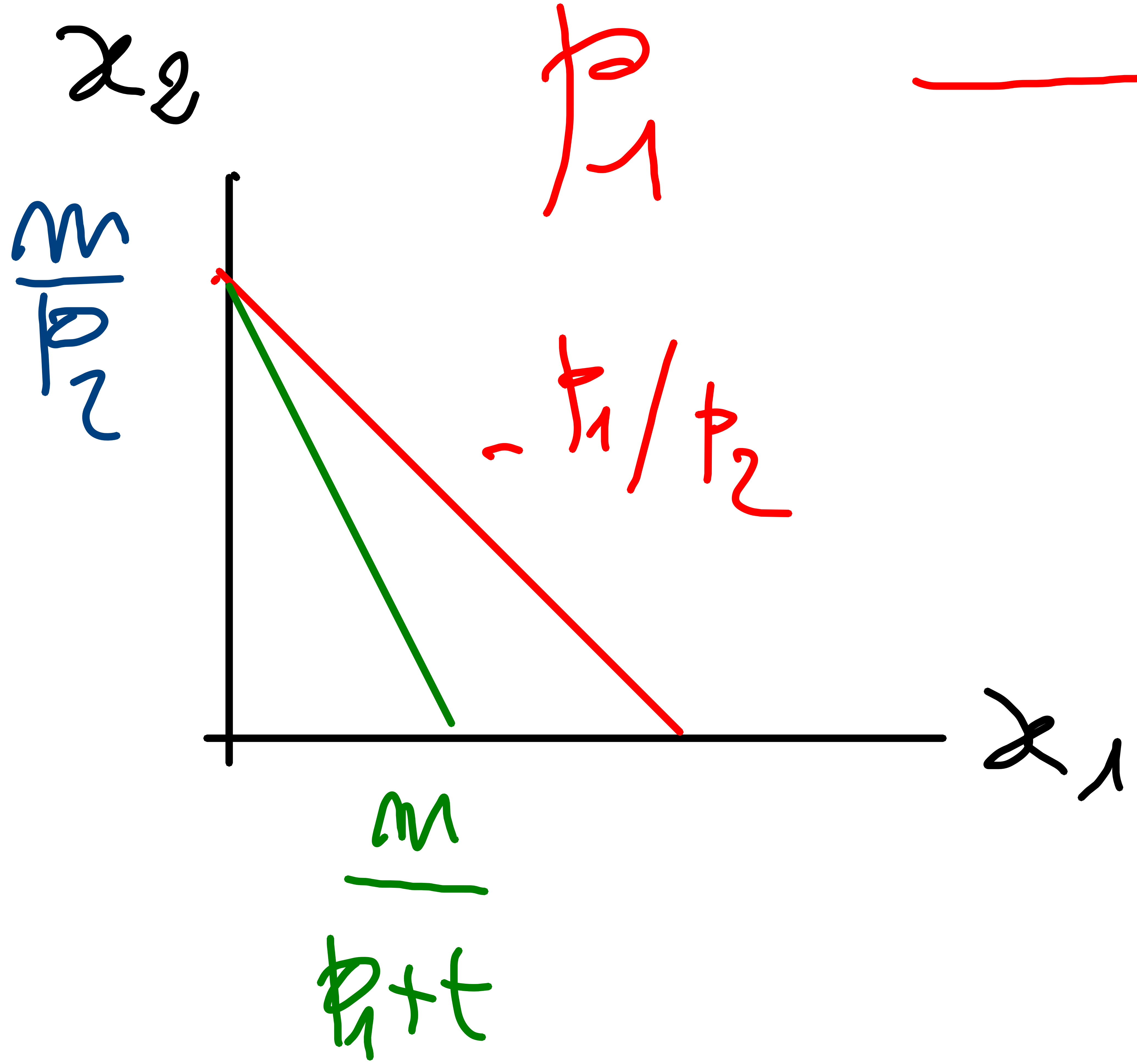
tax on quantity t

$p_1 \longrightarrow p_1 + t$

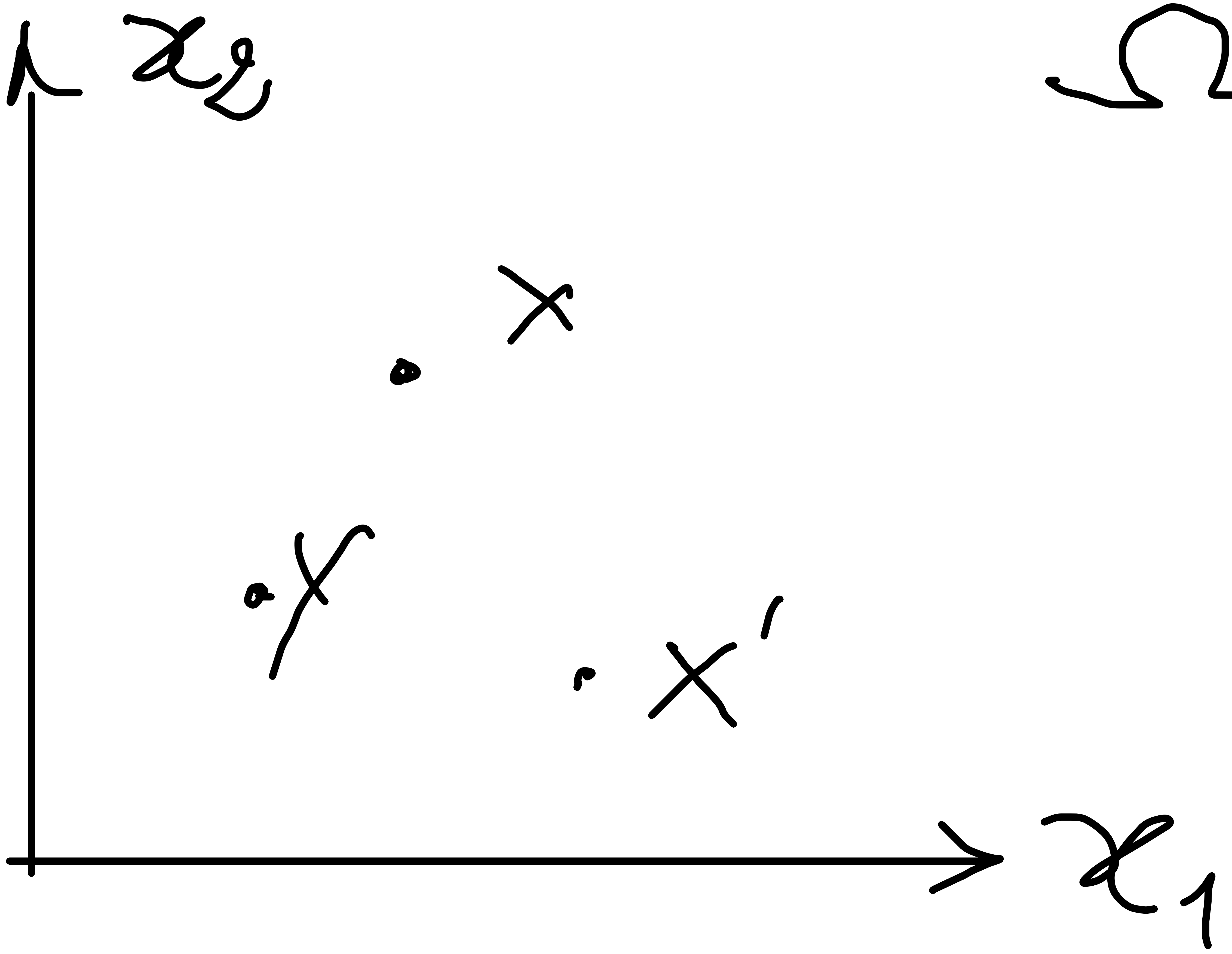


tax on value τ

$p_1 \longrightarrow p_1(1+\tau)$

p_1 to seller

$p_1 \cdot \tau$ to governm.



Ω

$x \succ y$ strict prefer.

$x' \succsim y$ weak prefer.

