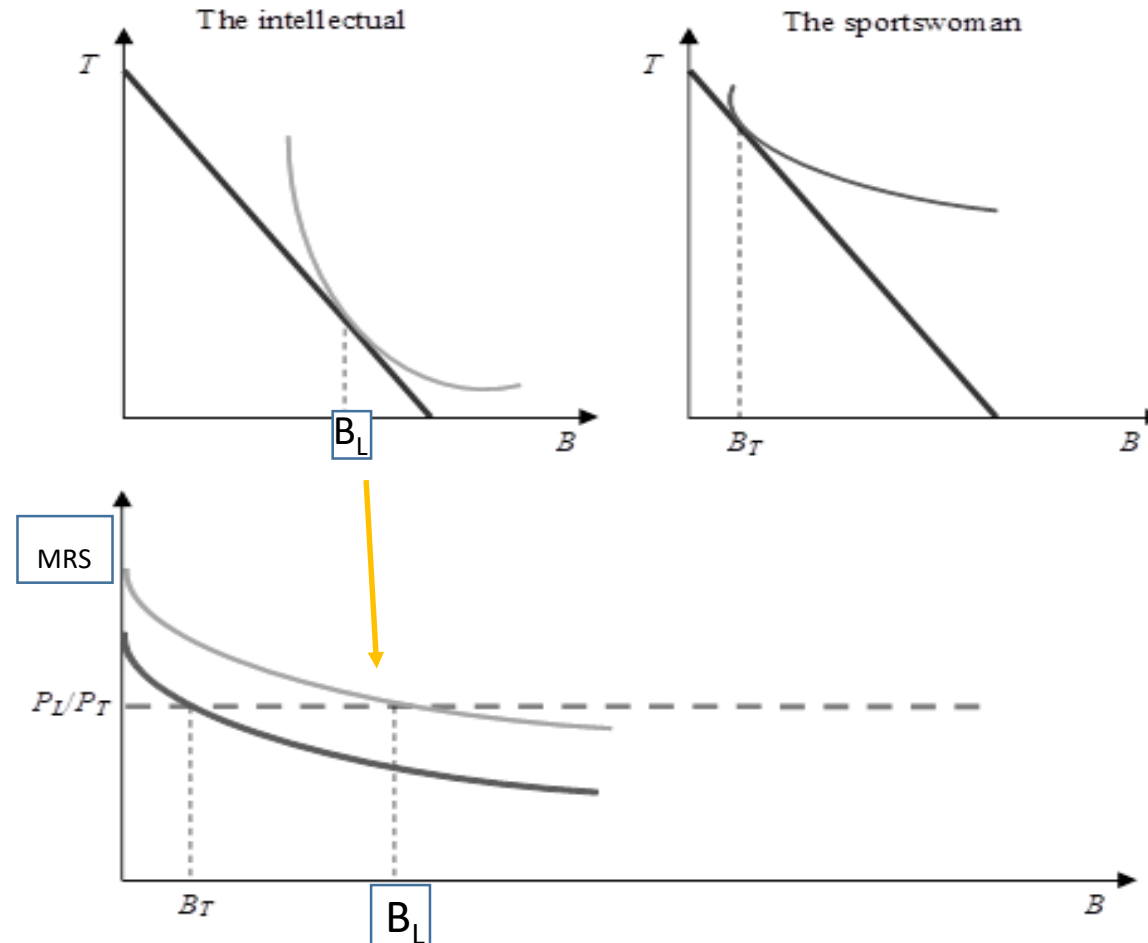
$$I = (P_B B^*) + (P_T T^*)$$

$$\text{MRS}(B^*, T^*) = \frac{P_B}{P_T}$$



A sufficient condition.

Is it a necessary one?



The consumer demands units of goods until her marginal benefit is greater than her marginal cost of the exchange.

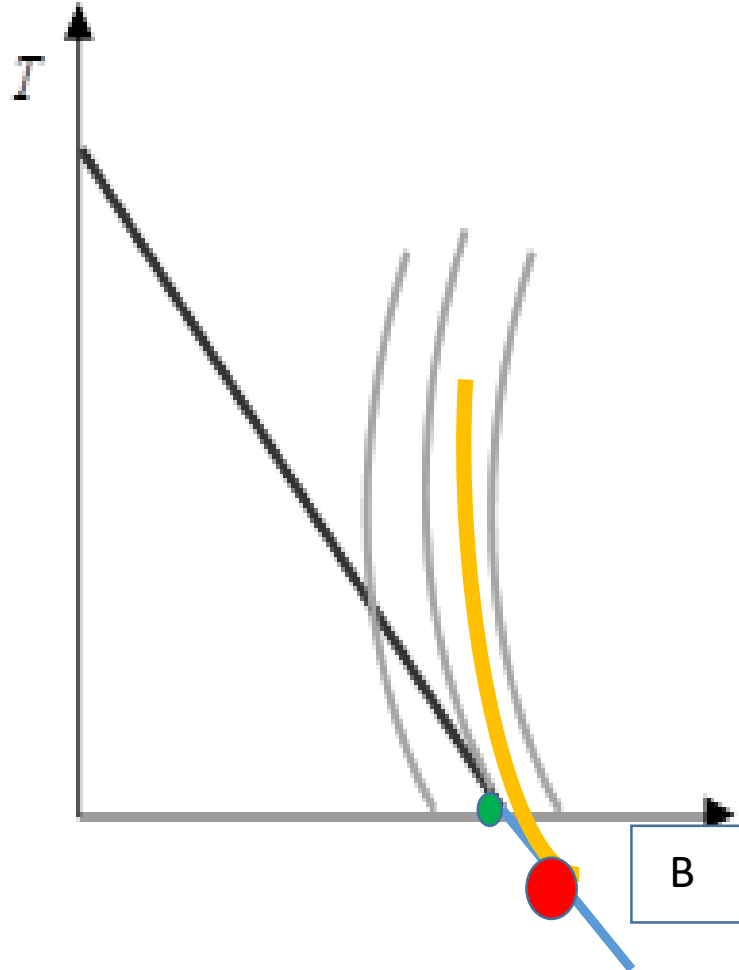
What is the name of the marginal benefit of the exchange?

And of the marginal cost of the exchange?



Sufficient condition: but necessary?

$$MRS = -\frac{\partial T}{\partial B} = 3 > \left(\frac{P_B}{P_T}\right) = \frac{1}{2}$$



$$MRS = -\frac{\partial T}{\partial B} = 3 < \left(\frac{P_B}{P_T}\right) = \frac{1}{2}$$

