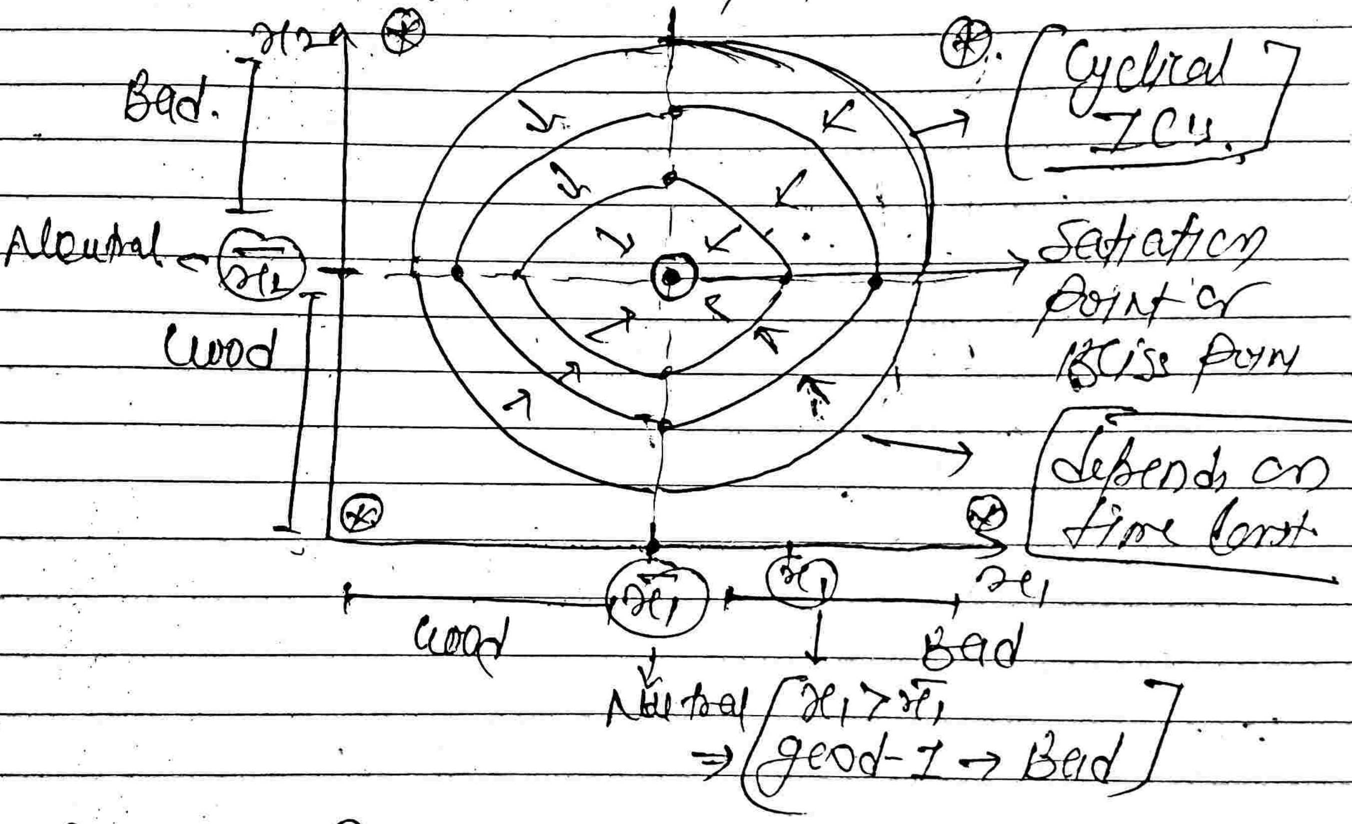
(*) (Satiation point) → (Bliss Point)

→ Satiation involves satiation includes the overall best bundle, and the closer the individual is, the better off he is in terms of his own preferences.



[Note:- Place yourself at the worse point, and draw IC in such a manner that it is Convex to worse point]

→ Here $\bar{x}_1$, $\bar{x}_2$ or $\bar{X}(\bar{x}_1, \bar{x}_2)$ is a Satiation or bliss point. Point farther aways from this satiation point lies on lower IC.

Eg:- chocolate cake, Icecream. [Excess]

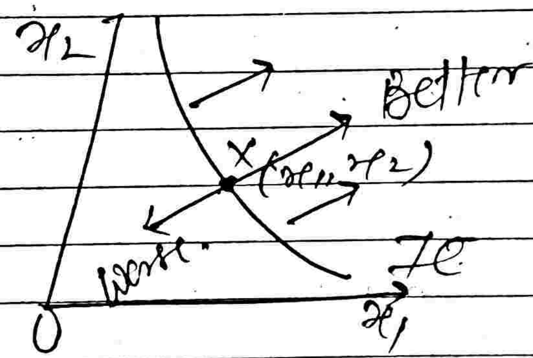
Date:
Page No :

(*) Well behaved Preferences:-
→ features for well behaved preferences:-

(I) Monotonicity
(II) Avg are prefered over extreme.
(III) Strict Convexity.

