Econ 204 2010

Lecture 11

Outline

1. Derivatives
2. Chain Rule
3. Mean Value Theorem
4. Taylor’s Theorem
Derivatives

Definition 1. Let $f : I \rightarrow \mathbb{R}$, where $I \subseteq \mathbb{R}$ is an open interval. $f$ is differentiable at $x \in I$ if

$$\lim_{h \to 0} \frac{f(x + h) - f(x)}{h} = a$$

for some $a \in \mathbb{R}$. 
This is equivalent to

\[ \lim_{h \to 0} \frac{f(x + h) - (f(x) + ah)}{h} = 0 \]

\[ \iff \forall \varepsilon > 0 \, \exists \delta > 0 \text{ s.t. } 0 < |h| < \delta \Rightarrow \left| \frac{f(x + h) - (f(x) + ah)}{h} \right| < \varepsilon \]

\[ \iff \forall \varepsilon > 0 \, \exists \delta > 0 \text{ s.t. } 0 < |h| < \delta \Rightarrow \left| \frac{f(x + h) - (f(x) + ah)}{|h|} \right| < \varepsilon \]

\[ \iff \lim_{h \to 0} \frac{|f(x + h) - (f(x) + ah)|}{|h|} = 0 \]
Derivatives

**Definition 2.** If $X \subseteq \mathbb{R}^n$ is open, $f : X \to \mathbb{R}^m$ is differentiable at $x \in X$ if $\exists T_x \in L(\mathbb{R}^n, \mathbb{R}^m)$ such that

$$
\lim_{h \to 0, h \in \mathbb{R}^n} \frac{|f(x + h) - (f(x) + T_x(h))|}{|h|} = 0 \quad (1)
$$

$f$ is differentiable if it is differentiable at all $x \in X$.

Note that $T_x$ is uniquely determined by Equation (1).

The definition requires that one linear operator $T_x$ works no matter how $h$ approaches zero.

In this case, $f(x) + T_x(h)$ is the best linear approximation to $f(x + h)$ for sufficiently small $h$. 
Big-Oh and little-oh

Notation:

• $y = O(|h|^n)$ as $h \to 0$ – read “$y$ is big-Oh of $|h|^n$” – means
  
  $\exists K, \delta > 0$ s.t. $|h| < \delta \Rightarrow |y| \leq K|h|^n$

• $y = o(|h|^n)$ as $h \to 0$ – read “$y$ is little-oh of $|h|^n$” – means
  
  $\lim_{h \to 0} \frac{|y|}{|h|^n} = 0$

Note that $y = O(|h|^{n+1})$ as $h \to 0$ implies $y = o(|h|^n)$ as $h \to 0$. 
Using this notation: $f$ is differentiable at $x \iff \exists T_x \in L(\mathbb{R}^n, \mathbb{R}^m)$ such that

$$f(x + h) = f(x) + T_x(h) + o(h) \text{ as } h \to 0$$
More Notation

Notation:

• $d_f x$ is the linear transformation $T_x$

• $Df(x)$ is the matrix of $d_f x$ with respect to the standard basis. This is called the Jacobian or Jacobian matrix of $f$ at $x$

• $E_f(h) = f(x + h) - (f(x) + d_f x(h))$ is the error term

Using this notation,

$f$ is differentiable at $x \iff E_f(h) = o(h)$ as $h \to 0$
What's $Df(x)$?

Now compute $Df(x) = (a_{ij})$. Let $\{e_1, \ldots, e_n\}$ be the standard basis of $\mathbb{R}^n$. Look in direction $e_j$ (note that $|\gamma e_j| = |\gamma|$).

