

# Chapter 6

## Consumer Choice & Demand

**These slides supplement the textbook, but should not replace reading the textbook**

**In our analysis of  
consumer choice, what  
important assumption do  
we make?**

People would rather  
have more than less

# What is a demand curve?

A demand curve shows how many units will be demanded at various prices

# Why do demand curves slope downward to the right?

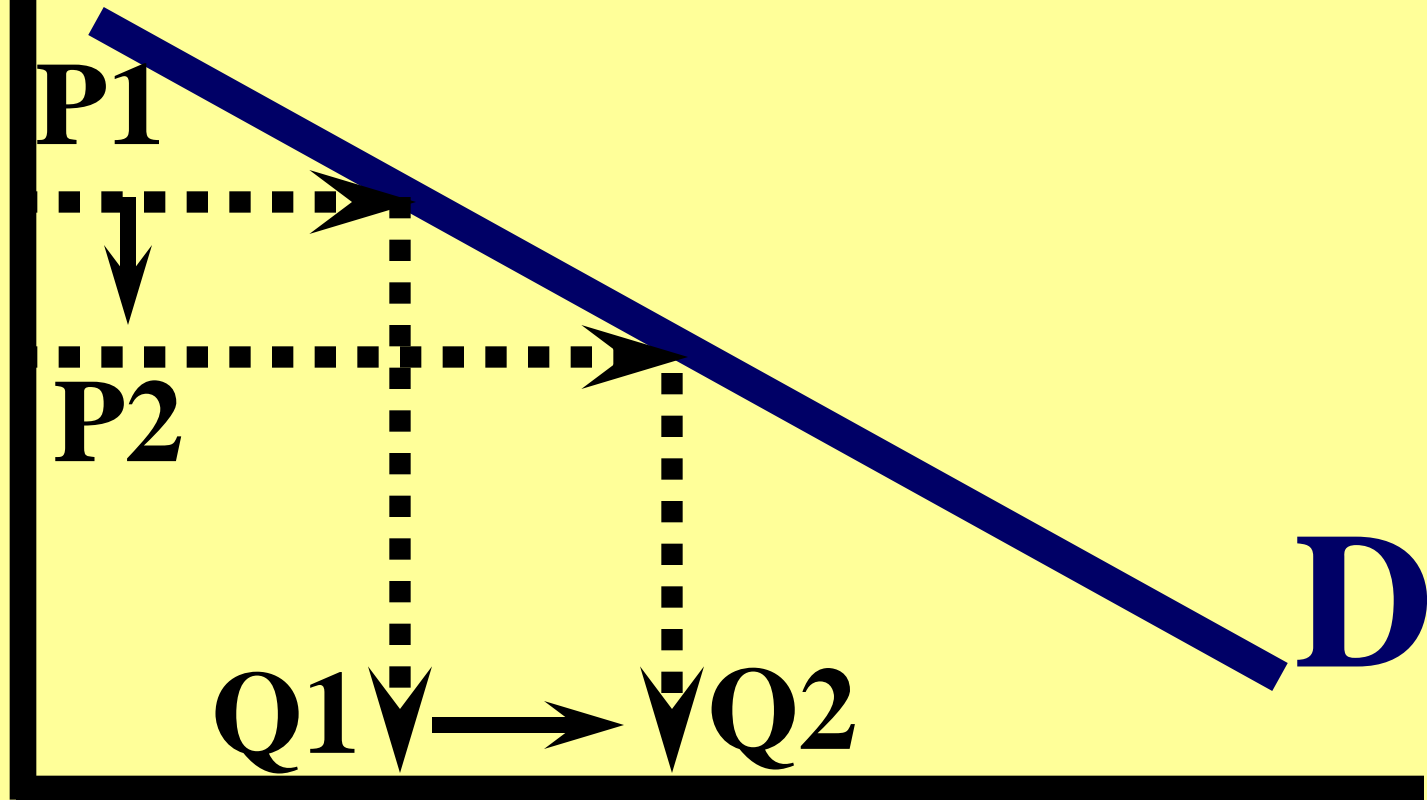
Because there will be an change in the quantity demanded as price changes

