Microeconomic Principles: Constrained, Standard And Non-standard Preferences

· Constrained Preferences

When someone acts rationally, they are thinking clearly and have made decisions that have no doubts. A person who thinks rationally makes informed decisions. In economics, rationality refers to the choices one makes in the state of scarcity. Most decisions are made because customers can afford them and there is need to chart the consumer's budget, the quantity of one good will be measured on the horizontal axis while the one takes the vertical axis.

Jose is a 19-year-old boy who likes to collect Movies and T-shirts. The number of movies that Jose would like to buy is indicated on the horizontal axis while the number of T-shirts that this customer will buy is illustrated on the vertical axis. Jose has a limited income of around $56 and this means that he is limited on his budget. If he had a considerable large amount of money, then Jose would be allowed to spend on these items without any limitation. With a limited amount of $56, Jose is facing a budget constraint.

To develop the budget constraint, all the points in the budget line need to use and exhaust $56 that belongs to Jose who is willing to spend it. The economist will then plot all the intercepts by marking with dots then later connect them into a line. The intercepts will be used to help Jose make his decision as to whether to spend his money on the movies or the T-shirts.

Jose's Budget line is indicated below in the figure

This figure shows that if Jose uses all his money to buy the T-shirts, he will pay $14 and therefore, he will be able to buy four of them as shown below

14 4=$56

The line here intercepts at (0, 4), meaning that Jose will buy four t-shirts with no movies.

If he chooses to buy the movies then he will have 8 movies (56/7=8). The line on the budget line intercepts at (0, 8), meaning that Jose will have 8 movies but no t-shirts.

· Standard Preferences

Standard preference within the field of microeconomics refers to a two-fold relation that satisfies aspects of transitivity and completeness. These two principles are necessary in order to gather convenient results which are used to represent utility. Nevertheless, completeness has been considered as too strong, in cases where applications concerning decisions are made in uncertainty.

Usually, the completeness principle follows: for every pair represented by x, y ?X, which implies that x is greater than or equal to y, or y is greater than or equal to x, or both are equal to one

another (Howard, 2016). With respect to the transitivity axiom, for triple values of x, y, and z ?X, which implies that if x is greater than or equal to y, and y is greater than and equal to z, then x must be greater than or equal to z, and this relation goes hand in to hand for all the values either y, or z where x is imposed as an element of Y or Z.

From the above, an agent with standard preferences, as based on the completeness principle, is a situation where the agent can be able to compare two objects. With respect to the transitive principle, it occurs when an agent has an internal consistency in preferences.

With respect to the completeness principle, as in the case above, should an agent be offered the choice of choosing between two cars, then an agent preference may be based either on the quality of the car based on an aspect such as speed, or performance (Howard, 2016). The preferences can be considered complete, when given two cars I1 and I2, then in such a case I1 may be faster or high performing in comparison to I2, or in a case where they both have the same performance or speed. The preferences may be transitive if I1 is high performing or faster than I2and I2is equally high performing or faster than I3, then in such a case I1 may be high performing or faster than I3. These instances are what make up standard preference as based on the principle of transitivity and completeness.

· Non-standard Preferences

On the other hand as prescribed by Mathew Rabin in the year 2002, as based on his neoclassical decision theory. From his allusion, he developed differences from his neoclassical economics by forming vital differentiations which were ‘non-standard decision making’, ‘neo-standard beliefs’, and ‘neo-standard preferences’.

With respect to neo-standard preferences, it consists of the elements of social and time preferences which also are part of the utility function. Beginning with social preferences, they consider or are evident of cooperration and kindness, which means that human beings do not care on their share only, but also about distribution (Jappelli, and Pistaferri, 2017). While time preferences means a situation where human beings do not necessarily discount over time, but prefer the present. As such, human beings decisions on savings, and investments tend to deviate as borne out of neoclassical predictions.

For example, in the case above for two complementary products, product x and product y, as based on non-standard preferences, demand for either will be dependent on the frameworks of social and time preference. With respect to social preference, should product x share in the market be largely available and more distributed, then people’s choice of the product will be more vexed to the product than for product y, and the vice versa happens for product y (Jappelli, and Pistaferri, 2017). On the other hand, with respect to time preference, should the preference of product x outweigh that of y, more people will be vexed to consumer product x even y is more in circulation than y.

References

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