

Microeconomics: 2010 (Edward)

August 28, 2011

So, what about this course?

The intent of the course is to introduce you to microeconomics, whatever that is.

My name is Edward. I am an environmental economist, a statistician, and trying, as I age, to become a moral philosopher.

(In explanation: Much of my research is on the environment; I have been teaching statistics to Ph.D. students—a good way to learn statistics—and for the five years or so I have become interested in how one determines good from bad (moral philosophy) as it relates to economics. I read a lot of stuff about “happiness”.)

I suffer from [enochlophobia](#) and [laliophobia](#), so try not to scare me.

There are two web pages for the course:

My web page for the course

<http://www.colorado.edu/economics/morey/2010/2010home.html>

and the Aplia web page for the course at

<http://www.aplia.com/>

You need to sign up for Aplia

There are two T.A.’s for the course:

Xin Wang, a female, pronounced “sin”

and

Austin Smith, a male, pronounced “ahh-stin”

They will not be having recitations this week; recitations will start next week. If you need their help this week with Aplia or anything else, see them during their office hours (posted on the course web page)

Before we proceed and you start studying, keep in mind the warning of Dr. Frankenstein (the guy who created the “monster” in Mary Shelley’s famous book)

“Study had before secluded me from the intercourse of my fellow-creatures, and rendered me unsocial.”

So, don’t study too much; study just the right amount.

1_An introduction to explaining behavior: preferences, constraints, choices, and how economists think

Microeconomics is a lot about explaining, modeling and predicting behavior.

How many of you were in a committed relationship on June 1st

How many of you are still in that same committed relationship?

Why or why not?”

A number of my friends have recently changed spouses – some very quickly. Another friend, only “dates” married women (he has commitment issues). Are these **choices, or not?**

Remaining in the same relationship, can be a choice, a choice that continues for as long as it continues. (It might not be a choice: maybe your significant other will shoot you if you try and leave—the distinction between “choices” and “constraints” is important.)

So, how does one decide whether to stick with the old wife and 6 kids, or switch to a new wife who only has 3 kids (for a total of 9 kids)? At my age, there are always kids, a constraint.

Or, whether to keep the old boy-friend back in Grand Junction, or take your chances at CU, or try to do both? (It is amazing what you can do on Skype: Skype and texting greatly decreases the cost of maintaining the distant relationship, but they also increase the probability that your new “friend” will find out about your old friend)

Note that most people “choose” to have only one sex partner at a time. Having none might be a choice, or it might be a constraint.

Some statistics:

Of males between 20 and 24, 14.2% had no sexual contact, with other people, in the last 12 months, 55.2% had one sexual partner (mostly with a member of the opposite sex), and 33.3% had two or more partners. The rest were un-ascertained.

The number for females between 20 and 24 are 12.5%, 59.3% and 21.6%.

For more details see Males and Females Who Have Had Sexual Contact in Last 12 Months by Number and Sex of Partner : 2002 [\[Excel 31k\]](#) | [\[PDF 466k\]](#), courtesy of the Federal Government.

Some of the costs and benefits of dumping the old one

Dumping can be emotionally risky, unless you “monkey bar” (don’t let go of the old one until you have one hand on the new one)

The old one is reliable, but a bit boring?

He, she, loves you, or at least likes you.

He is kind of cute, but could lose a few pounds

He is starting to look and act old.

And, there might be someone better out there just waiting for you to appear.



And, dumping George might turn him into a crazed stalker, someone who texts pleas hundreds of times a day, or worse. (Why is George more likely than Georgina to get violent?)



How would an economist describe how the dump decision is made?

Your first reaction might be to say that economists do not enter into social relationships, so economists are clueless as to how these decisions are made, so anything they say should be ignored. Fair enough; except you are in a class taught by an economist.

Hint: Economists assume—believe?—that people are rational—even when it comes to love and sex. That is, the individual knows her preferences (knows what will make her better off), knows her constraints, and does what is in her own best interests.

Is this true for love and sex? (Consider the mental processes of a drunk, aroused, eighteen-year-old male)

Is “economic rationality” true for the purchase of a washing machine?

Many psychologists think the economic assumption that humans are “rational” is unfounded (not based on the available scientific knowledge of how people work).

An economist would assume the individual makes the decision of whether to dump the old one on the basis of the **expected** benefits and costs

The short-run costs might be high: crying, screaming, regret, phone calls in the middle of the night—even threats.

You might be alone for the rest of your life, a longrun cost.

