Econ 204 2017

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 \( \exists a \in \mathbb{R} \) such that

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

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

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

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

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

(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
  \[ \exists K, \delta > 0 \text{ s.t. } |h| < \delta \Rightarrow |y| \leq K|h|^n \]

• \( y = o(|h|^n) \) 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 \( x \) ⇔ \( \exists T_x \in L(\mathbb{R}^n, \mathbb{R}^m) \) 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 $|\gamma e_j| = |\gamma|$).

\[
o(\gamma) = f(x + \gamma e_j) - (f(x) + T_x(\gamma e_j)) \]

\[
= f(x + \gamma e_j) - f(x) - \left( a_{11} \cdots a_{1j} \cdots a_{1n} \begin{pmatrix} 0 \\ \vdots \\ \gamma \\ 0 \\ \vdots \\ 0 \end{pmatrix} \right) \]

\[
= f(x + \gamma e_j) - \left( f(x) + \begin{pmatrix} \gamma a_{1j} \\ \vdots \\ \gamma a_{mj} \end{pmatrix} \right) \]
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 \( a_{ij} = \frac{\partial f^i}{\partial x_j}(x) \)
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 $\frac{\partial f^i}{\partial x^j}(x)$ 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 at $x$ is the matrix of partial derivatives at $x$. 
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 \(f : [a, b] \to \mathbb{R}\) 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. \qed
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 $f : X \to \mathbb{R}^m$ 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 $z \in [0, 1],$

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

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

$$= 2\pi$$
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

$$E_n = \frac{f^{(n)}(x + \lambda h)h^n}{n!}$$

for some $\lambda \in (0, 1)$.
Motivation: Let

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

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

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

\[ T'_n(h) = f'(x) + f''(x)h + \cdots + \frac{f^{(n)}(x)h^{n-1}}{(n-1)!} \]

\[ T'_n(0) = f'(x) \]

\[ T''_n(h) = f''(x) + \cdots + \frac{f^{(n)}(x)h^{n-2}}{(n-2)!} \]

\[ T''_n(0) = f''(x) \]

\[ \vdots \]

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

\[
\begin{align*}
T_n(0) &= f(x) \\
T'_n(0) &= f'(x) \\
&\vdots \\
T_n^{(n)}(0) &= f^{(n)}(x)
\end{align*}
\]
Taylor’s Theorem – \( \mathbb{R} \)

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

\[
f(x + h) = f(x) + \sum_{k=1}^{n} \frac{f^{(k)}(x)h^k}{k!} + o(h^n) \quad \text{as} \quad h \to 0
\]

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

\[
f(x + h) = f(x) + \sum_{k=1}^{n} \frac{f^{(k)}(x)h^k}{k!} + O(h^{n+1}) \quad \text{as} \quad h \to 0
\]

**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.
\section*{$C^k$ Functions}

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

\begin{itemize}
  \item $f$ is differentiable on $X$ and
  \item $df_x$ is a continuous function of $x$ from $X$ to $L(\mathbb{R}^n, \mathbb{R}^m)$, with respect to the operator norm $\|df_x\|$
\end{itemize}

$f$ is $C^k$ if all partial derivatives of order $\leq k$ exist and are continuous in $X$. 
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 $f : X \rightarrow \mathbb{R}^m$ is differentiable, then

$$f(x + h) = f(x) + Df(x)h + o(h) \text{ as } h \rightarrow 0$$

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 $f : X \rightarrow \mathbb{R}^m$ is $C^2$, then

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

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

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

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

$\Rightarrow D^2 f(x)$ is symmetric
$\Rightarrow D^2 f(x)$ has eigenvectors that are an orthonormal basis 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

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

If $f \in C^3$,

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

**Definition 4.** We say \( f \) has a saddle at \( x \) if \( Df(x) = 0 \) but \( f \) 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 $\lambda_1, \ldots, \lambda_n \in \mathbb{R}$ of $D^2f(x)$ such that

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

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

where $\gamma_i = h \cdot v_i$.

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

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 $x = 0$. \qed