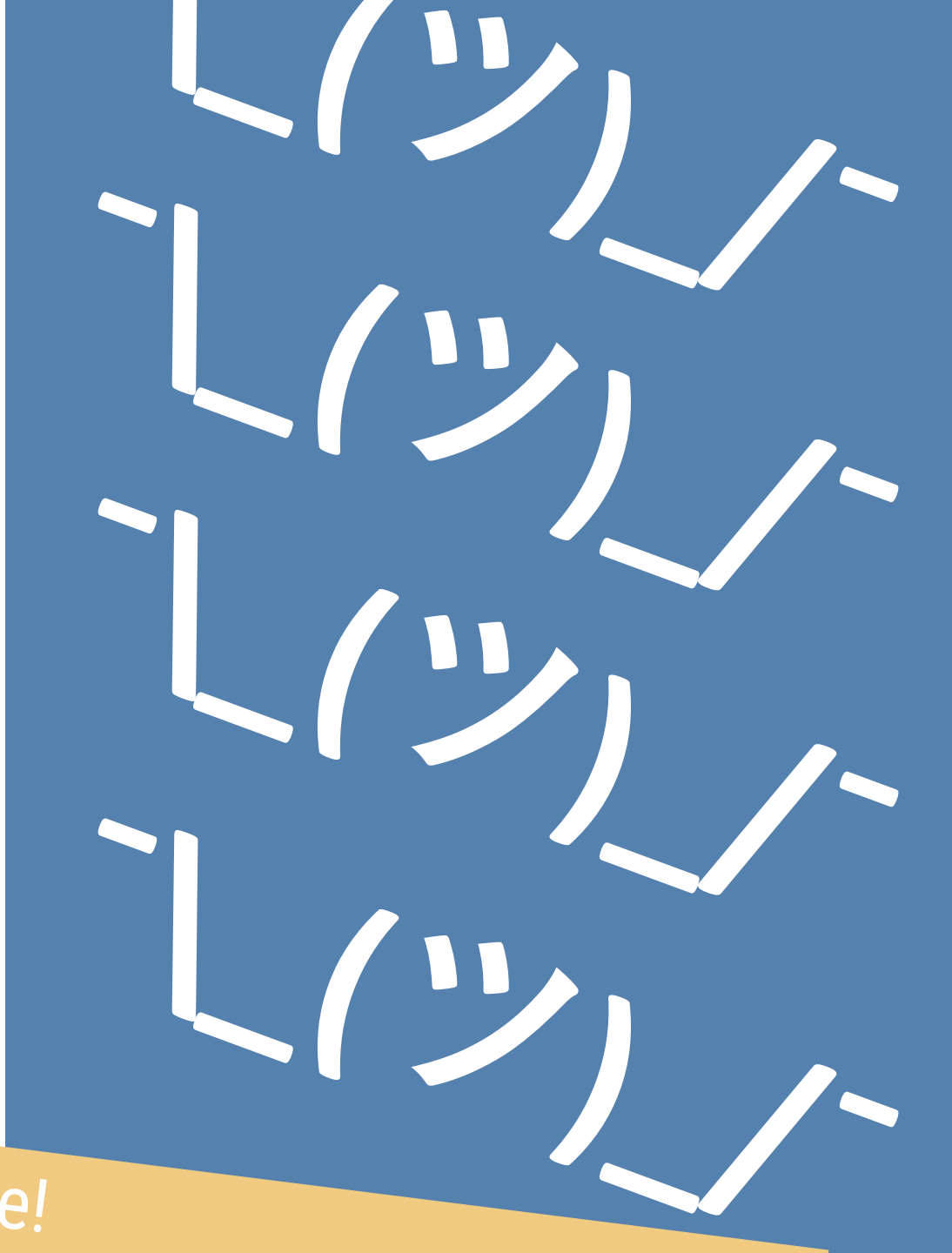
Scarcity and Productivity II

MPA 612: Public Management Economics

January 24, 2018



Fill out your reading report on Learning Suite!

Plan for today

Utility, indifference, and preferences, revisited

Productivity, ideas, and neverending(?) growth

Income and substitution effects

Why does any of this even matter?