As some of my, previously rich friends would tell you, switching spouses can be costly.

The short-run **net** benefits (benefits minus costs) are likely small unless you are monkey barring—some passionate sex, but also some agony.

But the long-run benefits might be love, excitement and great sex for a hundred years.

Are these people making the best choices?



NYT: August 20, 2010

Brant vs. Brant: Divorce Celebrity Style

By [LAURA M. HOLSON](#)

AROUND 9:55 a.m. on Aug. 6, a parade of lawyers filed into Room 7B at the courthouse in Stamford, Conn., to hear a motion in the divorce case between the newsprint magnate Peter M. Brant and his estranged wife, Stephanie Seymour. Last year Ms. Seymour, a beauty prized for her angel-winged walk as a Victoria's Secret model, sued to end their 15-year marriage. She claimed he was too controlling. He contended she cheated on him and abused drugs and alcohol.

...This time they were haggling over mandatory drug testing, which both parties had done for the last year, and whether Mr. Brant could end his testing regimen. Mr. Brant was "clean as a whistle," his lawyer, Robert Dobrish, told the judge...

He was a billionaire with a vast art collection and his very own polo team. She was a Sports Illustrated supermodel and the ex-girlfriend of a rock star. The union of Peter and Stephanie Brant was always a bit odd, and now it has turned into one of the most bitter, high-profile divorces in years.

By the time Brant v. Brant goes to trial on Sept. 20, the two sides will have generated more than 12,000 pages of public divorce documents (with thousands more sealed), paid millions of dollars in lawyers' fees and fractured an already delicate cadre of family and friends forced to take sides.

At the most basic level, this has turned into a case of “he said, she said,” with charges ranging from infidelity to rampant drug use. To complicate matters, Mr. Brant, whose estimated net worth is near \$500 million, did not sign a prenuptial agreement.

“I was very surprised when he married her” without a prenup, said [Donald Trump](#), the twice-divorced mogul who has known the couple for years and who is married to an ex-model. “It’s a lot easier to get done when you love each other than when you hate each other. And they hate each other. It’s a mess.”...

But perhaps her most celebrated romance was with Axl Rose, the lead singer of [Guns N’ Roses](#). (In the band’s 1992 music video “[November Rain](#),” she portrayed a bride who dies.) That relationship ended badly in 1993 after he accused her of infidelity...

She has been on the cover of Vogue at least five times, and was a Playboy cover girl in 1991 and 1993...

Mr. Brant’s business was less glamorous; he made his fortune manufacturing newsprint and investing in Greenwich real estate. When he was barely 20, Mr. Brant befriended the art dealer [Leo Castelli](#), who introduced him to [Andy Warhol](#), a seminal figure in Mr. Brant’s career as an art collector...

Mr. Brant began to hang out with other downtown artists, including [Julian Schnabel](#) and Richard Prince, whose work he bought and which allowed him to amass one of the foremost collections of modern art today. His interests were patrician: in the 1980s, he started a polo team and played competitively...

But closer to home, their life was relatively quiet. They have two sons — Peter Jr., 16, and Harry, 14 — and a daughter, Lily, 5. For years Greenwich locals spent Sundays watching Mr. Brant and his polo team play on a grassy field across the street from his estate, White Birch Farm. (Last year he began disbanding the polo team.)...

Whatever the couple’s differences, it was clearly having an impact on the children. Ms. Seymour’s lawyers contended in a motion in May that one of the children wets the bed while another repeatedly hit and scratched a housekeeper. The children were assigned court-appointed legal counsel and a guardian. (Many of the documents related to the children are sealed, and the two principals have agreed that neither will talk to the press.)

More often, though, the couple fought over objects. Ms. Seymour claimed in a motion filed on May 7, 2009, that Mr. Brant took 44 paintings by Warhol, a chandelier from her dressing room and drawings by Basquiat that she kept in her bathroom...

Mr. Brant said Ms. Seymour took some Warhol paintings of her own, including a few of the “Last Supper” series, according to a motion filed four days later. At the hearing on Aug. 6, Ms. Seymour’s lawyer wanted to know what Mr. Brant did with some jewels lent to a Parisian art show. Mr. Brant’s lawyer countered: What did Ms. Seymour do with his client’s watches?...

And then there was the claim that she was unfaithful. Mr. Brant acknowledged in a deposition on June 23, 2009, that a cause in the breakdown of their marriage was Ms. Seymour's infidelity. The topic proved particularly contentious as Ms. Seymour's lawyers saw Mr. Brant's romantic life as fair game. At that deposition Ms. Seymour's attorney, Thomas Colin — who quit in March — grilled Mr. Brant about whether he had had an affair. Court records said Ms. Seymour was present...

