

THEORY OF CONSUMER BEHAVIOUR



Consumer`s utility

Budget constraint

Choice of rational consumer



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Consumer Choice

STRUCTURE OF PRESENTATION

- 1. Consumer`s utility**
- 2. Budget constraint**
- 3. Choice of rational consumer**



THEORY OF CONSUMER BEHAVIOUR

Consumer Choice

Why and how does a person choose goods and services he/ she consumes?



1. Consumer's utility

1/3

- main motive: to gain satisfaction from consuming goods and services
- **satisfaction = utility**
- consumer can rank (compare) all available consumption bundles:
 - A is preferred to B
 - B is preferred to A
 - A and B are equally good

1. Consumer's utility

2/3

- **Bundles** = combinations of different amounts of consumption goods (good X and good Y)

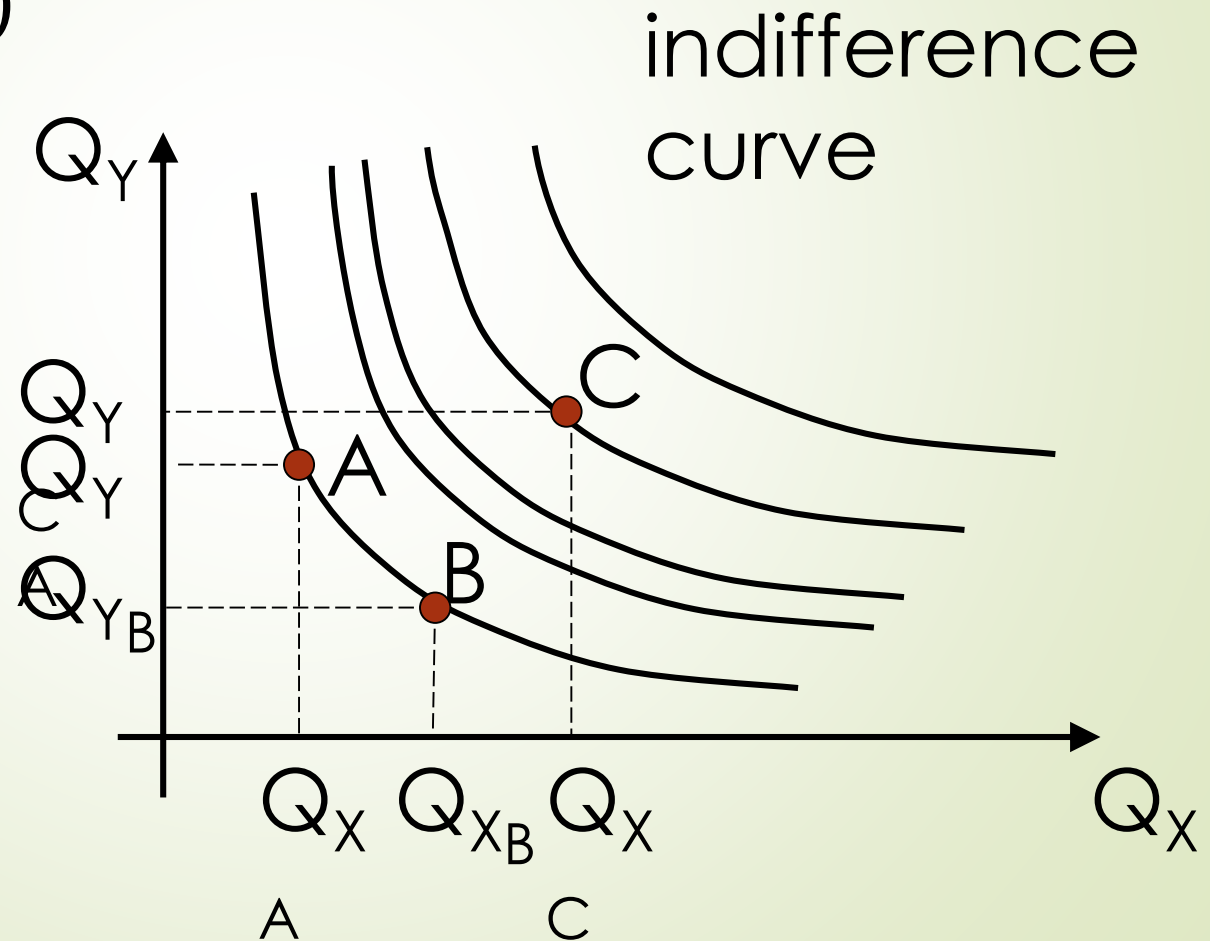
$$TU = f(Q_X, Q_Y)$$

1. Consumer's utility

3/3

$$TU = f(Q_X, Q_Y)$$

$$A = B < C$$



2. Budget constraint

1/2

- no consumer is able to satisfy all his wants, because of his limited income and given prices of goods
- **income = expenditures**

$$TE = I = P_X \cdot Q_X + P_Y \cdot Q_Y$$

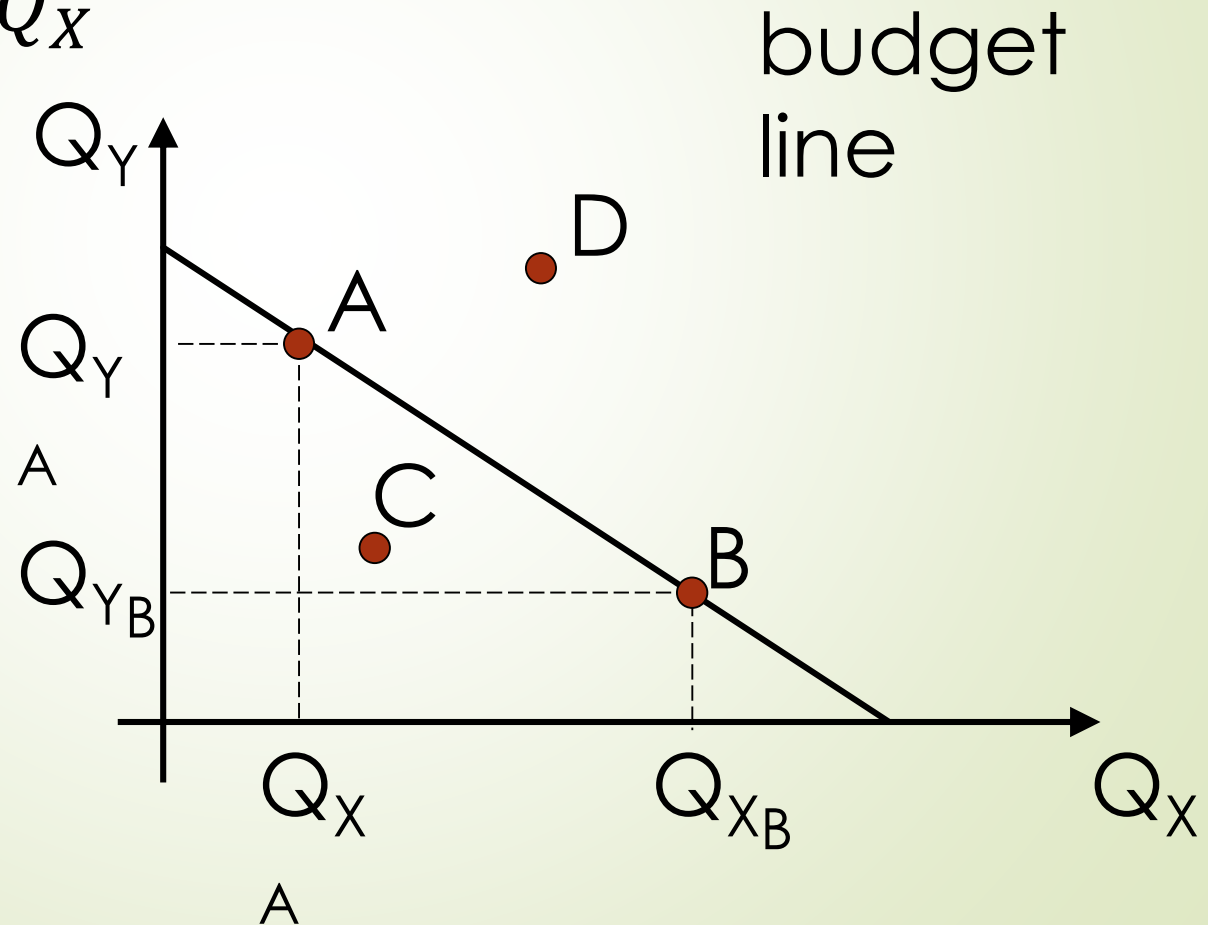
$$Q_Y = \frac{I}{P_Y} - \frac{P_X}{P_Y} \cdot Q_X$$