if $y \succsim x'$

then $y \sim x'$

indifference

COMPLETE PREFERENCES

$\forall \quad x, y \in \Omega$

either $\quad x \succsim y$

or $\quad y \succsim x$

or $\quad$ both; $x \sim y$

REFLEXIVITY

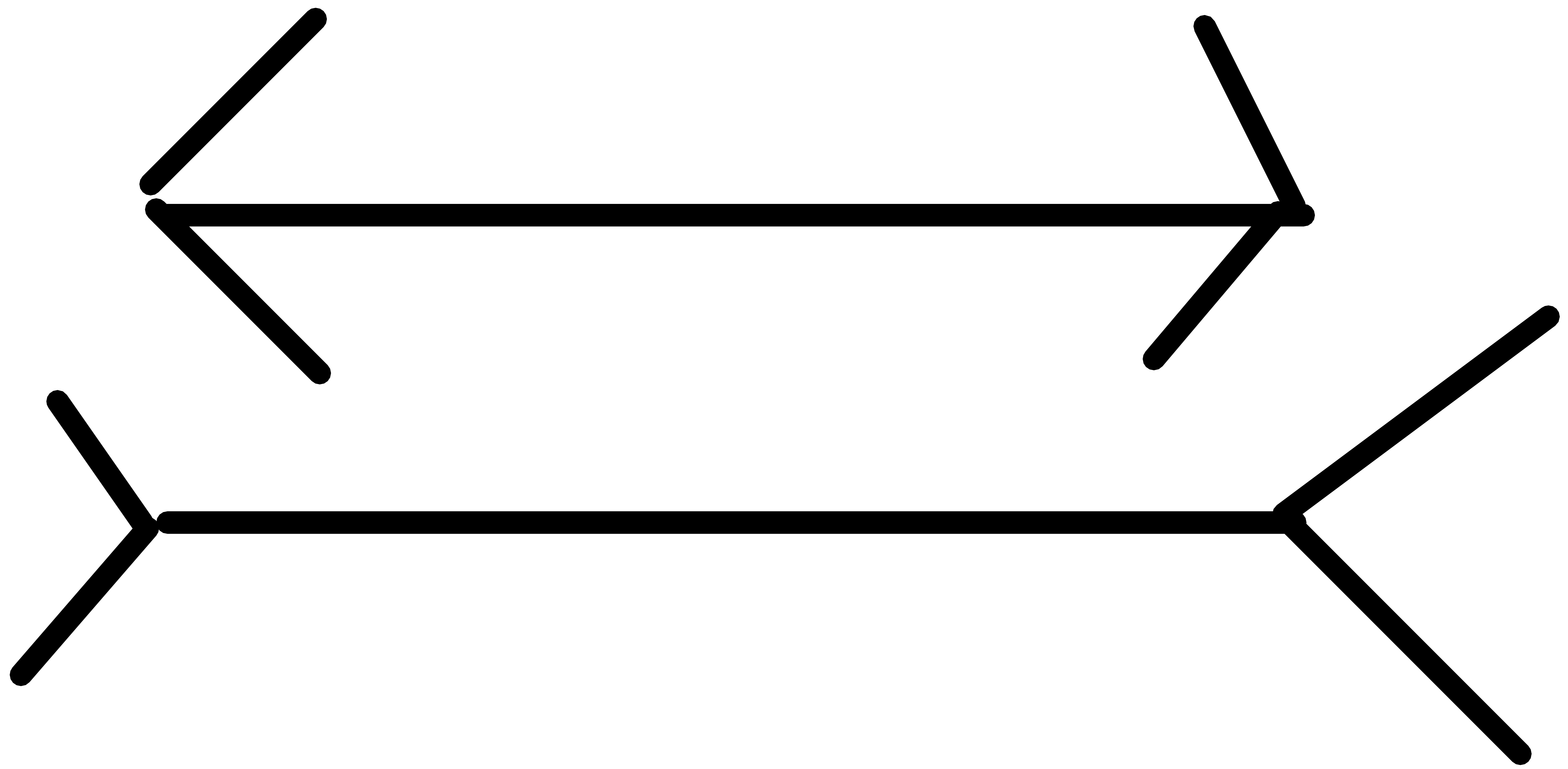