Current events

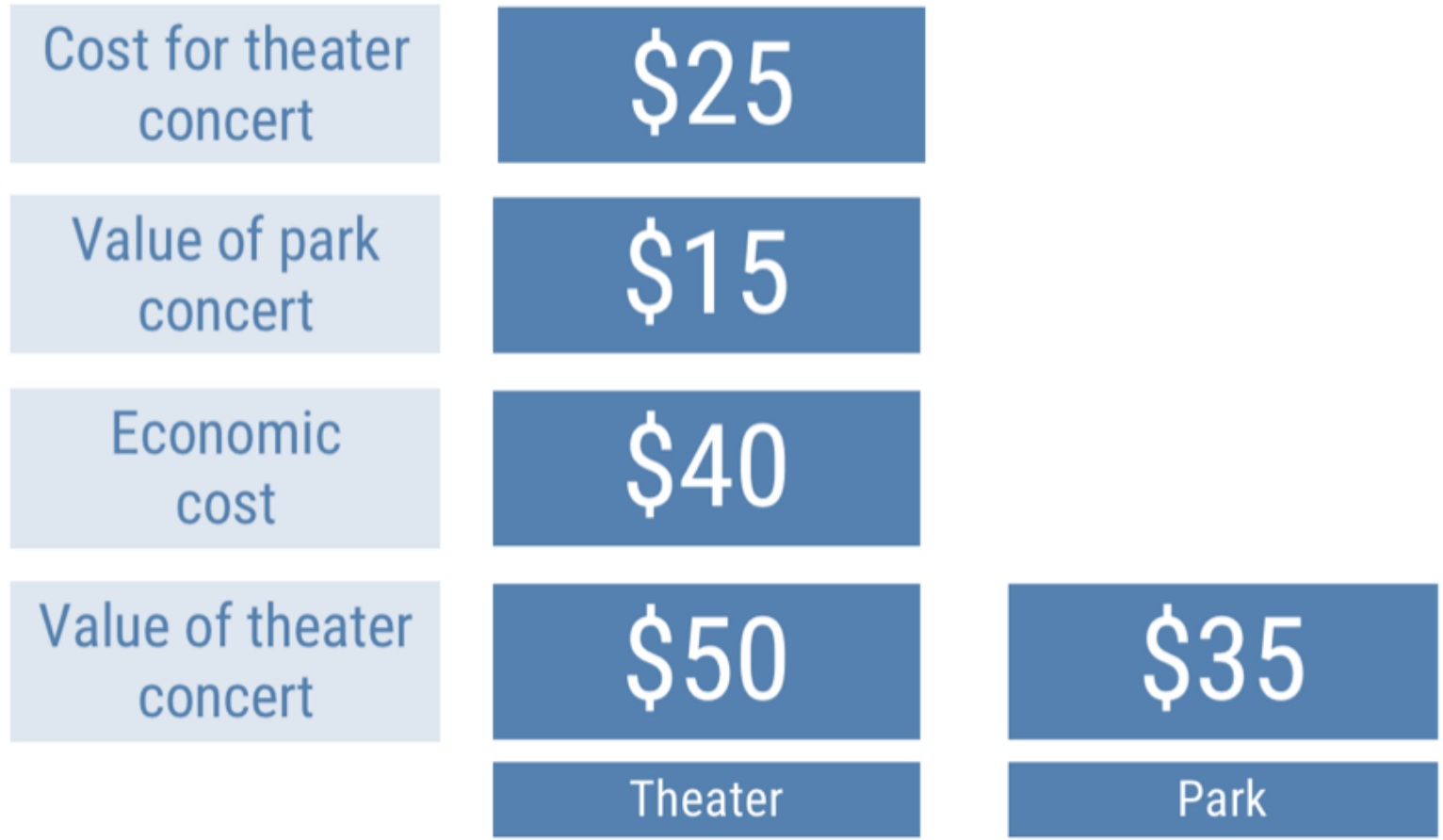
Class on Friday

Problem set 1 questions?

How do economists value time?