2. Budget constraint

2/2

$$Q_Y = \frac{I}{P_Y} - \frac{P_X}{P_Y} \cdot Q_X$$

$$I = TE$$



3. The choice of rational consumer

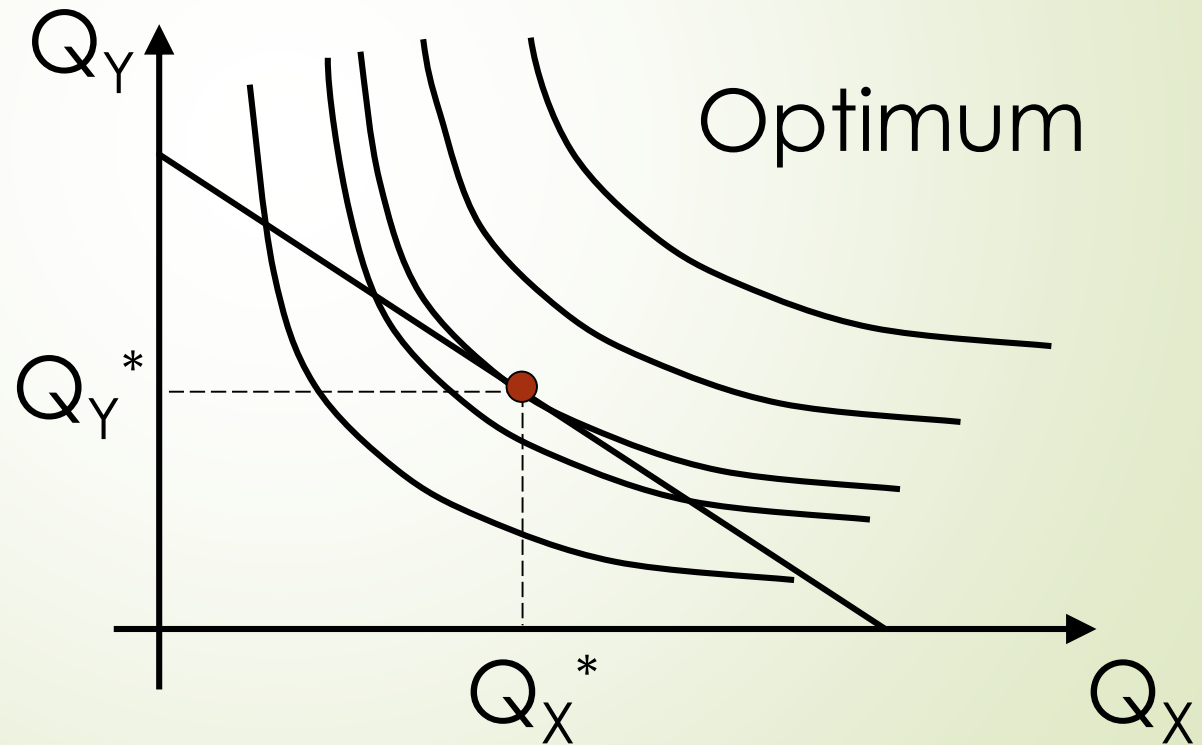
1/2

➤ **rational consumer:** max TU sub to I, P_X, P_Y

$$\max TU = f(Q_X, Q_Y) \quad / \quad I = P_X \cdot Q_X + P_Y \cdot Q_Y$$

3. The choice of rational consumer

2/2



Consumer Choice

- consumer's wants and wishes - utility maximization
- income and prices - budget limitation

consumer's optimum

Next lesson

THEORY OF CONSUMER BEHAVIOUR

1. The effects in changes of income and price
2. Individual and market demand

Sources

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THANK YOU FOR YOUR ATTENTION!