\[
o(\gamma) = f(x + \gamma e_j) - (f(x) + T_x(\gamma e_j)) = f(x + \gamma e_j) - \left( f(x) + \begin{pmatrix} a_{11} & \cdots & a_{1j} & \cdots & a_{1n} \\ \vdots & \ddots & \vdots & \ddots & \vdots \\ a_{m1} & \cdots & a_{mj} & \cdots & a_{mn} \end{pmatrix} \begin{pmatrix} 0 \\ \vdots \\ 0 \end{pmatrix} \right) - \left( f(x) + \begin{pmatrix} 0 \\ \vdots \\ 0 \end{pmatrix} \right) = f(x + \gamma e_j) - \left( \begin{pmatrix} \gamma a_{1j} \\ \vdots \\ \gamma a_{mj} \end{pmatrix} \right) \end{equation}
For $i = 1, \ldots, m$, let $f^i$ denote the $i^{th}$ component of the function $f$:

$$f^i(x + \gamma e_j) - (f^i(x) + \gamma a_{ij}) = o(\gamma)$$

so $a_{ij} = \frac{\partial f^i}{\partial x_j}$
Derivatives and Partial Derivatives

**Theorem 1 (Thm. 3.3).** Suppose $X \subseteq \mathbb{R}^n$ is open and $f : X \to \mathbb{R}^m$ is differentiable at $x \in X$. Then $\frac{\partial f^i}{\partial x_j}$ exists for $1 \leq i \leq m$, $1 \leq j \leq n$, and

$$Df(x) = \begin{pmatrix}
\frac{\partial f^1}{\partial x_1}(x) & \cdots & \frac{\partial f^1}{\partial x_n}(x) \\
\vdots & \ddots & \vdots \\
\frac{\partial f^m}{\partial x_1}(x) & \cdots & \frac{\partial f^m}{\partial x_n}(x)
\end{pmatrix}$$

i.e. the Jacobian is the matrix of partial derivatives.
Derivatives and Partial Derivatives

Remark: If $f$ is differentiable at $x$, then all first-order partial derivatives $\frac{\partial f_i}{\partial x_j}$ exist at $x$. However, the converse is false: existence of all the first-order partial derivatives does not imply that $f$ is differentiable.

The missing piece is continuity of the partial derivatives:

**Theorem 2** (Thm. 3.4). If all the first-order partial derivatives $\frac{\partial f_i}{\partial x_j}$ ($1 \leq i \leq m, 1 \leq j \leq n$) exist and are continuous at $x$, then $f$ is differentiable at $x$. 
Directional Derivatives

Suppose $X \subseteq \mathbb{R}^n$ open, $f : X \rightarrow \mathbb{R}^m$ is differentiable at $x$, and $|u| = 1$.

$$f(x + \gamma u) - (f(x) + T_x(\gamma u)) = o(\gamma) \text{ as } \gamma \rightarrow 0$$

$$\Rightarrow f(x + \gamma u) - (f(x) + \gamma T_x(u)) = o(\gamma) \text{ as } \gamma \rightarrow 0$$

$$\Rightarrow \lim_{\gamma \rightarrow 0} \frac{f(x + \gamma u) - f(x)}{\gamma} = T_x(u) = Df(x)u$$

i.e. the directional derivative in the direction $u$ (with $|u| = 1$) is

$$Df(x)u \in \mathbb{R}^m$$
Chain Rule

**Theorem 3** (Thm. 3.5, Chain Rule). Let $X \subseteq \mathbb{R}^n$, $Y \subseteq \mathbb{R}^m$ be open, $f : X \to Y$, $g : Y \to \mathbb{R}^p$. Let $x_0 \in X$ and $F = g \circ f$. If $f$ is differentiable at $x_0$ and $g$ is differentiable at $f(x_0)$, then $F = g \circ f$ is differentiable at $x_0$ and

$$dF_{x_0} = dg_{f(x_0)} \circ df_{x_0}$$

*(composition of linear transformations)*

$$DF(x_0) = Dg(f(x_0))Df(x_0)$$

*(matrix multiplication)*

**Remark:** The statement is exactly the same as in the univariate case, except we replace the univariate derivative by a linear transformation. The proof is more or less the same, with a bit of linear algebra added.
Mean Value Theorem

**Theorem 4** (Thm. 1.7, Mean Value Theorem, Univariate Case).

Let $a, b \in \mathbb{R}$. Suppose $f : [a, b] \rightarrow \mathbb{R}$ is continuous on $[a, b]$ and differentiable on $(a, b)$. Then there exists $c \in (a, b)$ such that

$$
\frac{f(b) - f(a)}{b - a} = f'(c)
$$

that is, such that

$$
f(b) - f(a) = f'(c)(b - a)
$$

**Proof.** Consider the function

$$
g(x) = f(x) - f(a) - \frac{f(b) - f(a)}{b - a}(x - a)
$$
Then $g(a) = 0 = g(b)$. Note that for $x \in (a, b)$,

$$g'(x) = f'(x) - \frac{f(b) - f(a)}{b - a}$$

so it suffices to find $c \in (a, b)$ such that $g'(c) = 0$.

