

hypothesis of a representative consumer maximizing a conventional static utility function.

- iv. Comment on the strengths and weaknesses of the rational agent model of consumer behaviour.

According to Fine (2002) the axioms of rationality that are central for utility maximisation are arbitrary and are imposed solely for the model to work these assumptions are

1. Completeness.
2. Transitivity
3. Continuity

These are necessary for the indifference curves to be appropriately shaped (convex) so that the maximisation subject to a constraint becomes possible (the necessary tangency condition for maximisation). Little attempt is made to justify these assumptions. The impressive framework that links the primal/dual problems to consumer theory is limited in analytical content it does not consider the "Veblen effect" that is prices of luxury items increase so does its esteem.

The strengths of rational agent model in consumer theory:

It allows to empirically measure the wealth effects of a particular change in price or, so as to analyse the effect that an increase in tax would have on utility and whether this is the best possible policy option: the rational agent model provides a general framework to distinguish the possibilities numerically that is useful for policy application for example the "lump sum principle" that a tax on personal income has a less adverse effect on utility than tax imposed on consumption goods. The model does provide important policy applications.