$$(x_1, x_2) \succsim (x_1, x_2)$$

TRANSITIVITY

if $X \succ Y$, $Y \succ Z$

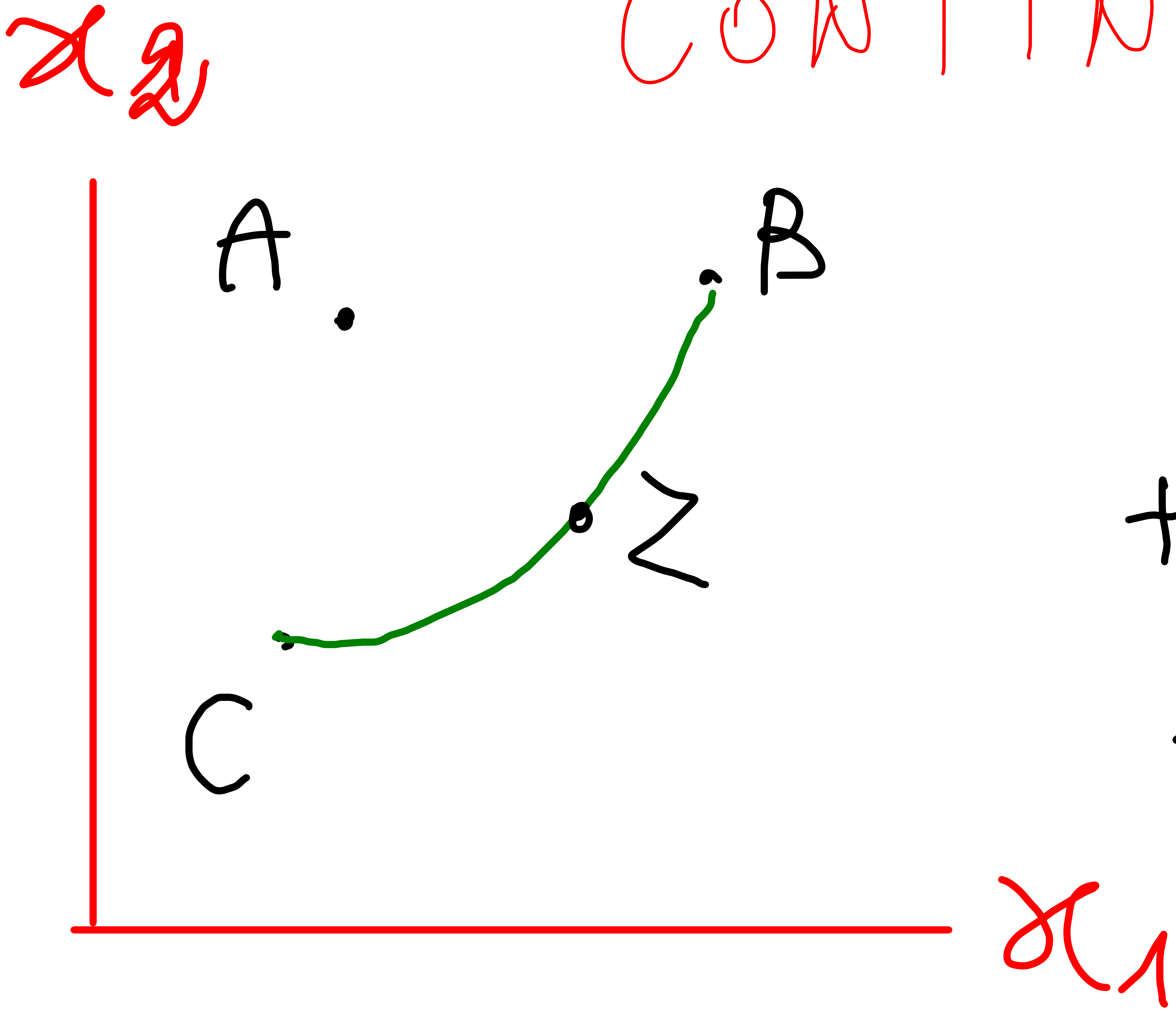
then $X \succ Z$

exception to transitivity



FRAMING EFFECTS

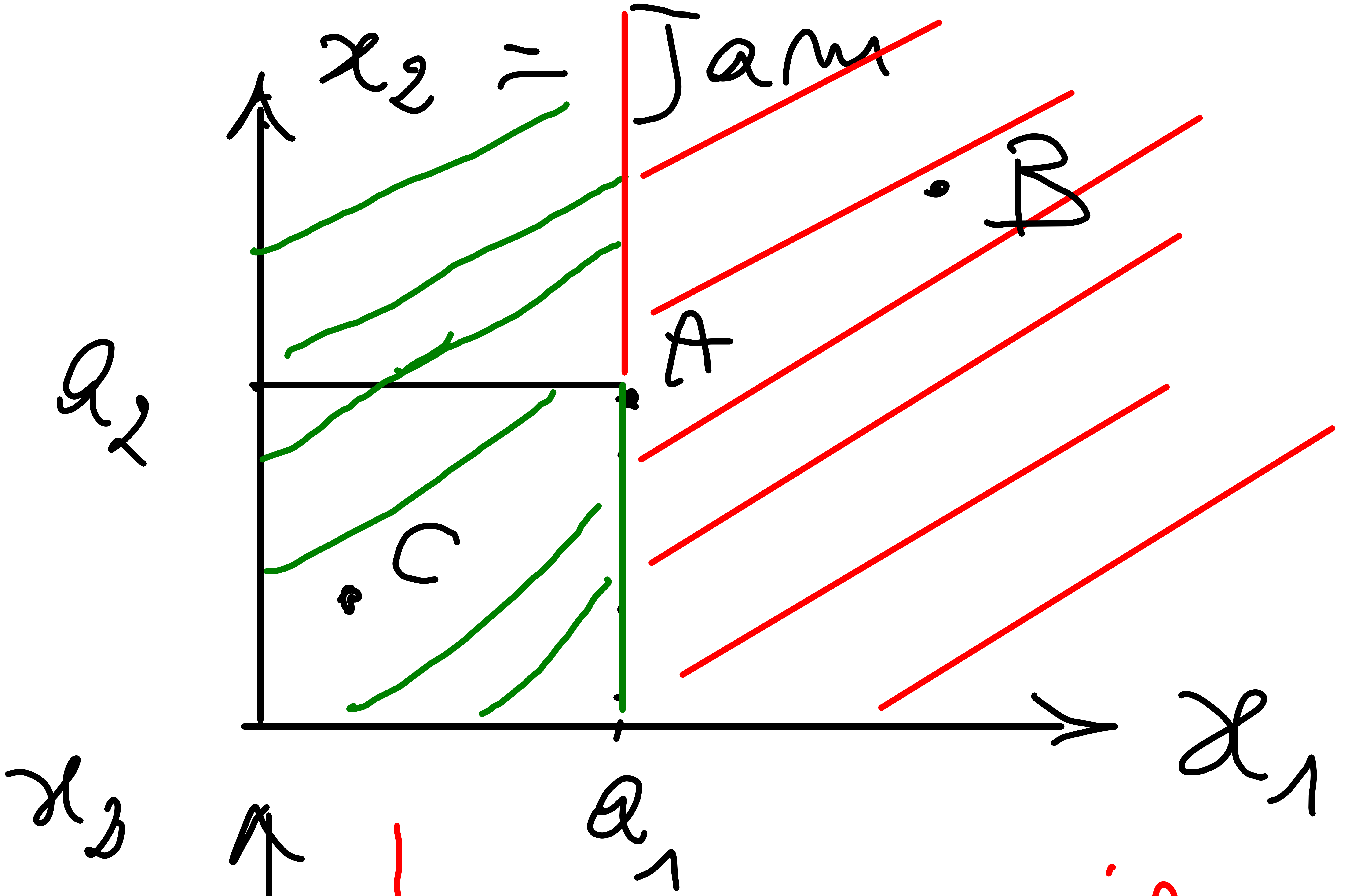
CONTINUITY OF PREFERENCES