Case I: If $g(x) = 0$ for all $x \in [a, b]$, choose an arbitrary $c \in (a, b)$, and note that $g'(c) = 0$, so we are done.

Case II: Suppose $g(x) > 0$ for some $x \in [a, b]$. Since $g$ is continuous on $[a, b]$, it attains its maximum at some point $c \in (a, b)$. Since $g$ is differentiable at $c$ and $c$ is an interior point of the domain of $g$, we have $g'(c) = 0$, and we are done.

Case III: If $g(x) < 0$ for some $x \in [a, b]$, the argument is similar to that in Case II.
Mean Value Theorem

Notation:

\[ \ell(x, y) = \{ \alpha x + (1 - \alpha)y : \alpha \in [0, 1] \} \]

is the line segment from \( x \) to \( y \).

**Theorem 5** (Mean Value Theorem). Suppose \( f : \mathbb{R}^n \to \mathbb{R} \) is differentiable on an open set \( X \subseteq \mathbb{R}^n \), \( x, y \in X \) and \( \ell(x, y) \subseteq X \). Then there exists \( z \in \ell(x, y) \) such that

\[ f(y) - f(x) = Df(z)(y - x) \]
Notice that the statement is exactly the same as in the univariate case. For $f : \mathbb{R}^n \to \mathbb{R}^m$, we can apply the Mean Value Theorem to each component, to obtain $z_1, \ldots, z_m \in \ell(x, y)$ such that

$$f^i(y) - f^i(x) = Df^i(z_i)(y - x)$$

However, we cannot find a single $z$ which works for every component.

Note that each $z_i \in \ell(x, y) \subset \mathbb{R}^n$; there are $m$ of them, one for each component in the range.
Mean Value Theorem

**Theorem 6.** Suppose $X \subset \mathbb{R}^n$ is open and $f : X \rightarrow \mathbb{R}^m$ is differentiable. If $x, y \in X$ and $\ell(x, y) \subseteq X$, then there exists $z \in \ell(x, y)$ such that

$$|f(y) - f(x)| \leq |df_z(y - x)|$$

$$\leq \|df_z\| |y - x|$$
Mean Value Theorem

Remark: To understand why we don’t get equality, consider $f : [0, 1] \rightarrow \mathbb{R}^2$ defined by

$$f(t) = (\cos 2\pi t, \sin 2\pi t)$$

$f$ maps $[0, 1]$ to the unit circle in $\mathbb{R}^2$. Note that $f(0) = f(1) = (1, 0)$, so $|f(1) - f(0)| = 0$. However, for any $z \in [0, 1]$,

$$|df_z(1 - 0)| = |2\pi(-\sin 2\pi t, \cos 2\pi t)|$$

$$= 2\pi \sqrt{\sin^2 2\pi t + \cos^2 2\pi t}$$

$$= 2\pi$$
Taylor’s Theorem – R

**Theorem 7** (Thm. 1.9, Taylor’s Theorem in R). Let $f : I \to \mathbb{R}$ be $n$-times differentiable, where $I \subseteq \mathbb{R}$ is an open interval. If $x, x + h \in I$, then

$$f(x + h) = f(x) + \sum_{k=1}^{n-1} \frac{f^{(k)}(x)h^k}{k!} + E_n$$

where $f^{(k)}$ is the $k^{th}$ derivative of $f$ and

$$E_n = \frac{f^{(n)}(x + \lambda h)h^n}{n!} \text{ for some } \lambda \in (0, 1)$$
Motivation: Let

\[ T_n(h) = f(x) + \sum_{k=1}^{n} \frac{f^{(k)}(x)h^k}{k!} \]

