

Micro Can be Crazy!

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What happens when you have all the perfect information needed to make an economic decision and a very valid economic theory resting at the back your head? Can it only be applied in the exam hall to a certain Charlie Ambrose' (character created by Varian- an economist) budget/ profit maximization/cost minimization and benefit function, and then feel a sense of glory after you terminate application, solving his problem?

Have you ever applied a microeconomic theory to your little world of constrained expenditure?

This stage in college life, when 95% of us are chronically broke, made me think about my expenditure on a commodity I use more often than a toothbrush! A pen!

My thinking went on to a micro-edly micro level when I was fighting against my conscience about what stationery to buy at a shop when I am broke (like I always am), and this article was born.

At a time, when there were just three Rs.10 notes in the wallet, anybody would have opted for a single digit costing pen but -'pilot', I said. It may sound absurd to you now, but here are the statistics:

Rs.30- a one time investment lasting as long as 6 months (for a minimum) before my capital wears out.

Rs.10- on its refill ink bottle (a minimum of 3 months)

My costs per month will be = fixed costs per month + variable costs per month.

$$=Rs. (30/6) + (10/3)$$

$$= Rs.8.33$$

The single digit cost pen costing Rs.3/pen lasts a

week. My per month costs will be =Rs.3 X 4

$$=Rs.12$$

Now the former is not only better than the latter in terms of costs but benefits also. The former is more comfortable and gives a higher benefit (higher reputation- that chic is expensive!) through a better handwriting. For the latter, you pay more to get a lower

benefit.

The usual benefit function, measured against the expenditure, should be an upward sloping curve but when we choose the latter option, it becomes somewhat distorted and violates the economic law.

In the end, I would like to mention two things:

1. The above article is purely based on a self experimenting sample test.
2. You can analyze your expenditure through the micro-eye and try benefitting in the long run. All you need is right information and an applicable economic theory.

P.S. I hope the CEO of the formers company reads this article and rewards me for the advertisement I gave him!

‘ Use a Pilot pen to repair your benefit graph! ’