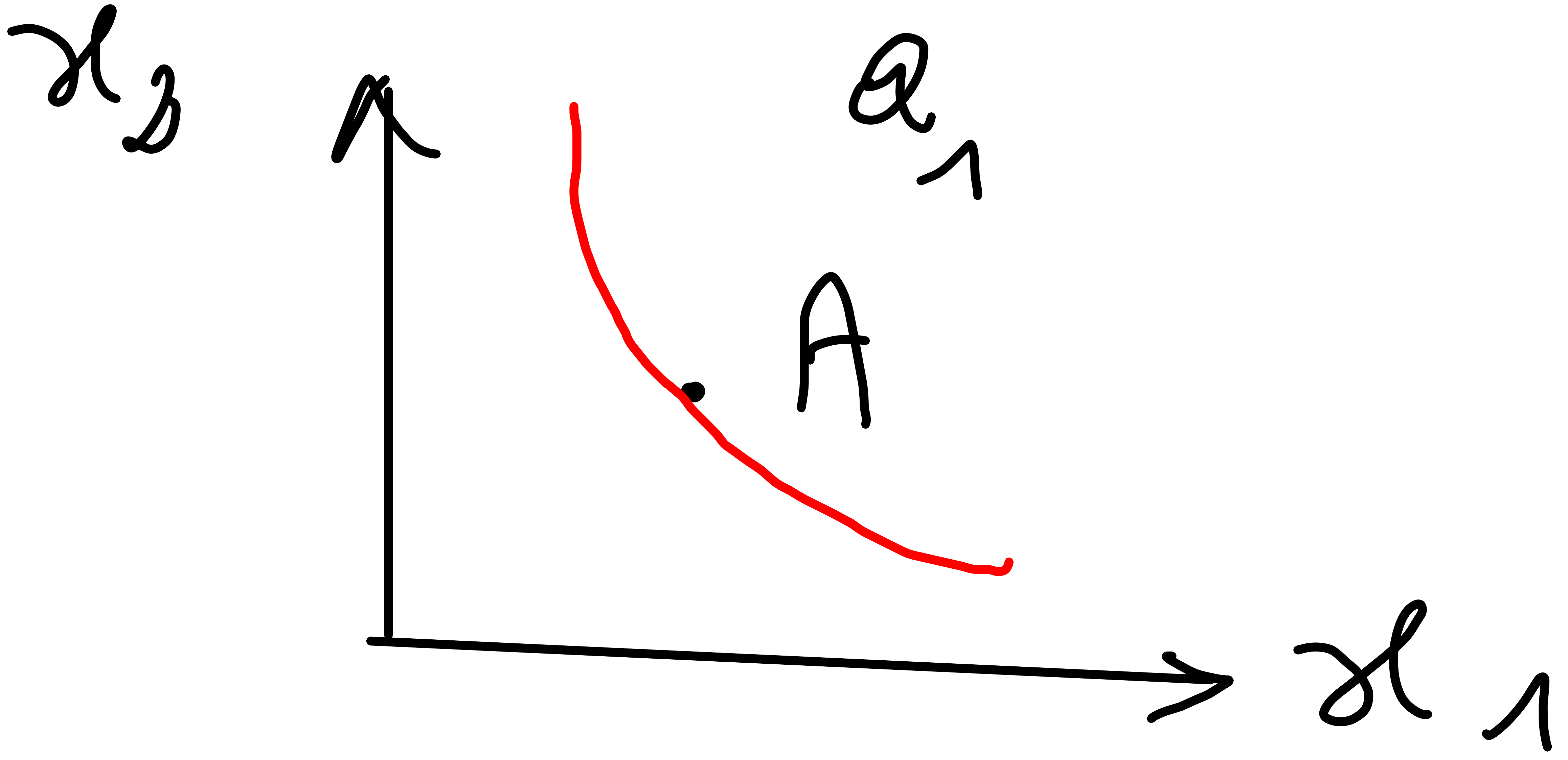
Assume $B \succ A \succ C$

there exists

$Z \sim A$



Preferences are not continuous here

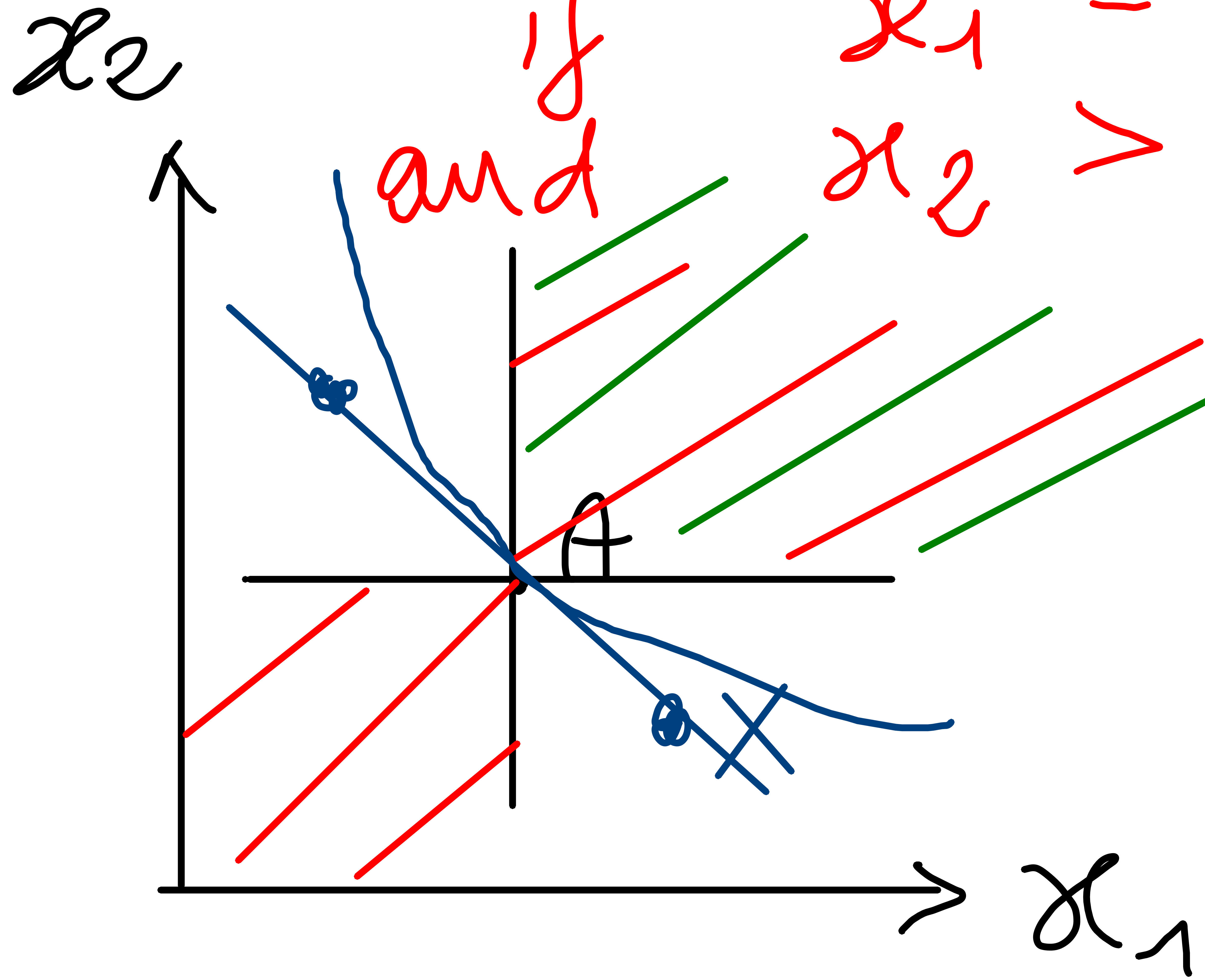


if AN INDIFFERENCE CURVE THROUGH A EXISTS → continuity

MONOTONIC PREFERENCES