\[ = f(x) + f'(x)h + \frac{f''(x)h^2}{2} + \cdots + \frac{f^{(n)}(x)h^n}{n!} \]

\[ T_n(0) = f(x) \]

\[ T_n'(h) = f'(x) + f''(x)h + \cdots + \frac{f^{(n)}(x)h^{n-1}}{(n-1)!} \]

\[ T_n'(0) = f'(x) \]

\[ T_n''(h) = f''(x) + \cdots + \frac{f^{(n)}(x)h^{n-2}}{(n-2)!} \]

\[ T_n''(0) = f''(x) \]

\[ \vdots \]

\[ T_n^{(n)}(0) = f^{(n)}(x) \]
so $T_n(h)$ is the unique $n^{th}$ degree polynomial such that

\[
\begin{align*}
T_n(0) &= f(x) \\
T_n'(0) &= f'(x) \\
\vdots
\end{align*}
\]

\[
T_n^{(n)}(0) = f^{(n)}(x)
\]
Taylor’s Theorem – $\mathbb{R}$

**Theorem 8** (Alternate Taylor’s Theorem in $\mathbb{R}$). Let $f : I \rightarrow \mathbb{R}$ be $n$ times differentiable, where $I \subseteq \mathbb{R}$ is an open interval and $x \in I$. Then

$$f(x + h) = f(x) + \sum_{k=1}^{n} \frac{f^{(k)}(x)h^k}{k!} + o(h^n) \text{ as } h \rightarrow 0$$

If $f$ is $(n + 1)$ times continuously differentiable, then

$$f(x + h) = f(x) + \sum_{k=1}^{n} \frac{f^{(k)}(x)h^k}{k!} + O(h^{n+1}) \text{ as } h \rightarrow 0$$

**Remark:** The first equation in the statement of the theorem is essentially a restatement of the definition of the $n^{th}$ derivative. The second statement is proven from Theorem 1.9, and the continuity of the derivative.
**C^k Functions**

**Definition 3.** Let \( X \subseteq \mathbb{R}^n \) be open. A function \( f : X \rightarrow \mathbb{R}^m \) is continuously differentiable on \( X \) if

- \( f \) is differentiable on \( X \) and
  
- \( df_x \) is a continuous function of \( x \) from \( X \) to \( L(\mathbb{R}^n, \mathbb{R}^m) \), with operator norm \( \|df_x\| \)

\( f \) is \( C^k \) if all partial derivatives of order \( \leq k \) exist and are continuous in \( X \).
$C^k$ Functions

**Theorem 9** (Thm. 4.3). Suppose $X \subseteq \mathbb{R}^n$ is open and $f : X \to \mathbb{R}^m$. Then $f$ is continuously differentiable on $X$ if and only if $f$ is $C^1$. 
Taylor’s Theorem – Linear Terms

Theorem 10. Suppose \( X \subseteq \mathbb{R}^n \) is open and \( x \in X \). If \( f : X \to \mathbb{R}^m \) is differentiable, then

\[
f(x + h) = f(x) + Df(x)h + o(h) \quad \text{as} \quad h \to 0
\]

This is essentially a restatement of the definition of differentiability.
Taylor’s Theorem – Linear Terms

**Theorem 11** (Corollary of 4.4). Suppose $X \subseteq \mathbb{R}^n$ is open and $x \in X$. If $f : X \to \mathbb{R}^m$ is $C^2$, then

$$f(x + h) = f(x) + Df(x)h + O(|h|^2) \text{ as } h \to 0$$
Taylor’s Theorem – Quadratic Terms

