Willingness to Pay and Accept Payments
(Compensated & Equivalent Variations)

Market for Freedom

\[ P \]  
\[ Q \]

USA
Demand for freedom

Michael  Teachers (many)

With credit card, using CV and EV.
Compensation Variation
(D-B) or (M1-M)/P1 is the amount you would pay to see the lower price

Equivalent Variation
(C-A) is how much would you pay to keep the price from going back to P1?

Except under homotheticity CV and EV measures of consumer surplus are not equal.

\[ \text{CV} = \frac{X}{P_x} \]

\[ \text{MRS} = \frac{\text{MU of blowing up the bridge}}{\text{MU of building a bridge}} \]

is not constant along a ray from the origin. As you get richer, then the MRS is different. If goods are normal when you are richer these goods are valued more.

Finally, if you consider the cost of living (Laspers & Paash indexes) then you should see how CV & EV are related to indexes.