Hourly wages or willingness to pay

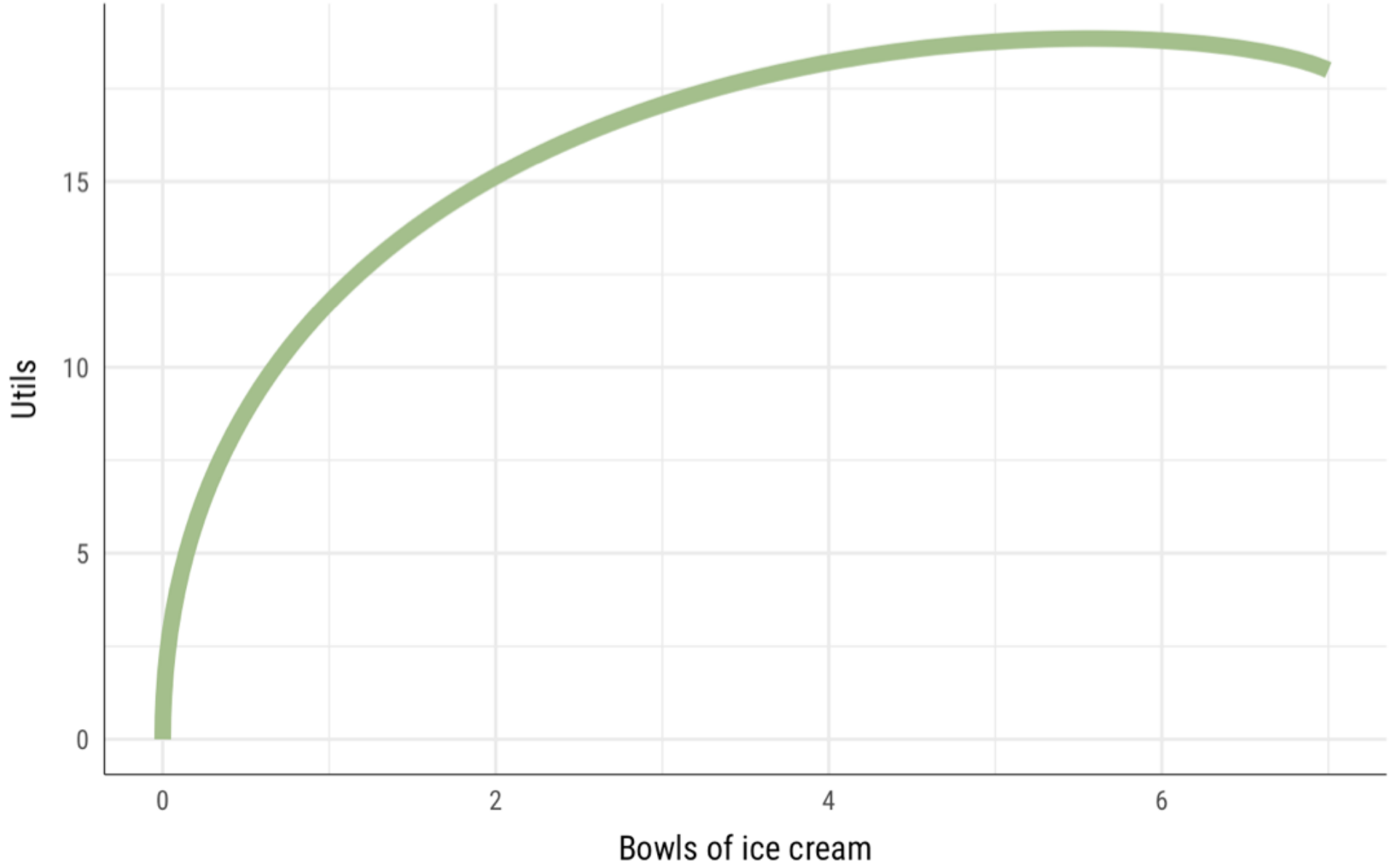
Concerts in theaters and parks



Utility, indifference, and preferences, revisited

How are all these things connected?

