





			Introduction			
Ва	SIC	S				
	Consumption-Leisure framework – provides foundation for					
		Labor-market supply function				
		Goods-market demand function				
		An application of the basic consumer theory model				
		we will put a macro interpretation on it				
		Only	one time period – no "future" for which to save			
	Notation					
		c :	consumption ("all stuff")			
		n :	number of hours spent working per week			
<i>I</i> = 168 - {		<i>I</i> :	number of hours leisure per week (time spent not working)			
		P :	dollar price of one unit of consumption (a nominal variable)			
		W :	hourly wage rate in terms of dollars (a nominal variable)			
		t :	tax rate on labor income			
	"Weekly" model a detail					
		Could have called it a daily model, a monthly model, a year				
		Just need to take SOME stand on the length of a "period"				
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			Model Structur
Budg	ЕТ СОІ	NSTRAINT	
Cor	nsumer m Y no lon	ust work for his income ger "falls from the sky"	
		Pc = Y	
		Y = (1-t)Wn (all income	me is after-tax labor income)
		Pc = (1-t)Wn	
		<i>n</i> = 168 - <i>l</i>	
		Pc = (1-t)W(168-l)	
		Rearrange	(After-tax) wage is opportunity cost of leisure, hence the "price" of leisure
		Pc + (1-t)Wl = 168(1-t)W	- opportunity costs are real economic costs/prices
Simply an applica nterpretation of consumer theory	tion/re- our basic framework	T Y Y Spending on "Spending" A constant from the consumption on leisure point of view of the individual (price- taker)	
		$P_1c_1 + P_2c_2 = Y$	Chapter 1 budget constraint
		Spending Spending A constant from the on c_1 on c_2 of view of the indiv	point idual
September	19, 2011		8































Сс	INSUMPTION DEMAND
	Optimal choice of consumption was always rising as real wage wa rising
	Could have conducted the entire analysis assuming nominal W wa held fixed and nominal P was falling Which means real wage W / P is rising
	 Result: Fall in P → rise in optimal c always Implies downward-sloping consumption demand function at the micro level and at the aggregate level
	Consumption demand over two-thirds of aggregate demand in developed countries
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