

Table of Contents

Introduction	1
PART I: UTILITY AND CONSUMER DEMAND ANALYSIS	5
1 Theory of Utility and Consumer Behaviour: A Comprehensive Review of Concepts, Properties and the Most Significant Theorems	7
1.1 Theory of Utility	7
1.2 Preference, Choice and Indifference Concept and Utility Function Existence	8
1.3 Properties of the Utility Function	10
1.3.1 Additivity	10
1.3.2 Homogeneity	10
1.3.3 Homotheticity	10
1.3.4 Weak and Strong Separability	11
1.4 Basic Theory (Primal): Marshallian (or Walrasian) Demand Functions	11
1.4.1 Properties of the Marshallian (or Walrasian) Demand Functions	12
1.5 Consumer Equilibrium (Dual): Hicksian (or Compensated) Demand Functions	12
1.5.1 Properties of the Hicksian (or Compensated) Demand Functions	13
1.6 Indirect Utility Function	13
1.7 Expenditure Function	14
1.8 Restrictions of the Demand Systems	14
1.8.1 Engel Aggregation Condition	14
1.8.2 Cournot Aggregation Condition	15
1.8.3 Homogeneity Condition	16
1.8.4 Symmetry or Integrability Condition	16
1.8.5 Negativity Condition	16
1.9 Roy's Identity	17
1.10 Hotelling's Theorem (or Shephard's Lemma for Consumers)	19
1.11 Relationships between the UMP and the EMP	19
1.12 The Slutsky Equation	20
1.13 Complementary and Substitutive Relationships	21

Basic References	23
References and Further Reading	23
2 Alternative Theories of Consumer Behaviour	25
2.1 Introduction	25
2.2 Discrete Choice Models	25
2.3 Time Allocation Models	27
2.3.1 Hicks Model	27
2.3.2 Yield-Leisure Model	28
2.3.3 Extended Yield-Leisure Model	30
2.3.4 Goods-Leisure Model with Time Allocation to Goods Consumption	32
2.3.4.1 Becker's Model	32
2.4 Train-McFadden Synthesis Model	33
2.5 Lancaster's Consumption Technology Model	35
2.6 Jara-Díaz Model	37
2.6.1 Jara-Díaz and Farah Model (1987)	37
2.6.2 Jara-Díaz Model (1998)	39
2.7 Models of Consumer Behaviour with Incomplete Information	42
2.8 Revealed Preference Theory	44
References	46
3 Main Forms of Utility Functions	49
3.1 The Cobb-Douglas Utility Function	49
3.1.1 Properties	49
3.1.2 Marshallian or Ordinary Demands (Primal)	51
3.1.3 The Indirect Utility Function	52
3.1.4 Hicksian or Compensated Demands (Dual)	53
3.1.5 The Expenditure Function	54
3.1.6 Elasticities, Engel Curves and Expenditure Share Functions	55
3.2 The Utility Function of the Constant Elasticity of Substitution (CES)	57
3.2.1 Marshallian Demands	57
3.2.2 The Indirect Utility Function	59
3.2.3 Hicksian Demands	60
3.2.4 The Expenditure Function	60
3.2.5 Application to the Particular CES Utility Function	61
3.2.5.1 The Indirect Utility Function	61
3.2.5.2 The Expenditure Function	61
3.2.5.3 Hicksian Demands	61
3.2.5.4 The Own, Cross and Income Elasticity of the CES Demand System	61
3.2.5.5 Restrictions of CES Demand Systems	62
3.3 The Quasi-linear Utility Functions	64
3.3.1 Marshallian Demands	64
3.3.2 The Indirect Utility Function	65
3.3.3 The Expenditure Function	66

3.3.4	Roy's Identity	66
3.3.5	Hotelling's Theorem: Hicksian Demand Functions	66
3.3.6	Application to the Particular Quasi-linear Utility Function	67
3.3.6.1	The Marshallian Demand	67
3.3.6.2	Restrictions of the Quasi-linear Demand System	67
	Recommended Reading	69
4	Study of the Econometric Applications: Demand Functions and Systems	71
4.1	Demand Functions	71
4.2	Application I for Demand Functions: Walrasian (or Marshallian) Demand Functions for Interurban Passenger Transport	72
4.2.1	Model	73
4.2.2	Data	74
4.2.3	Walrasian (or Marshallian) Demands for Interurban Passenger Transport: Air and Road Transport	75
4.2.3.1	Air Transport Demand	75
4.2.3.2	Road Transport Demand	76
4.2.4	Results of the Empirical Research	78
4.3	Complete Demand Systems	78
4.3.1	Linear Expenditure System (LES)	79
4.3.2	Almost Ideal Demand System	80
4.3.3	Diewert Demand Model	81
4.3.4	Translog Demand Model	82
4.4	Application II for Demand Systems: Estimation of an Almost Ideal Demand System (AIDS): Particular Disaggregation for the Main Transport Services	83
4.4.1	Model: Almost Ideal Demand System	83
4.4.2	Data	85
4.4.3	Estimation of the Model	85
4.4.4	Conclusions	87
	Basic References	88
	References and Further Reading	88
PART II:	Production and Firm Supply Analysis	91
5	Theory of Production, Cost and Behaviour of the Firm: A Comprehensive Reformulation	93
5.1	Theory of the Firm	94
5.2	Production Possibility Set and Existence of Production Function	96
5.3	Properties of Production Function	97
5.3.1	Efficiency	98
5.3.2	Differentiability and Continuity	98
5.3.3	Strict Quasi-concavity	98