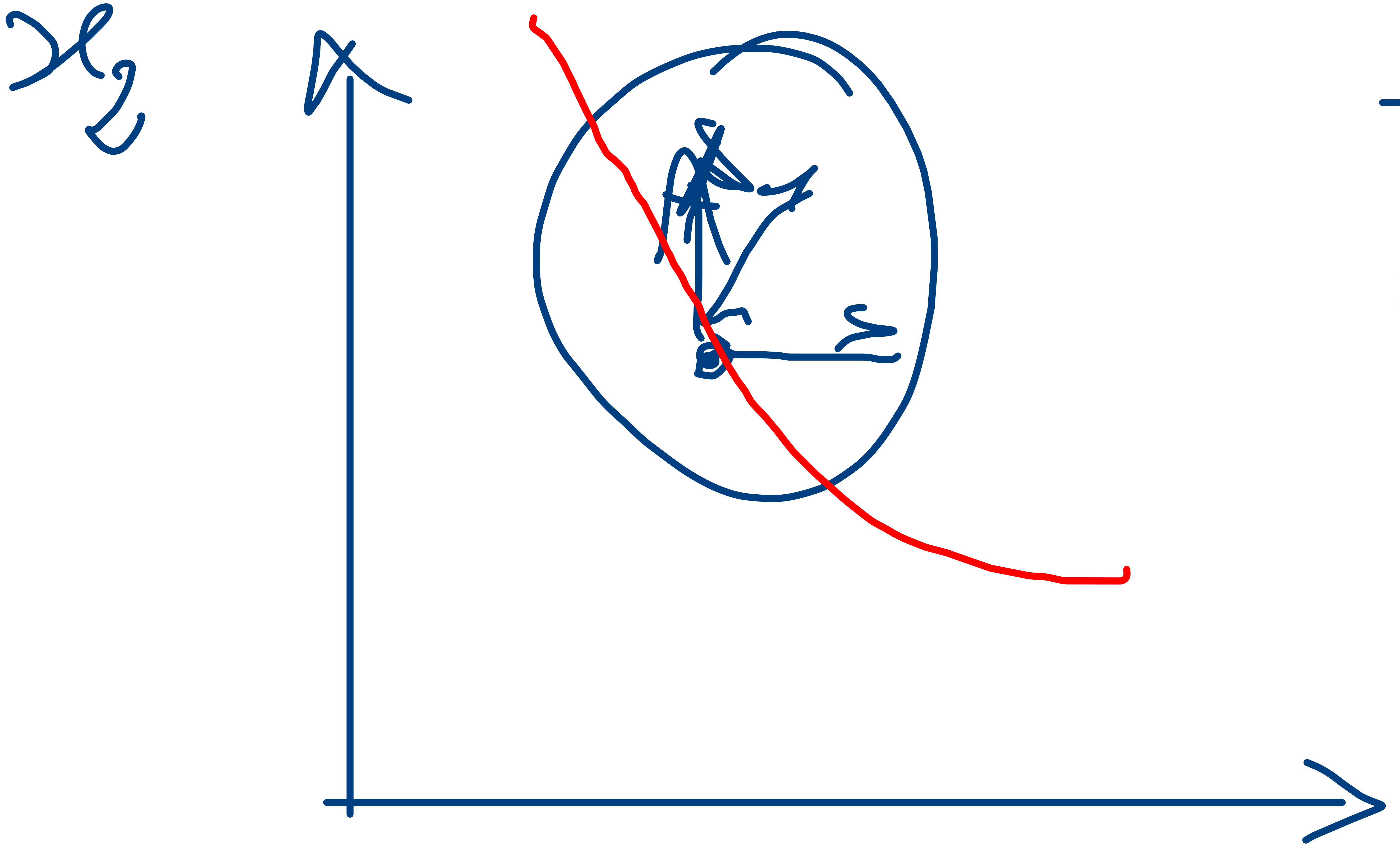
$X = (x_1, x_2)$ $Y = (y_1, y_2)$

if $x_1 = y_1$ then $X > Y$
and $x_2 > y_2$



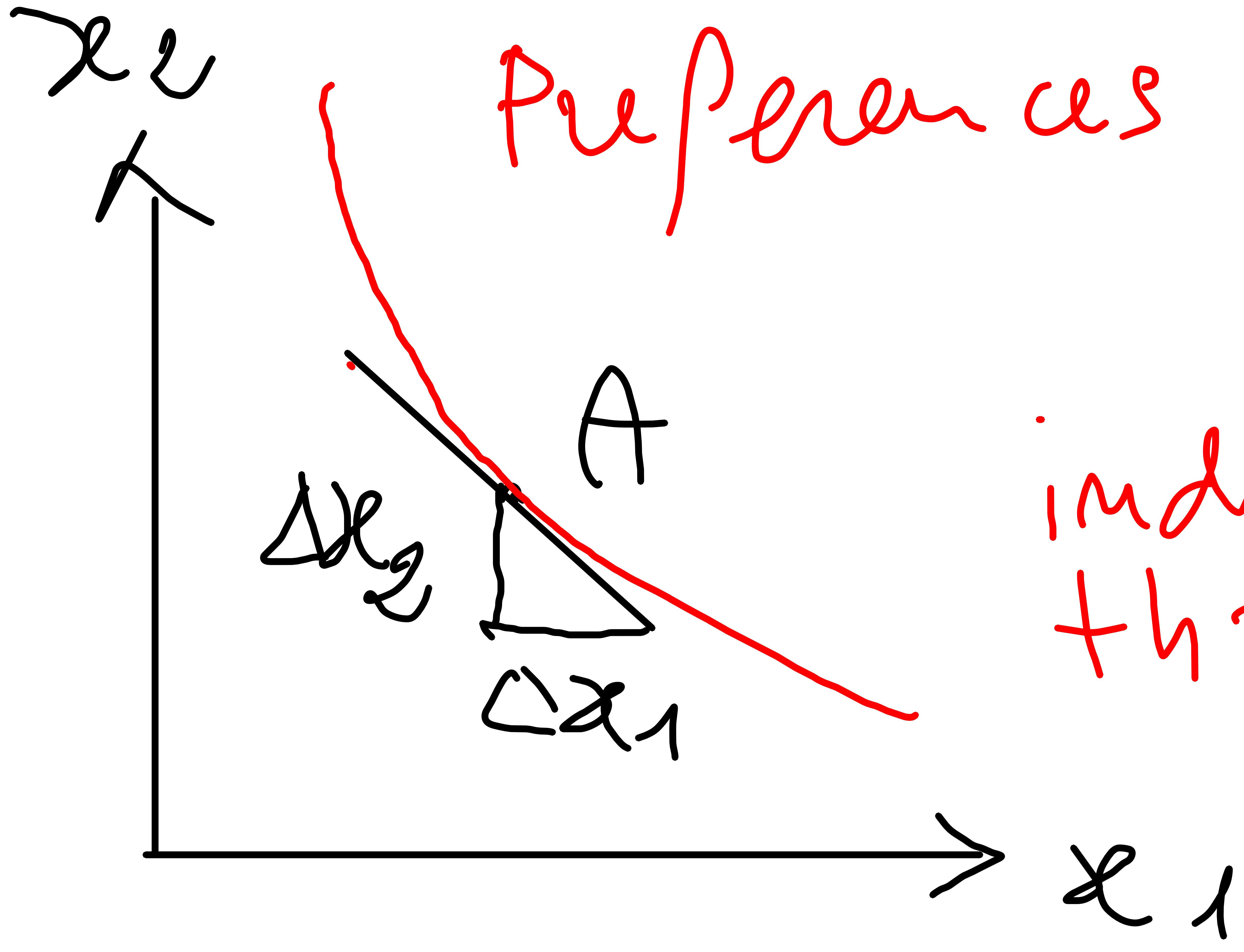
if $X \neq A$ $X \sim A$

indifference curve through A is decreasing



the set of bundles that are indifferent to A cannot be a surface

Preferences on monotonic continuous



indifference curve through A

$\Delta x_1 = 1$

slope at A $\approx \dfrac{\Delta x_2}{\Delta x_1}$

$$\lim_{\Delta x_1 \to 0} \frac{\Delta x_2}{\Delta x_1}$$

moving along indifference curve starting at A

slope at A of indifference curve = MRS

$|MRS|$ = maximum number of units of good 2 the consumer is prepared to pay for $\Delta x_1 = 1$

$|MRS|$ = maximum price of good 1 in terms of good 2