“From the date of your marriage to Stephanie until the present day, have you had sexual intercourse with anyone other than Stephanie?” Mr. Colin asked...

Mr. Brant's lawyer objected. So did Mr. Brant.

What should you do wrt staying or leaving?

For one, it depends on how you feel about **uncertainty**. Do you hate it? Do you love it?

It depends on how you trade off current benefits and costs for future benefits and costs.

Someone who puts a lot of weight on the present vs. the future might stay in an unhappy relationship because every day the short-term cost of breaking up is just too high. For the same reason, you might logically continue to smoke, even though you it will kill you in the longrun. This is perfectly rational behavior.

Studies show that many people suffer more in the longrun from their minor injuries than from their major injuries: we are forced to deal with major injuries so bite the bullet, have the surgery, and do the rehabilitation, but suffer for years from minor injuries because on a day-by-day basis, it makes sense to not deal with the injury.

Whether to dump depends on your **perceptions** of the magnitudes of the benefits and costs of dumping, and maybe your perceptions are incorrect.

You might have misinterpreted the smile of Julie in the next office, or misjudge how much the divorce would muck up the kids.

Lots of research indicates that sex with the new wife in the back of the new car will not, in the longrun, be as great as you now imagine.

Would you dump your significant other for \$1 million in cash?

How about \$1

People make choices, and one of the most important choices we make is who to be with.

Lots of economists study marriage, divorce, and the family. The University of Chicago economist and Nobel Laureate, Gary Becker, was a pioneer in the economic study of marriage, divorce and the family (<http://apps.olin.wustl.edu/faculty/pollak/b-talk34.pdf>). In 1981 Becker wrote a famous book (amongst economists), *The Treatise on the Family*

It is projected that between 40% and 50% of marriages will end in divorce. For more details go to www.divorcerate.com

YOU will likely divorce.

Some other tidbits courtesy of

http://www.census.gov/Press-Release/www/releases/archives/marital_status_living_arrangements/010624.html

Table 3. Marital History for People 15 Years and Over, by Age and Sex: 2004

Source: U.S. Census Bureau
Internet release date: month x, 2007

(Numbers in thousands, for meaning of symbols, see text.)

Characteristic	Total, 15 years and over		15 to 19 years	20 to 24 years	25 to 29 years	30 to 34 years	35 to 39 years	40 to 49 years	50 to 59 years
	Estimate	Margin of error							
MEN									
Total (in thousands)	#####	1,006	10,473	10,022	9,511	9,848	10,121	21,857	17,352
Percent	100.0	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Never married	31.2	0.6	98.1	84.0	53.6	30.3	20.2	14.1	8.7
Ever married	68.8	0.6	1.9	16.0	46.4	69.7	79.8	85.9	91.3
Married once	54.0	0.6	1.9	15.9	44.3	62.4	68.1	66.8	63.4
Still married	43.8	0.6	1.5	14.4	39.7	54.4	56.6	52.8	50.3
Married twice	11.8	0.4	-	0.1	2.0	6.7	10.3	15.7	21.3
Still married	9.2	0.4	-	0.1	1.9	6.0	8.5	12.5	16.1
Married 3 or more times	3.1	0.2	-	-	0.1	0.6	1.4	3.3	6.6
Still married	2.3	0.2	-	-	-	0.4	1.2	2.7	5.1
Ever divorced	20.7	0.5	0.1	0.8	5.1	13.1	20.7	30.3	37.5
Currently divorced	9.3	0.4	0.1	0.7	3.2	6.6	10.9	14.7	16.2
Ever widowed	3.6	0.2	0.2	-	0.1	0.1	0.6	1.1	2.8
Currently widowed	2.5	0.2	0.2	-	-	0.1	0.4	0.6	1.4