(I) → Monotonocity implies more is better. (i.e we are discussing economic goods not bads).

(II) This assumption is some times called Monotonicity of preference. It implies that IC's are -vely sloped.



If we are moving to an indifferent position (with respect to 'X') then we must be moving either "left and up" and "right-down". i.e. IC must be -vely sloped.

(II) Avg. are preferred over extreme:- If we consider two bundles (x_1, x_2) and (y_1, y_2) on the same IC and take a weighted Avg of the two bundles such as $\left(\left(\frac{1}{2}x_1 + \frac{1}{2}y_1\right), \left(\frac{1}{2}y_2 + \frac{1}{2}x_2\right)\right)$

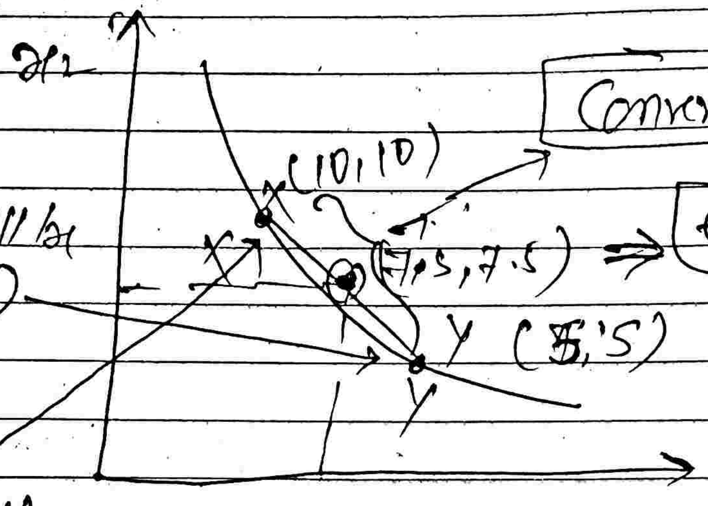
(*) Contd

line joining two points

line segment joining two points

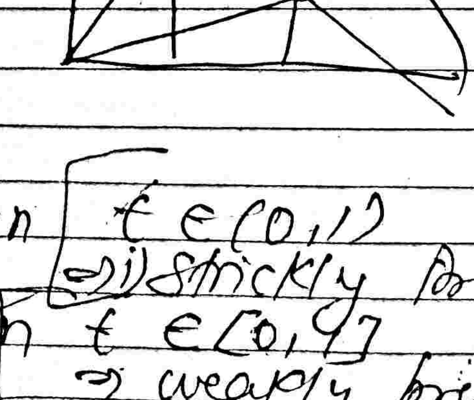
If (x_1, x_2) & (y_1, y_2)
$(10, 10)$ & $(5, 5)$
Avg. ⇒ $(7.5, 7.5)$

Convex Comb.
When $\boxed{t = 0}$ then we will be on point Y
when $\boxed{t = 1}$ we will be on point X
when $t \in (0, 1)$ then represents line segment



Convex Combination
$[t x_1 + (1-t) y_1, \; t x_2 + (1-t) y_2]$
Convex Combination

linear Combination
$[a_1 x_1 + a_2 x_2 + \dots + a_n x_n] = (-\infty, \infty)$
where
$a_1, a_2 \dots a_n$ are scalars $\in R$
$x_1, x_2 \dots x_n$ are vectors



linear combination
Convex Combination
Discuss
i.e
$a_1 x_1 + \dots a_n x_n$
when
$(a_1 + \dots + a_n) = 1$
$a_1, a_2 \dots a_n \in (0, 1)$

when $t \in (0, 1)$ ⇒ i) Strictly Preferred zone of IC curve
ii) It gives us more utility
when $t \in [0, 1]$ ⇒ weakly preferred zone of IC curve
⇒ Avg is Pref over Extreme [∵ Avg is always always]

Date :

Page No :

(*) Cont/ then the Avg. bundle would be as good as or strictly preferred to each of the Extreme bundle.

$$\left[\begin{array}{ll} t \in (0,1) & \lambda_1, \lambda_2 \in (0,1) \\ \lambda_1 + \lambda_2 = 1 & \\ \sum_{i=1} \lambda_i = 1 & \end{array}\right]$$

Note:- for any weight (t) between 0 & 1 and not just half, which simple Avg are weight half, second property also hold true

(I) $[\succeq \Rightarrow \succsim]$

$$(tx_1 + (1-t)y_1,\ tx_2 + (1-t)y_2) \succsim (x_1, \ldots$$

if $t \in [0,1]$

at y, at x

(II) Same $\succ (x_1, x_2)$

if $t \in (0,1)$

→ X & Y bundle Not included.

(*) Convex, Non-Convex or Concave preferen…

i) If Set of weakly preferred bundles is… (Convex) Set then preferences are (Conv…

ii)