

Modeling Individual Choice

Part 2 of the course:

Underpinnings of WTP, WTA and decision-making more generally

- Will allow analysis of *more complex policies*
Example: raise tax on energy and lower tax on income
- Provides tools for complex decisions
Involving *long periods of time* or *uncertainty*
- Overall, basis for *advanced benefit-cost analysis* (BCA)

Core model has four conceptual components:

1. Set of options available
What is the choice over?
Terminology: **consumption bundles**
2. Ranking
How does the decision maker feel about the options?
Terminology: **preferences**
3. Feasibility
What can the decision maker actually do?
Terminology: **budget constraints** and **feasible sets**
4. Choice
What does the decision maker choose?
Terminology: **optimum** or **equilibrium** bundle

Abstractly:

