

Q5

Invested \$5 mill

Need \$1 mill more

Found out new product so  
your profit \$3 mill.

Q - invest \$1 mill or not?

Y -

\$5 mill invested "sunk cost"  
\$1 mill → \$3 mill net of 2 mill

sunk cost bygone } past  
spilt milk } not recoverable  
[ not considered making decision  
now  
Expected return to # 1 mill.  
net \$ 2 mill.

Q2 vacation  
 Cost → time off work  
       → expenses - travel  
                   - lodging } monetized

Benefits ?

non-market valuation:

If golf cost \$20 we  
 know those who do golf  
 Benefits  $\geq$  \$20

Benefits >  
 Cost.  
 Do it  
 if not don't.

Non-market valuation: (When market does not reveal price)

- Travel cost method.
- Expenses on complementary goods - equipment -
- Survey - Willingness to pay
- Mode choice - location A or location B

Benefits  $>$  Cost ? at decision time. ]  
If not - doing activity is irrational.

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Voter fraud ?

Benefit  $\rightarrow$  affect outcome  
probability  $\approx 0$   
 $\hookrightarrow$  really small.

Penalty (cost) non zero probability  
deported.

Australia fine \$100 not voting.

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Appendix Chapter 2 graphs \*

Chapter 3 - gains from trade  
(exchange) for market  
to exist

gains due to returns to specialization  
- surplus output → traded for  
output of another.

What to specialize?

- comparative advantage  
(more productive)

Robinson Crusoe

PSY QuizK Quiz

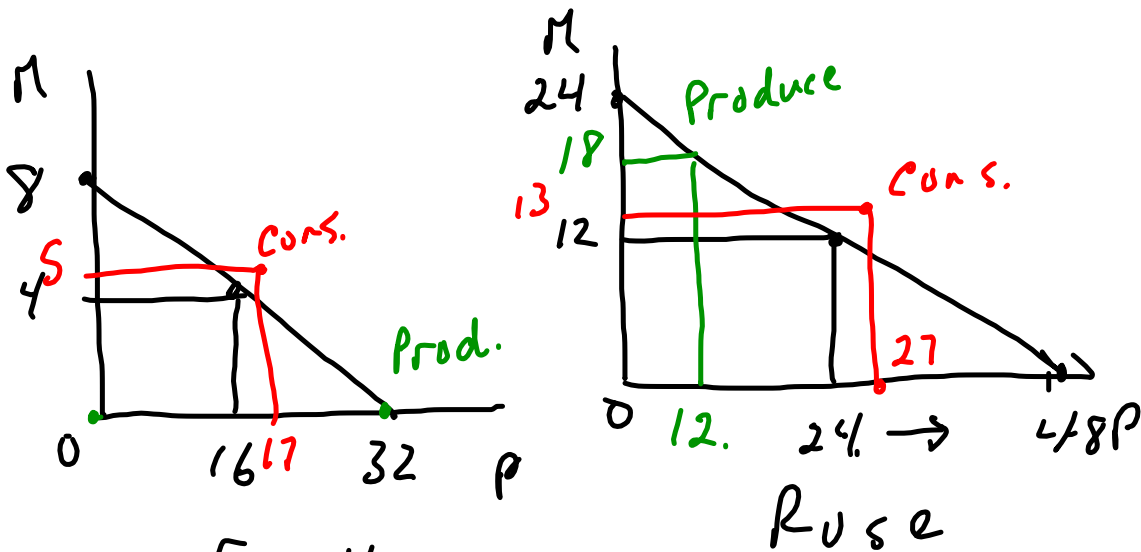
	1 Hour	
Rob.	10 coconuts	or 1 fish
Friday	30 "	or 2 fish.

What is RC op cost of 1 fish? 10 c/w  
 F op " " 1 fish? 15 c.  
 Who has absolute advantage? F. - Fish  
 " " comparative in Fish? - Coconuts  
 RC - lower op cost of  
 Fish.  
 comp. advantage in Fish.



Trade - lowers total op cost +  
 allows both parties be better off.  
Fig 1 Chap 3 - Frank Meat Potatoes,  
 Rose

	<u>Minutes</u> - 1oz		8 hours	
	Meat	Potatoes	M.	P
F	60	15	8oz	32oz
R	20	10	24oz	48oz
		1oz meat	<u>3oz</u>	48 / 32 = 1.5oz



Frank

Rose

Trade - Rose specialize in meat  
 " " " potatoes.  
 Frank  
 Frank trades potatoes to Rose for meat.  
 Frank's 15oz potatoes → 5oz meat  
 Rose gets 15oz " gives 5oz meat

Frank specialize in potatoes  
 trust Rose will trade  
 - predict prices  
 - suppose Rose says "no" after  
 specialized - she's long way  
 from consumption

120z M Reneges 180z M  
 240z P 120z P.

\* David Ricardo - international trade

Econ within marriage      side bar

Emily Oster      U of Chicago

Q4 Chapter 2 -