WOMEN									
Total (in thousands)	#####	1,006	10,082	10,027	9,484	10,097	10,319	22,818	18,412
Percent	100.0	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Never married	25.8	0.5	97.3	73.3	41.3	22.3	16.2	11.9	7.6
Ever married	74.2	0.5	2.7	26.7	58.7	77.7	83.8	88.1	92.4
Married once	57.9	0.6	2.7	25.8	55.5	68.4	67.5	65.3	62.8
Still married	40.6	0.6	2.4	23.0	48.6	57.6	54.6	49.7	44.4
Married twice	13.2	0.4	0.1	0.8	3.1	8.2	14.1	18.9	22.6
Still married	8.8	0.3	-	0.7	2.8	6.6	11.3	14.0	15.5
Married 3 or more times	3.1	0.2	-	-	0.1	1.2	2.2	3.9	7.0
Still married	1.9	0.2	-	-	0.1	0.8	1.6	2.8	4.4
Ever divorced	22.9	0.5	0.2	2.5	7.0	17.1	25.6	33.9	40.7
Currently divorced	10.9	0.4	0.1	1.7	4.1	9.1	11.7	16.4	19.4
Ever widowed	10.8	0.4	0.1	0.1	0.3	0.7	1.1	2.5	7.8
Currently widowed	9.6	0.4	0.1	0.1	0.2	0.5	0.9	1.6	5.7

Source: U.S. Census Bureau, Survey of Income and Program Participation (SIPP), 2004 Panel, Wave 2 Topical Module.

So, many of you will get married, many of you will get divorced

Many of you will remarry.

And, a few of you will never tie the knot, possibly because it is illegal.

Will you make the correct choice as to who to marry and when to marry them?

Will you divorce them at the correct time?

When, who and for how long are separate but related decisions.

Let me mention again “constraints” the fact that you have not been married three times is probably, given your age, a constraint, not a choice. It would be very difficult for a twenty-year-old to be married three times. (I have one friend who has been married five times; he is 70)

Microeconomics is a lot about modeling and explaining behavior and choices

Of course one can't hook up with just anyone—everyone is not in your choice set.

I am old, fat, not rich, and go to bed a 9, so have limited options

Lindsey Lohan, George Bush, and George Clooney are not in my opportunity set.

Consider the words of the tall ugly guy [in *Frankenstein*, by Mary Wollstonecraft Shelly](#). “All looked on me as a wretch, doomed to ignominy and perdition.”

The guy only wanted a girlfriend, but there were no takers. He tried to get Dr. Frankenstein, his creator, to create for him a woman as grotesque as he (so she would not be offended by his looks), but the doctor would not do it. It is a sad tale.¹

Economists call such limitations constraints

You guys know about the “rule” (constraint) that you cannot date anyone who is less than half your age + 7.

E.g. if you are 20, they must be at least 17. If you are 40, they better be at least 27.

¹ Contrary to popular belief, Frankenstein is the creator, not the “monster.” In Shelly’s book, the big ugly guy has no name. Dr. Frankenstein refers to him as the “daemon”, a synonym for devil, and describes him as so bad looking that Dante could not even imagine a creature so hideous.

Our choices are constrained by

- how much money we have
- our time
- our abilities (I won a gold medal - not)
- our looks
- the norms of society (cultural norms)
- the law
- and what other people want (e.g.. it is a bad idea to have sex with someone who does not want to have sex with you)

I would like to buy an apartment in Italy (I spend part of most summers there) but given my income, the value of the Euro, and the fact that I already have two houses, I cannot afford it.

Microeconomics is largely about modeling and explaining choices in a world of constraints

Constraints are caused by scarcity.

My friend “George” wants to get married, he is heterosexual, he wants to have kids, he does not want to adopt.

He recently took a job teaching in a small rural town with very cold winters. Most of the students are undergraduates, and George is 40

Given that female fertility starts declining fast around 35, and given the age rule about dating, George is restricted to females between 27 and 38, or so, who are willing to live in a small rural town with cold winters.

They are scarce.

If you are interested,

Scarcity is what makes the world go around. If there was not scarcity, we all could have whatever, whenever.

George gets to choose but the choice set is small, unless he imports. An imported wife could be an option, particularly one from the former Soviet Union, where the winters are cold and many males drink far too much vodka to be a reasonable spouse.

Potential partner sets:

Draw some sets

Take out a piece of paper

Call it the “potential-date set”

First consider the set of all people. Imagine a giant fish bowl filled with ping-pong balls, each ball has a different name on it, and every person in the world is represented.

Let’s say I have a way of telling who would, and who would not, go out with you at least once.

Let’s color their ping-pong balls red. The red balls are a set, a subset, of all the balls.

If you want a date you are constrained to choose from the red set—you are constrained not to go out with anyone whose ping-pong ball is white.

Now consider the set of people who would go out with you more than once. Put a green dot on the ping-pong ball for everyone in that set.

The green-dot set is a subset of the red set and the red set is a subset of everyone.

Let’s call the green-dot set the “relationship” set.