5.4	The Firm's Equilibrium: Classic Demand, Profit and Direct Supply Functions	98
5.4.1	Profit Maximisation	98
5.4.2	Properties of Input Classic Demand and Output Direct Supply Functions	99
5.4.2.1	Decreasing	100
5.4.2.2	Existence	100
5.4.2.3	Homogeneity	100
5.4.2.4	Symmetry	100
5.4.2.5	Negativity	100
5.4.2.6	Negative Semi-definite	100
5.4.3	Profit Function	100
5.4.4	Properties of the Profit Function: Hotelling's Theorem	101
5.4.4.1	Non-decreasing	101
5.4.4.2	Homogeneity	101
5.4.4.3	Convexity	101
5.4.4.4	Continuity	101
5.4.4.5	Hotelling's Theorem	101
5.5	The Firm's Equilibrium (Primal A)	102
5.6	The Firm's Equilibrium (Primal B): Marshallian Demand and Indirect Supply Functions	103
5.6.1	Output Maximisation	103
5.6.2	Properties of the Input Marshallian Demand and Indirect Supply Functions	104
5.6.2.1	Decreasing	104
5.6.2.2	Existence	104
5.6.2.3	The Lagrange Coefficient (λ)	104
5.6.2.4	Homogeneity	105
5.6.2.5	Negativity	105
5.6.2.6	Symmetry	105
5.6.2.7	Negative Semi-definite	105
5.6.2.8	Roy's Identity	105
5.7	The Firm's Equilibrium: Input Classic Demand and Output Direct Supply Functions	105
5.7.1	Loss Minimisation	106
5.7.2	Properties of Input Classic Demand and Output Direct Supply Functions	106
5.7.3	Loss and Input Classic Demand Functions: Hotelling's Theorem	106
5.8	The Firm's Equilibrium (Dual A)	107
5.9	The Firm's Equilibrium (Dual B): Input Conditioned Demand and Cost Functions	107
5.9.1	Cost Minimisation	108
5.9.2	Properties of the Input Conditioned Demand	108
5.9.2.1	Non-decreasing	108
5.9.2.2	Existence	108
5.9.2.3	Homogeneity	109
5.9.2.4	The Lagrange Coefficient (μ)	109

5.9.2.5	Negativity	109
5.9.2.6	Symmetry	109
5.9.2.7	Negative Semi-definite	109
5.9.3	Properties of Cost Function: Shephard's Lemma	109
5.9.3.1	Increase	109
5.9.3.2	Homogeneity	110
5.9.3.3	Concavity	110
5.9.3.4	Continuity	110
5.9.3.5	Shephard's Lemma	110
5.10	Diagrammatic Representation of the Main Relationships	111
5.11	Joint Production	115
5.11.1	Income Maximisation	118
5.11.2	Input Minimisation	119
5.12	Short-Run	120
5.12.1	Short-Run and Single Production	122
5.12.2	Short-Run and Joint Production	124
5.13	Reflections on the Main Relationships Designed	125
5.14	The Elasticity of Substitution	126
	Basic References	128
	References and Further Reading	129
6	Alternative Theories on Companies	131
6.1	Baumol's Sales Income Maximisation Model	131
6.2	Marri's Production Volume Maximisation Model	134
6.3	Cooperative Company Model	136
6.4	Behavioural Models of the Company	140
6.5	Company Models Based on Transaction Cost Economy	140
	References	143
7	Main Forms of Production and Cost Functions	145
7.1	The Cobb-Douglas Production Function	145
7.1.1	Characterisation	145
7.1.2	The Marginal Rate of Technical Substitution (MRTS)	146
7.1.3	The Elasticity of Substitution	146
7.1.4	Returns to Scale	147
7.1.5	The Profit Function and Input Demand Functions	147
7.1.6	Hotelling's Theorem	150
7.1.7	The Cost Function and Input Conditioned Demand Functions	151
7.1.8	Shephard's Lemma	153
7.1.9	LRAC and LRMC Curves	154
7.1.10	Applying the Duality	155
7.2	The CES Production Function	157
7.2.1	The Marginal Rate of Technical Substitution (MRTS)	157
7.2.2	Returns to Scale	158
7.2.3	The Elasticity of Substitution	158
7.2.4	The Output Supply Function and Input Demand Functions	159

7.2.5	The Cost Function and Input Conditioned Demand Functions	162
7.2.6	The LRAC and LRMC	164
7.2.7	Applying the Duality	165
	Recommended Reading	168
8	Study on Econometric Applications: Production and Cost Functions	169
8.1	Production Functions	170
8.2	Application III for Production Functions: Analysis of the Returns to Scale, Elasticities of Substitution and Behaviour of Shipping Production	171
8.2.1	The Model	171
8.2.2	Data	173
8.2.3	Empirical Results	173
8.3	Cost Function	175
8.4	Other Empirical Functions	176
8.5	Application IV for Cost Functions: Elasticities of Substitution and Behaviour of Shipping Costs	178
8.5.1	Model	178
8.5.2	Data	181
8.5.3	Empirical Results	181
8.5.4	Summary and Conclusions	184
	Basic References	185
	References and Further Reading	185
PART III:	UNCERTAINTY	189
9	Utility, Production and Uncertainty	191
9.1	Introduction	191
9.2	First Stage in the Development of Utility Theory Under Conditions of Uncertainty: the Principle of Expected Value	191
9.3	Second Stage in the Development of Utility Theory Under Conditions of Uncertainty: the Principle of Expected Utility	192
9.4	Third Stage in the Development of Utility Theory Under Conditions of Uncertainty: Von Neumann-Morgenstern Utility Function	193
9.5	Individuals' Attitudes to Risk	195
9.6	Production and Uncertainty	196
9.7	Critiques of the Theory of Expected Utility and the Theory of Limited Rationality	197
9.7.1	Violation of the Axiom of Independence	197
9.7.2	Violation of the Transitivity Axiom	201
	References	202