Utils = happiness points


Utils
15
10
5
0
0
2
4
6
Bowls of ice cream

Utility functions and bundles

$$u(x_1, x_2)$$

Inputs = Quantities of goods

$$u(x_1, x_2) = x_1 x_2$$

$$u(x_1, x_2) = x_1 x_2$$

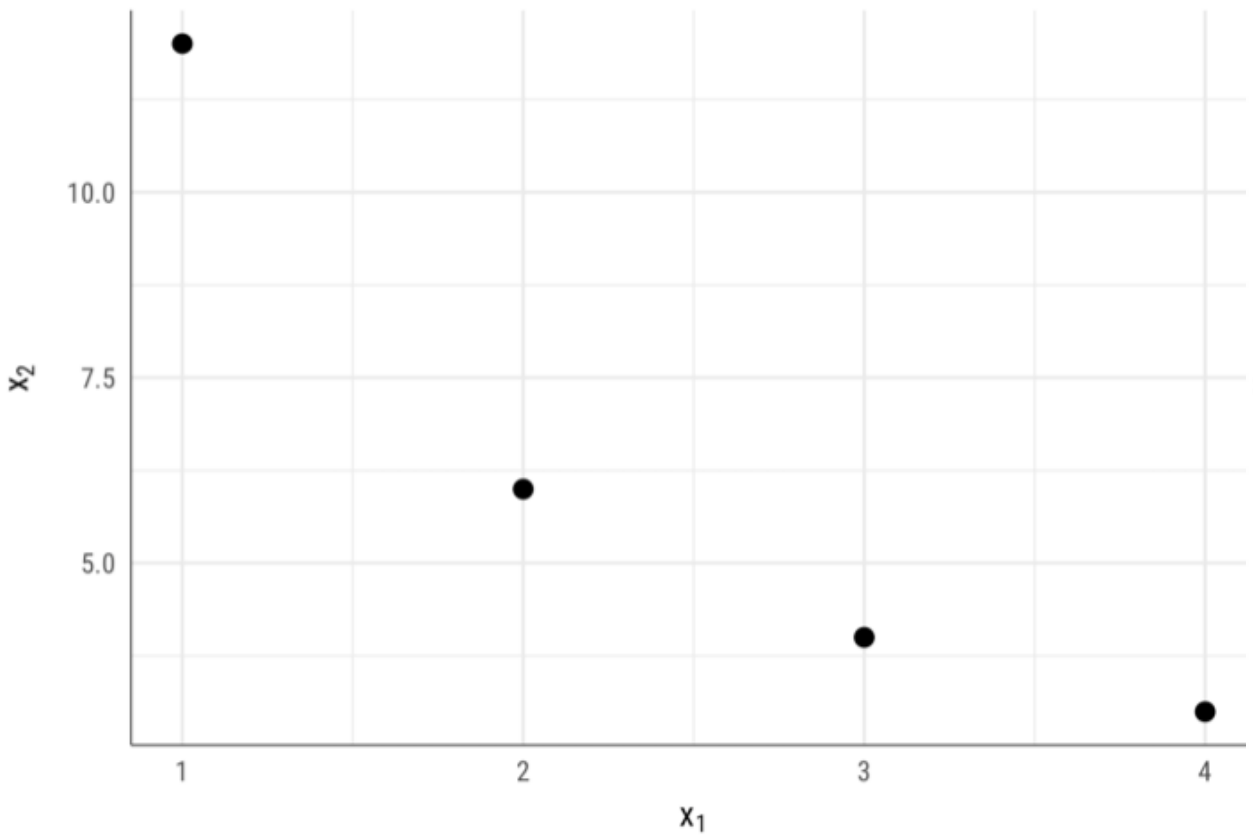
$u(1, 2)$ **2**

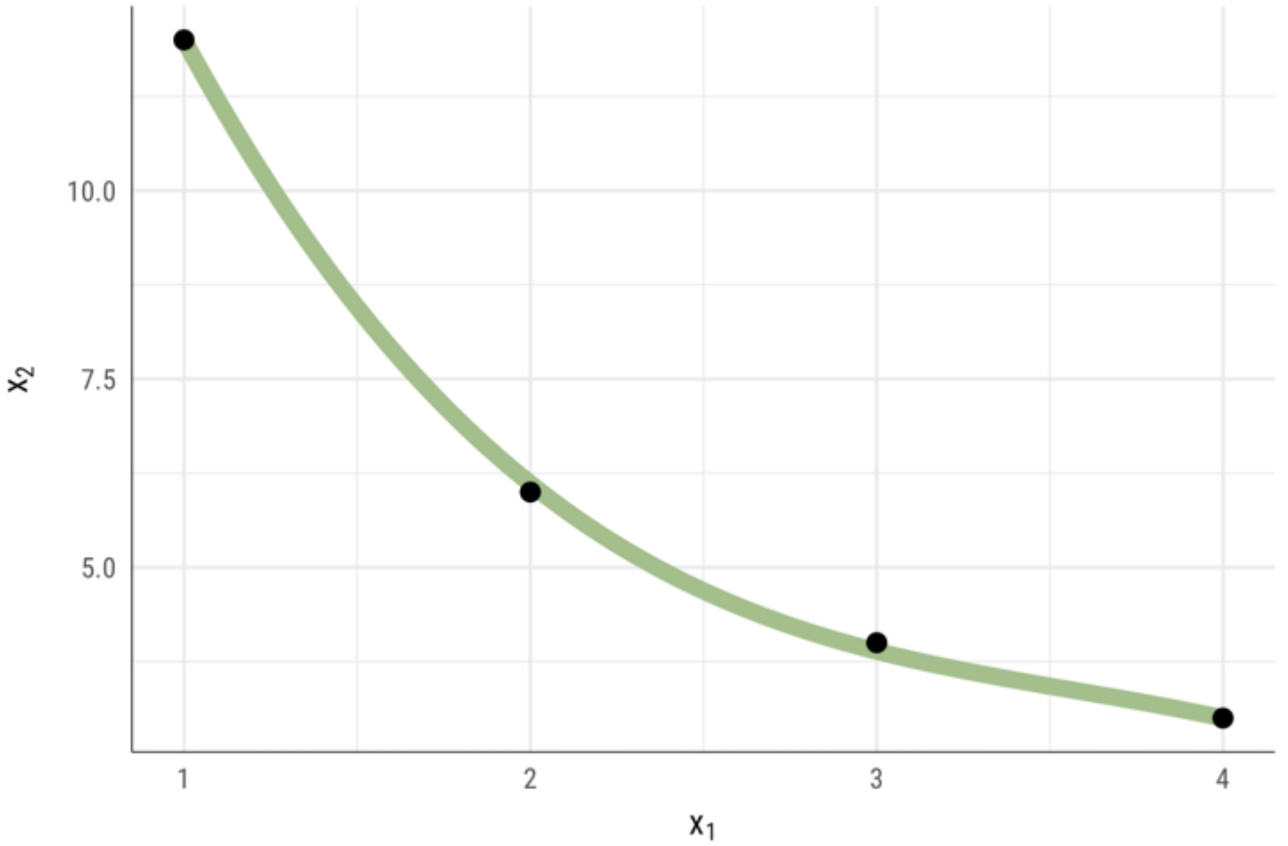
$u(100, 3)$ **300**

$u(4, 1)$ **4**

What combinations of inputs will produce 12 utils?