I have a quiz question in mind. Assume you are true-blue heterosexual. Might there be someone of your own gender in your date set? Yes or No, and explain.

Yes, there might. There might be someone of your gender who is attracted to you. I asked this question to make clear that who is in your date set does not depend on who you want to date (your preferences). The set represents your constraints, not your preferences.

What would make my date set larger or smaller than your date set?

What makes my potential partner set different from your potential partner set?

You live somewhere more populated than where I live. Wiggins, Colorado.

You are good looking. I am not.

I have a PhD, you don't

I make more money than you, at least for now.

I am old and wrinkled, you are not.

I am married, you are not.

Make sure you can explain why and who these factors would influence who would date you.

What does the date and relationship sets look like for the poor monster in Frankenstein? They are the empty set—no one will go out with him.

Summarizing, people get to choose but cannot choose just anything. What they do has to be in their feasible set.

Budget sets:

We face similar constraints in the market for goods and services.

Goods and services cost money, and you only have so much money.

Consider a world of **only** two goods: premium chocolate bars, which cost \$5 each, and meals which cost \$25 each.

You have \$75/day to spend on your credit card. Your mother set up the card so you cannot go into debt, or save money for tomorrow (the balance reverts to \$75 every midnight, and there is no line of credit)

Think about the bundles of goods you can afford: (make sure you can write them all down)

3 meals, no chocolate (so all meals)

15 chocolate bars, so no meals

2 meals, 5 chocolate bars

1 meal, 10 chocolate bars.

1 meal, 5 chocolate bars

2 meals, no chocolate bars, etc. etc.

Now imagine the one can chocolate and meals are divisible, so, for example, you can purchase 1.32 meals.

Graph the budget constraint

Put chocolate bars on the vertical axis and meals on the horizontal axis.

Your budget set (constraint set) is all of the bundles of chocolate bars and meals in the shaded area.

Which bundle would YOU choose?

An economist would say the bundle that you like the best from amongst those you can afford.

They would say that whether we were talking about bundles with different amounts of chocolate bars and meals, or bundles with different amounts of sex and ski days.

Your choice set if you are pregnant, if I am pregnant.

Consider 3 options: have the kid and keep it, have the kid and get rid of it (adoption), have an abortion.

Are there any other possibilities?

Let's think about constraints vs. choice in this context

You are a devout Catholic, and I am an amoral heathen.

What is in your choice set? Probably an abortion is not in your choice set.

What is in mine?

Being an amoral heathen makes the abortion option available to me.

Maybe we both keep the kid, but for different reasons: I like kids and you are constrained to not have an abortion.

Summarizing:

We have investigated how economists model behavior: individuals have preferences, individuals face constraints, each individual chooses the alternative she likes the best from amongst those available to her.

Economics can be used to model explain many types of behavior.

Some additional course details

Each of you is assigned to a recitation section.

There will be no recitations the first week of class. But the T.A.s will hold office hours.

Your T.A. will soon be contacting you by email. (Xin and Austin, send all of your students an email.)

In addition to the recitations, the T.A.s hold office hours. The times are posted on the course web page.

The T.A.s, are here to help you.

But don't come to them asking for individual help if you have not done your best to prepare to get help.

Your T.A. is your contact person for the course. While I am happy to talk to you, I am not sure I have time for the students in our class. My office is Econ 122 and my office hours are posted on my web page for 2010. My email address is edward.morey@colorado.edu.

Calling my office phone number is typically a waste of time. I am not sure I know the number.

If you have questions about the course, attend recitation, and, if need be, email your instructor.

You have no online quizzes due this week, but have some practice and graded online quizzes due next week: a practice one to be finished by Monday, and graded ones to be completed by Wednesday and Friday of next week. There are a bunch of them.

Take a quick look at the aplus web page.

While your ability to take a quiz ends at 11:00 p.m., this does not mean you should wait until 10:45 to start, you can start now.

Once the deadline is reached the quiz is gone forever.

Start now.

We will know if you took the “practice” quizzes but we won’t see your answers. You will immediately see if your answer is right or wrong.

With the graded assignments, we see your grade, and you do not see how you did until the due date for the quiz.

Every week you will have two or more graded quizzes, plus practice quizzes.

Math and graphs are an important component of the course. So, the second week (next week) you have a graded pre-test on math and graphs. This is so I and the T.A.'s can assess your background in math and graphs. The third week you will have a post-test on math and graphs. Only the best score on these two math quizzes will count toward your course grade.

The quizzes are all on the Aplia web page for the course