Some Crime Stats

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▶ Substitution effect and the theory of individual behavior
Indifference Curves

▶ Reveal consumers’ preferences
▶ Convex from the origin
▶ More is better
▶ Never intersect
▶ Marginal rate of substitution: $MRS = -\frac{\Delta Y}{\Delta X}$
The Budget Constraint

- \( P_x X + P_y Y \leq M \)
- The opportunity set (the budget set)
- Price ratio \( -\frac{P_x}{P_y} \) is the slope of the budget line
- Changes in income
- Change in prices
Consumer Equilibrium

- To maximize utility (satisfaction) with the budget constraint, the consumer will choose the consumption bundle where the indifference curve is tangent to the budget line.

- \( MRS = \frac{P_x}{P_y} \)

- Income changes

- Price changes
  - Substitution effect
  - Income effect
From Indifference Curve Analysis to Demand Curves

101/cttheory.jpg
Some Applications

- Buy one get one free
- Gift certificates
- Juvenile crime
Homework

- homework for test
- chp2
  - Conceptual and Computational: 4,6,7
- chp3
  - Conceptual and computational: 1,2
- homework for next weeks test
- chp4
  - conceptual and computational: 3,5,6,8,13