$$u(x_1, x_2) = x_1 x_2$$


10.0
7.5
5.0
x_2
1
2
3
4
x_1


10.0
7.5
5.0
x_2
1
2
3
4
x_1

Moral of the story…

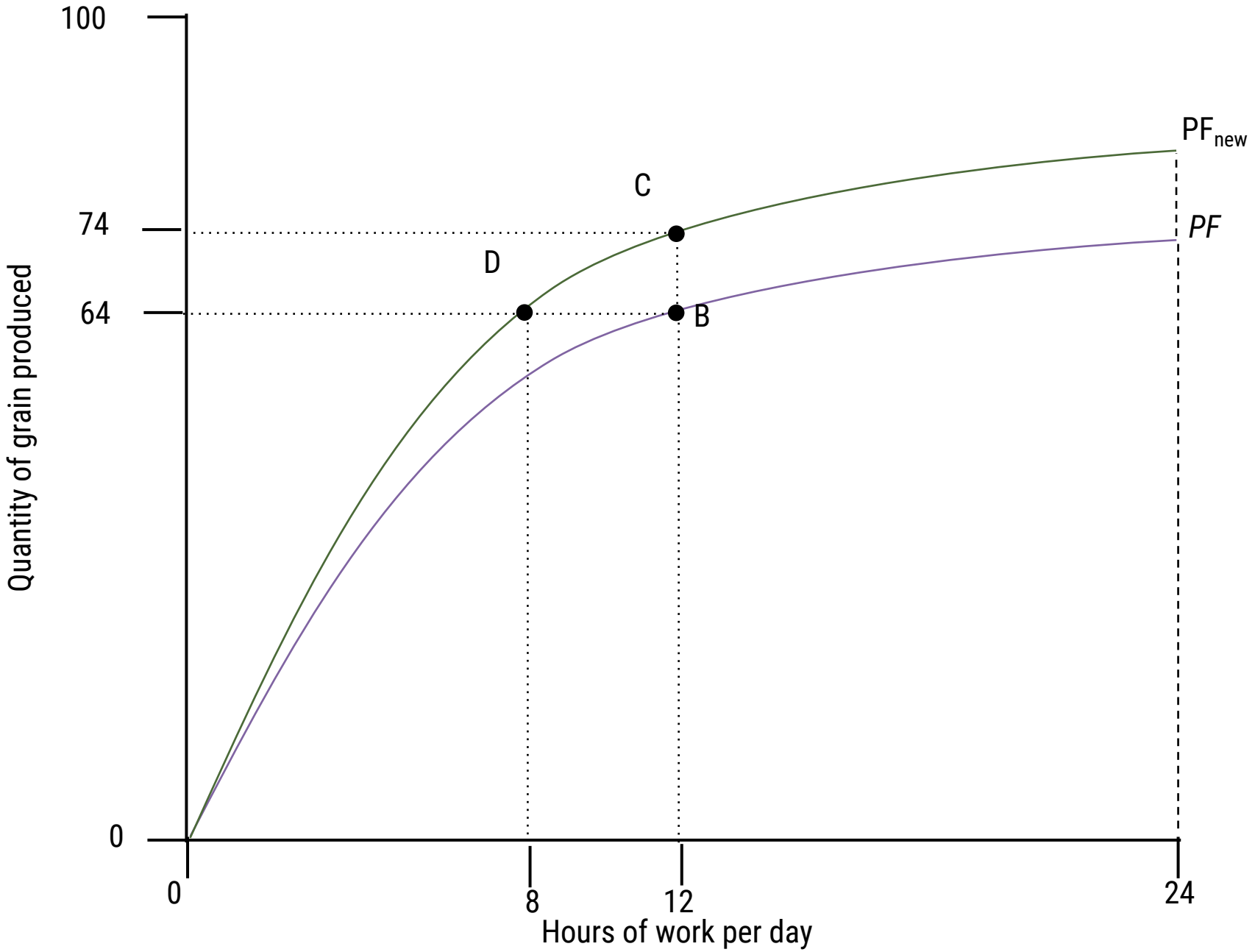
Indifference curves show combination of bundle of goods that give the same utility

Shape of indifference curves connected directly to utility function and preferences

Productivity, ideas, and never ending(?) growth

Why don’t people work less?

Where are all the new ideas?


100
74
64
0
Quantity of grain produced
C
D
B
PF_new
PF
0
8
12
24
Hours of work per day

Income and substitution effects

How does our consumption change with changes in price?

Type of good matters

Normal goods	As income increases, you buy **more**
Inferior goods	As income increases, you buy **less**

Type of scarcity matters

Limited by time — Alexei and Angela

Limited by income — Budgets

Limited by capabilities — Education & innovation

What happens when feasibility changes?

Budgets

Education & innovation

What happens when feasibility **of one thing** changes?

Changes in prices

Taxes

Time

Income effect

Movement **to** a new indifference curve because of change in income or feasibility

Substitution effect

Movement **along** same indifference curve because of a change in mix of inputs

Why does any of this even matter?

You all always maximize your utility by matching your MRS with your MRT given your budget constraints and finding the best combinations of goods to reach highest indifference curve, right?

NETFLIX

What do income and substitution effects, indifference curves, and utility have to do with the public sector?

What do these economic principles have to do with public management?