The Economics of Bads

• My wants are many but they do not include hard work.

• I like to earn a high return on my investments, but I don’t like to bear risk.
A Problem

• Helen Jones works 40 hours a week for a salary of $400. She would like overtime at $10 an hour.

• That is, the MB of $10 exceeds the marginal disutility of working an additional hour.

A Problem

• She is offered a position paying 4% of sales. She has the following data on current employees:

<table>
<thead>
<tr>
<th>Employee</th>
<th>Hours</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilson</td>
<td>40</td>
<td>$10000</td>
</tr>
<tr>
<td>Smith</td>
<td>50</td>
<td>$12500</td>
</tr>
<tr>
<td>Brown</td>
<td>30</td>
<td>$7500</td>
</tr>
</tbody>
</table>

These data mean that you earn about $10 an hour.

Where She Is

\[ L_0 \]
The Economics of Bads

A Second Problem

• Richard Jones has $100,000 to invest.
• He could put the money into zero risk government bonds
• He could put the money in the stock market

Take the Job

A Second Problem

• Richard Jones has $100,000 to invest.
• He could put the money into zero risk government bonds
• He could put the money in the stock market
• How should he make his decision?
A Second Problem

Return

"Riskiness"

0

The Economics of Bads

A Second Problem

Return

Io

"Riskiness"

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A Second Problem

Return

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"Riskiness"

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End

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