

9.51- UTILITY AND MARGINAL

UTILITY

9.51- Explain the importance of utility and marginal utility in terms of decision making and consumption.

By: Carter Greene

KICKOFF:



- ❖ Go to Google Classroom and complete the assignment **“KO- 11/7”**
- ❖ Must be using a Chromebook today
- ❖ Pick up a handout on the way in
 - Put it away for now
- ❖ **Roll Call:** College or NBA?



ANNOUNCEMENTS:

- ❖ **11/18**- Unit 3 Test
- ❖ Knight Time tomorrow
- ❖ Heels win!
 - Cole Anthony is the TRUTH



CONCEPT CHECK:

- ❖ Informal
- ❖ 17 Questions
- ❖ 20 minutes
- ❖ ABSOLUTELY NO TALKING EVEN WHEN YOU ARE FINISHED
- ❖ When you are finished
 - Read module 51 of your textbook (on Google Classroom)
 - Last textbook module before your Unit 3/Section 9 Test

9.51- UTILITY AND MARGINAL

UTILITY

9.51- Explain the importance of utility and marginal utility in terms of decision making and consumption.

By: Carter Greene

UTILITY AND MARGINAL UTILITY



- ❖ Utility- Satisfaction, enjoyment, pleasure, etc.
 - Ex: pleasure you get from a long nap
- ❖ Marginal = additional (change in total)
- ❖ Marginal Utility- additional satisfaction from each unit consumed
 - Ex: pleasure you get from each additional hour of napping
- ❖ Utils- units used to measure utility

UTILITY OF NAPS

Hours Napped:	Marginal Utility:	Total Utility:
1	15	15
2	13	28
3	11	39

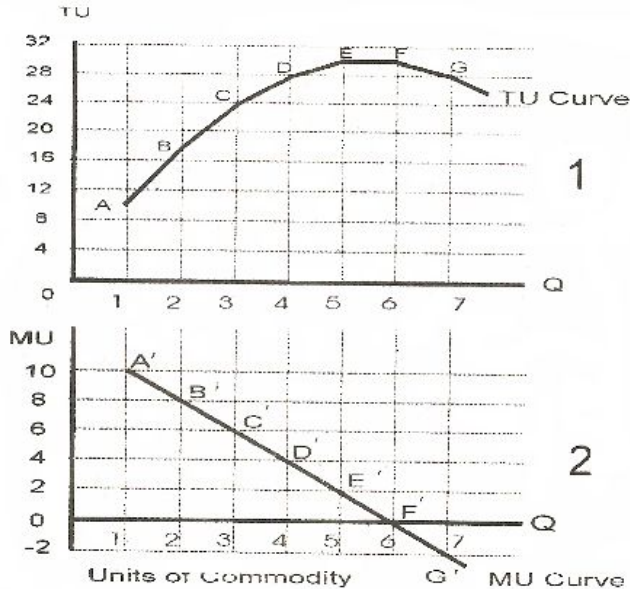
MARSHMALLOWS



LAW OF DIMINISHING MARGINAL UTILITY

- ❖ Additional satisfaction of each good decreases, as more goods are consumed
 - Eating food, listening to a song, going on trips

Quantity (Q)	Total Utility	Marginal Utility
1	120	120
2	210	90
3	270	60
4	300	30
5	300	0
6	270	-30
7	240	-60



Tickets Bought	Total utility	Marginal utility
1	10	10
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	-2
8	18	-10

with How to Calculate Marginal Utility

MARGINAL UTILITY PER DOLLAR

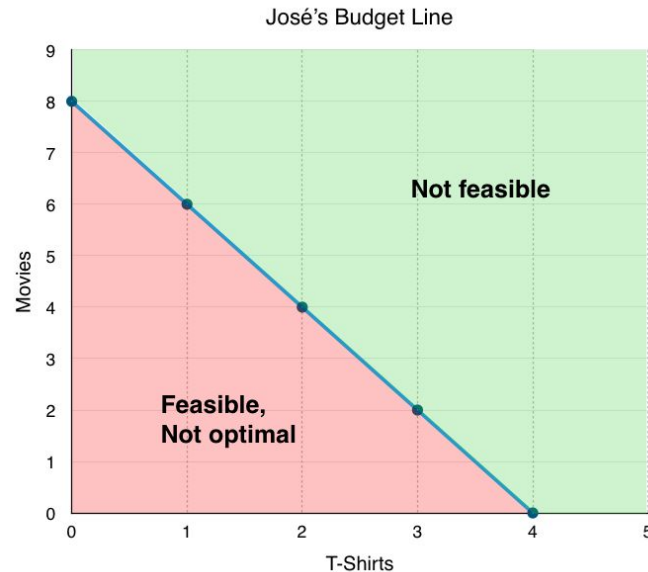
- ❖ Additional utility of spending one more dollar on that good or service
- ❖ MU_x/P_x
- ❖ Let's say pizza cost \$2 per slice

Slices of pizza	Marginal Utility	Total Utility	Mu/p
1	8	8	4
2	7	15	3.5
3	5	20	2.5
4	2	22	1
5	1	23	.5

BUDGET CONSTRAINT

- ❖ Limits combination of goods and services one can purchase due to income
- ❖ Consumption possibilities- shows set of possible consumption bundles

- ❖ Budget: \$16
 - Movies: \$2
 - T-shirts: \$4



UTILITY MAXIMIZATION RULE/ OPTIMAL CONSUMPTION RULE

- ❖ To maximize utility, marginal utility per dollar spent is equal for all goods in the consumption bundle

$$\frac{MU_x}{P_x} = \frac{MU_y}{P_y}$$



NOW YOU

TRY!

CLOSURE