
Chapter 3: Marginal Analysis for Optimal Decisions

Optimization

- ❖ An optimization problem involves the specification of three things:
 - ~ Objective function to be maximized or minimized
 - ~ Activities or choice variables that determine the value of the objective function
 - ~ Any constraints that may restrict the values of the choice variables

Choice Variables

- ❖ Activities or choice variables determine the value of the objective function
- ❖ Discrete choice variables
 - ~ Can only take specific integer values
- ❖ Continuous choice variables
 - ~ Can take any value between two end points