



Libyan International Medical University
Faculty of Business Administration



Deciding the optimal point for consumers via the classical theory

PRESENTATION BY Lubna Gehani
Student NO. : 2253

Content



Content A
Introduction



Content B
Classical theory
definition



Content B
Optimal point
definition



Content C
Best optimal point
for consumers



Content D
Example



Content D
Conclusion

The slide features a dark blue background with decorative geometric shapes in the corners. The top-left corner has a blue circle, yellow dots, and yellow triangles. The top-right corner has a blue triangle, a yellow circle, and a pink dotted line with yellow and green dots. The bottom-left corner has a yellow and green striped triangle, a blue triangle, and a pink circle. The bottom-right corner has a yellow triangle, a pink triangle, and a white circle.

1

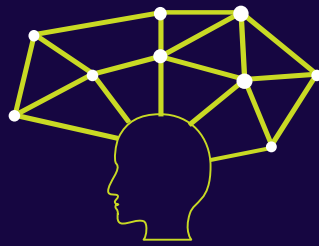
Introduction

- Consumer reach the optimal point when reaching the maximum utility level.
- Economists use the classical theory to calculate consumers optimal point.
- The cost of each product and the income of the consumer play a role in determining the optimal point.



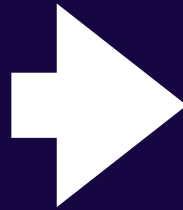
2

Classical theory definition



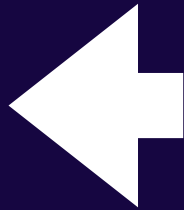
The classical theory is divided into:

Cardinal utility approach



This approach can be expressed in quantitative terms.

This approach can be expressed in terms of preference scales.



Ordinal utility approach

The slide features a dark blue background with decorative geometric elements in the corners. The top-left corner contains a blue circle, yellow dots, and yellow triangles. The top-right corner has a blue triangle, a yellow circle, and a pink dotted line with yellow and blue dots. The bottom-left corner shows yellow and blue triangles and a yellow circle. The bottom-right corner features a yellow triangle, a pink triangle, a yellow circle, and a pink dotted line with yellow and blue dots. In the center, a white number '3' is enclosed in a yellow dotted hexagon.

3

Optimal point definition

Optimal utility



Product A

Product B

Product C

In order for consumers to reach the optimal utility point (**satisfaction**), there has to be a balance in the budget constraint.

The slide features a dark blue background with decorative geometric shapes in the corners. The top-left corner has a blue circle, yellow dots, and yellow triangles. The top-right corner has a blue triangle, a yellow circle, and a pink dotted line with yellow and blue dots. The bottom-left corner has yellow and blue triangles, pink circles, and a yellow circle. The bottom-right corner has a yellow triangle, a pink triangle, a yellow circle, and a pink dotted line with yellow and blue dots. In the center, a white number '4' is enclosed in a dashed yellow hexagon.

4

How to reach the optimal point for consumers





- Consumers often assume, that the more the merrier. Meaning that when choosing between a bundle of **(5X and 8Y)** or **(30X and 10Y)**, the second option will be preferred as one has more of both products.
- Due to **cost** being involved, there will definitely be a budget constraint, meaning when spending more on product X there will be less for Y.
- Balancing the amount we spend on both products, will maximize the consumers total utility.

The slide features a dark blue background with decorative geometric patterns in the corners. The top-left corner contains a blue circle, yellow dots, and yellow triangles. The top-right corner has a blue triangle, a yellow circle, and a pink dotted line with yellow and blue dots. The bottom-left corner shows a yellow and green striped triangle, a blue triangle, and pink and yellow circles. The bottom-right corner features a yellow triangle, a pink triangle, and a white circle.

5



Example



◆ ◆ ◆

Combination	Product X	Product Y
Combination A	20	200
Combination B	50	150
Combination C	100	30
Combination D	250	10






When X is increasing its Marginal Rate of Substitution (MRS), Y is diminishing.



The slide features a dark blue background with decorative geometric elements in the corners. The top-left corner contains a blue circle, yellow dots, and yellow triangles. The top-right corner has a blue triangle, a yellow circle, and a dotted line with yellow and green dots. The bottom-left corner shows yellow and blue triangles, pink circles, and a yellow circle. The bottom-right corner features a dotted hexagon, yellow triangles, and pink shapes.

6

Conclusion

- 
- 
- 
- 
- 
- There are two ways to calculate the utility level of a consumer, either by the cardinal or the ordinal approach.
 - Budget constraints and limited resources, can keep customers from buying the desired amounts of products.
 - When increasing the MRS of one product, the other will demolish.
 - Balancing out the quantities of the products, will result in the optimal utility level.

The slide features a dark blue background with decorative geometric shapes in the corners. The top-left corner has a blue circle, yellow dots, and yellow triangles. The top-right corner has a blue triangle, a yellow circle, and a dotted line with yellow and blue dots. The bottom-left corner has a yellow triangle, a blue triangle, and a yellow circle. The bottom-right corner has a yellow triangle, a blue triangle, and a yellow circle.

Thanks!

Any questions?

References



- Paul Krugman & Robin Wells, (2012), Economics and Microeconomics, Chapter 10 - Third Edition.

- (NA),(2012),Optimal Choice with a Budget Constraint.
<https://mnmeconomics.wordpress.com/2012/01/20/optimal-choice-with-a-budget-constraint/>

- Kerty Herwyn Guerel, (NA), Classical Approach to Analyze Human Behavior.
<https://www.scribd.com/document/67476287/Classical-approach-to-analyse-consumer-behaviour>