

Ch-3 Preferences

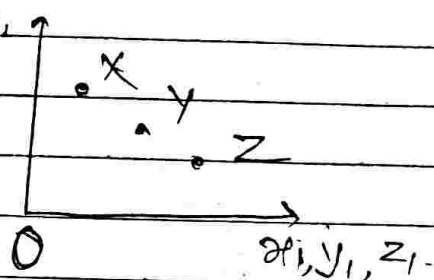
→ X, Y, Z denotes Bundle

$$X \sim (x_1, x_2)$$

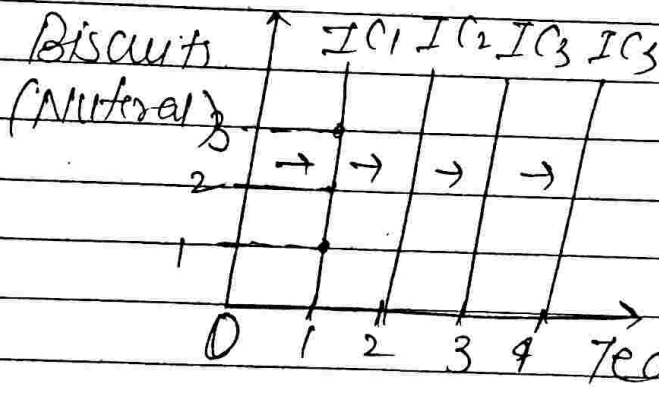
$$Y \sim (y_1, y_2)$$

$$Z = (z_1, z_2)$$

(Good-1, good-2)



*) Vertical IC

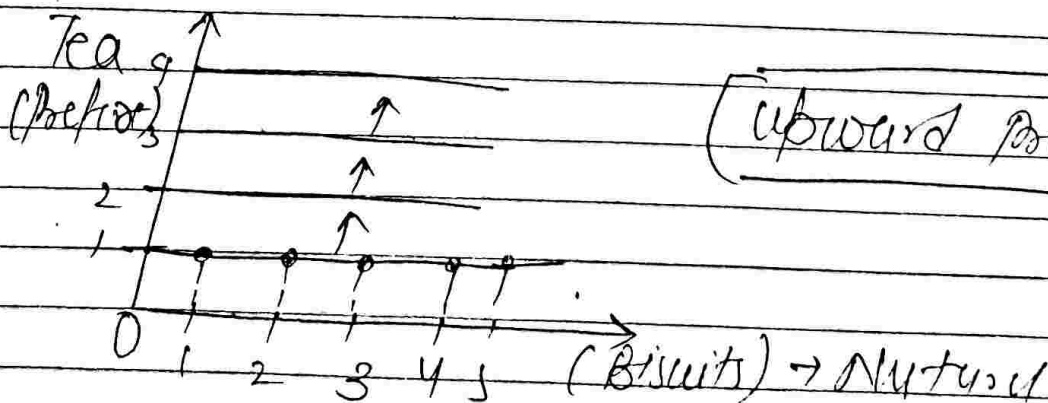


or

(Preference to rightward)

IC Contour Map

*) Horizontal IC.



(upward preferences)

Marginal:- It means consumer is not bothered by the consumption of biscuits because he is not affected if he consuming 0 unit of biscuits or the unit with one unit of tea. $MU=0$ from the first unit.

Economic (N)
 → Ordinal Approach (by Hicks)
 (Utility term) → (Not in units of m)
 Ranking preferred.
 (CB-Comp. Bundle)

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* In this chapter the focus is upon determining the best things. For this we define consumer preferences across different goods (2 goods) and depict these preferences graphically through Indiff. Curve. we discuss a prop of IC's in order to determine preferred CB.

(Comp. bundle :- "Complete list of goods and services that consumer might consume")

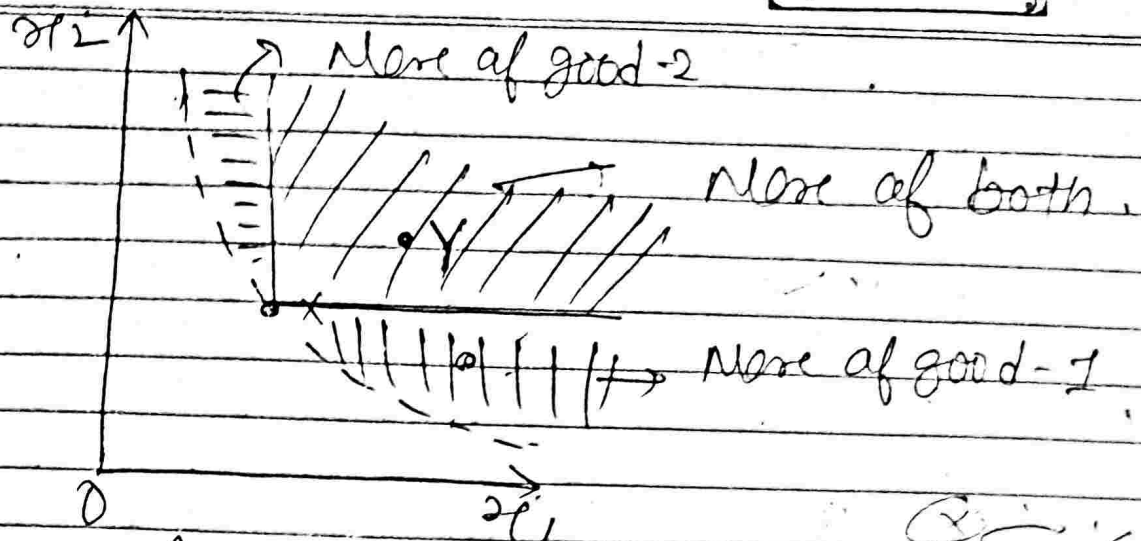
In general consumer values different bundle differently at diff. points and time, places and circumstances. Eg:- Umbrella is valued more than in sunny day. Elect. more in summer, than in winter, etc.

(Note :- X is CB, which is an abbreviation of (x_1, x_2) .)

→ Consumer preferences: → If consumer is provided with two bundles X and Y then he can have three types of preferences between them.

- i) Strictly preferred. ($X \succ Y$ or $Y \prec X$)
- ii) weakly preferred. ($X \succeq Y$ or $Y \succeq X$)
- iii) Indifferent. ($X \sim Y$)

Cardinal form (units) $\rightarrow \rightarrow \rightarrow$ ordinal approach



Assumptions :- Both are Economic goods.

→ Strictly Preferred → Right side of IC curve $x \succ y$

→ Weakly Preferred → Right side including IC would be
 [Either indifferent or strictly Preferred. $\checkmark$] weakly preferred $\rightarrow [x \succeq y]$

→ Indifferent :- on IC Curve $\rightarrow [x \sim y]$

$x > y$

$x \geq y$

$x \sim y$

i) Strictly Preferred

$$\text{If } \overset{X}{(x_1, x_2)} > \overset{Y}{(y_1, y_2)} \\ (10, 8) > (5, 9)$$

→ If $(x_1, x_2) > (y_1, y_2)$ then we say Consumer strictly prefers X over Y . In the sense that he would always want X bundle rather than Y . If Consumer prefers 1 bundle to another, he could choose one over the other given the opportunity to choose between X and Y .

[Note: The idea of preference is based on Consumer's behaviour]

ii) Weakly Preferred: →

If $(x_1, x_2) \geq (y_1, y_2)$ then Consumer prefers or indifferent between the two bundles.

iii) Indifferent Preference: → If $(x_1, x_2) \sim (y_1, y_2)$ then the consumer is indifferent between X and Y bundle. i.e. he is equally satisfied after consuming either of them.