We treat each component of the function separately, so consider $f : X \rightarrow \mathbb{R}, \ X \subseteq \mathbb{R}^n$ an open set. Let

$$D^2 f(x) = \begin{pmatrix}
\frac{\partial^2 f}{\partial x_1^2} & \frac{\partial^2 f}{\partial x_2 \partial x_1} & \ldots & \frac{\partial^2 f}{\partial x_n \partial x_1} \\
\frac{\partial^2 f}{\partial x_1 \partial x_2} & \frac{\partial^2 f}{\partial x_2^2} & \ldots & \frac{\partial^2 f}{\partial x_n \partial x_2} \\
\vdots & \vdots & \ddots & \vdots \\
\frac{\partial^2 f}{\partial x_1 \partial x_n} & \ldots & \ldots & \frac{\partial^2 f}{\partial x_n^2}
\end{pmatrix}$$

$$f \in C^2 \Rightarrow \frac{\partial^2 f}{\partial x_i \partial x_j} = \frac{\partial^2 f}{\partial x_j \partial x_i}$$

$\Rightarrow D^2 f(x)$ is symmetric

$\Rightarrow D^2 f(x)$ has an orthonormal basis of eigenvectors and thus can be diagonalized
Taylor’s Theorem – Quadratic Terms

**Theorem 12** (Stronger Version of Thm. 4.4). Let $X \subseteq \mathbb{R}^n$ be open, $f : X \rightarrow \mathbb{R}$, $f \in C^2(X)$, and $x \in X$. Then

$$f(x + h) = f(x) + Df(x)h + \frac{1}{2}h^\top (D^2f(x))h + o\left(|h|^2\right) \quad \text{as } h \rightarrow 0$$

If $f \in C^3$,

$$f(x + h) = f(x) + Df(x)h + \frac{1}{2}h^\top (D^2f(x))h + O\left(|h|^3\right) \quad \text{as } h \rightarrow 0$$
Characterizing Critical Points

**Definition 4.** We say $f$ has a saddle at $x$ if $Df(x) = 0$ but $x$ has neither a local maximum nor a local minimum at $x$. 
Characterizing Critical Points

**Corollary 1.** Suppose $X \subseteq \mathbb{R}^n$ is open and $x \in X$. If $f : X \to \mathbb{R}$ is $C^2$, there is an orthonormal basis \( \{v_1, \ldots, v_n\} \) and corresponding eigenvalues $\lambda_1, \ldots, \lambda_n \in \mathbb{R}$ such that

$$ f(x + h) = f(x + \gamma_1 v_1 + \cdots + \gamma_n v_n) $$

$$ = f(x) + \sum_{i=1}^{n} (Df(x)v_i) \gamma_i + \frac{1}{2} \sum_{i=1}^{n} \lambda_i \gamma_i^2 + o(\|\gamma\|^2) $$

where $\gamma_i = h \cdot v_i$.

1. If $f \in C^3$, we may strengthen $o(\|\gamma\|^2)$ to $O(\|\gamma\|^3)$.

2. If $f$ has a local maximum or local minimum at $x$, then

$$ Df(x) = 0 $$
3. If $Df(x) = 0$, then

- $\lambda_1, \ldots, \lambda_n > 0 \Rightarrow f$ has a local minimum at $x$
- $\lambda_1, \ldots, \lambda_n < 0 \Rightarrow f$ has a local maximum at $x$
- $\lambda_i < 0$ for some $i$, $\lambda_j > 0$ for some $j \Rightarrow f$ has a saddle at $x$
- $\lambda_1, \ldots, \lambda_n \geq 0$, $\lambda_i > 0$ for some $i \Rightarrow f$ has a local minimum or a saddle at $x$
- $\lambda_1, \ldots, \lambda_n \leq 0$, $\lambda_i < 0$ for some $i \Rightarrow f$ has a local maximum or a saddle at $x$
- $\lambda_1 = \cdots = \lambda_n = 0$ gives no information.
Proof. (Sketch) From our study of quadratic forms, we know the behavior of the quadratic terms is determined by the signs of the eigenvalues. If $\lambda_i = 0$ for some $i$, then we know that the quadratic form arising from the second partial derivatives is identically zero in the direction $v_i$, and the higher derivatives will determine the behavior of the function $f$ in the direction $v_i$. For example, if $f(x) = x^3$, then $f'(0) = 0$, $f''(0) = 0$, but we know that $f$ has a saddle at $x = 0$; however, if $f(x) = x^4$, then again $f'(0) = 0$ and $f''(0) = 0$ but $f$ has a local (and global) minimum at $x = 0$. $\square$