# With a change in price, what about other things?

When price changes  
we assume that  
everything else  
stays the same



# Demand Curve



# What is the difference between wants and demand?

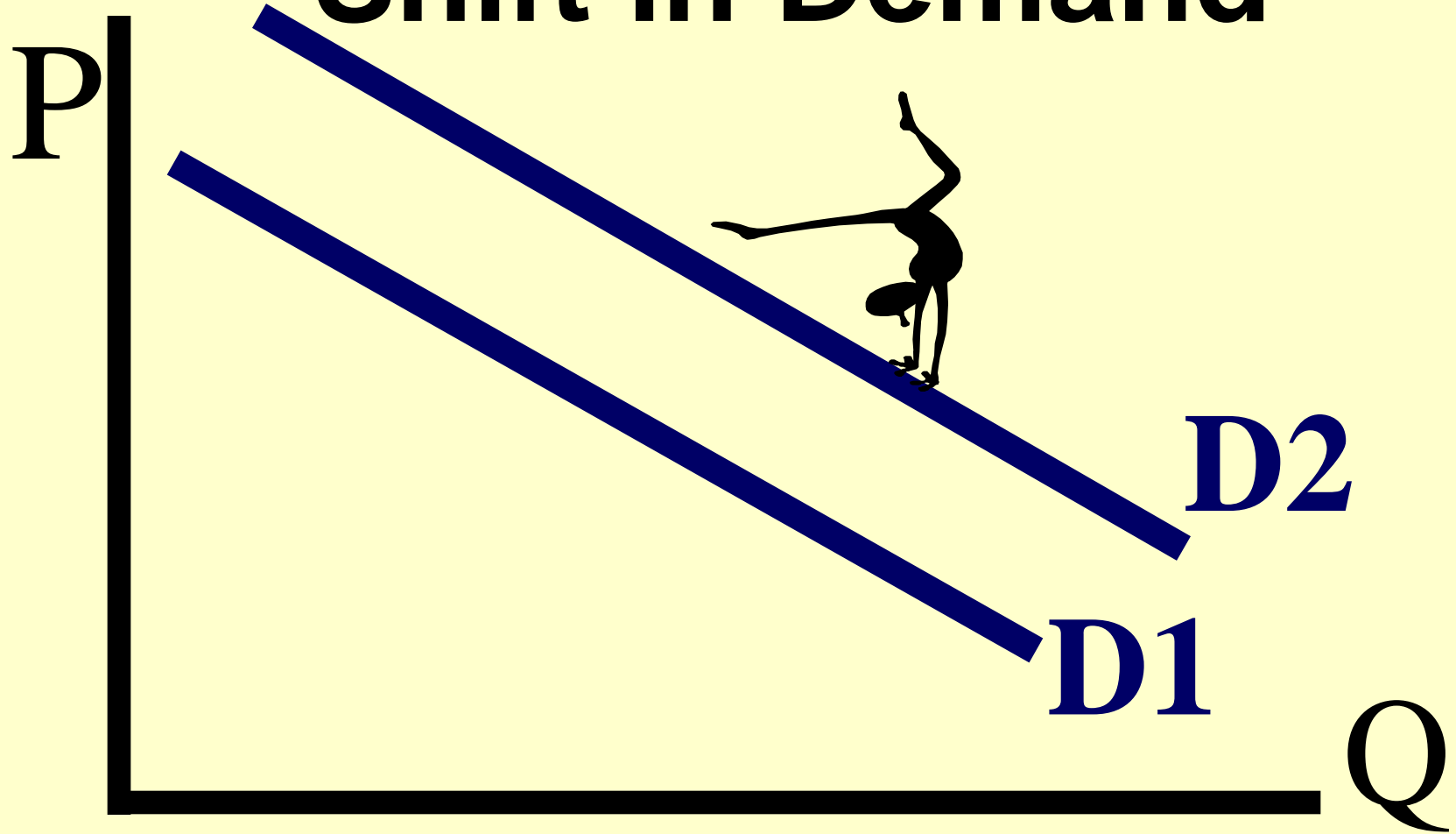
We live in a world of unlimited wants - but the things that you demand are those things you are able and willing to buy

# What is the difference between *money* income and *real* income?

Your *money income* increases with a pay raise, but your *real income* increases only if your pay increases more than inflation



# Shift in Demand



# What can cause a shift in demand? A change in

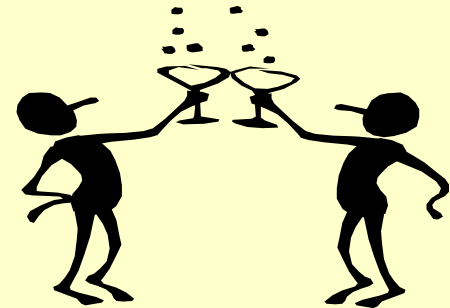
- incomes
- tastes
- number of consumers
- prices of related goods
- expectations

# What are tastes?

A consumer's preferences for different goods and services

# What is utility?

Represents the level of satisfaction that a consumer derives from consumption



# What is total utility?

The total satisfaction a consumer derives from consumption

# What is marginal utility?

The change in total utility derived from a one-unit change in consumption of a good

# What is the law of diminishing marginal utility?

The more of a good consumed per period, the smaller the increase in total utility from consuming one more unit

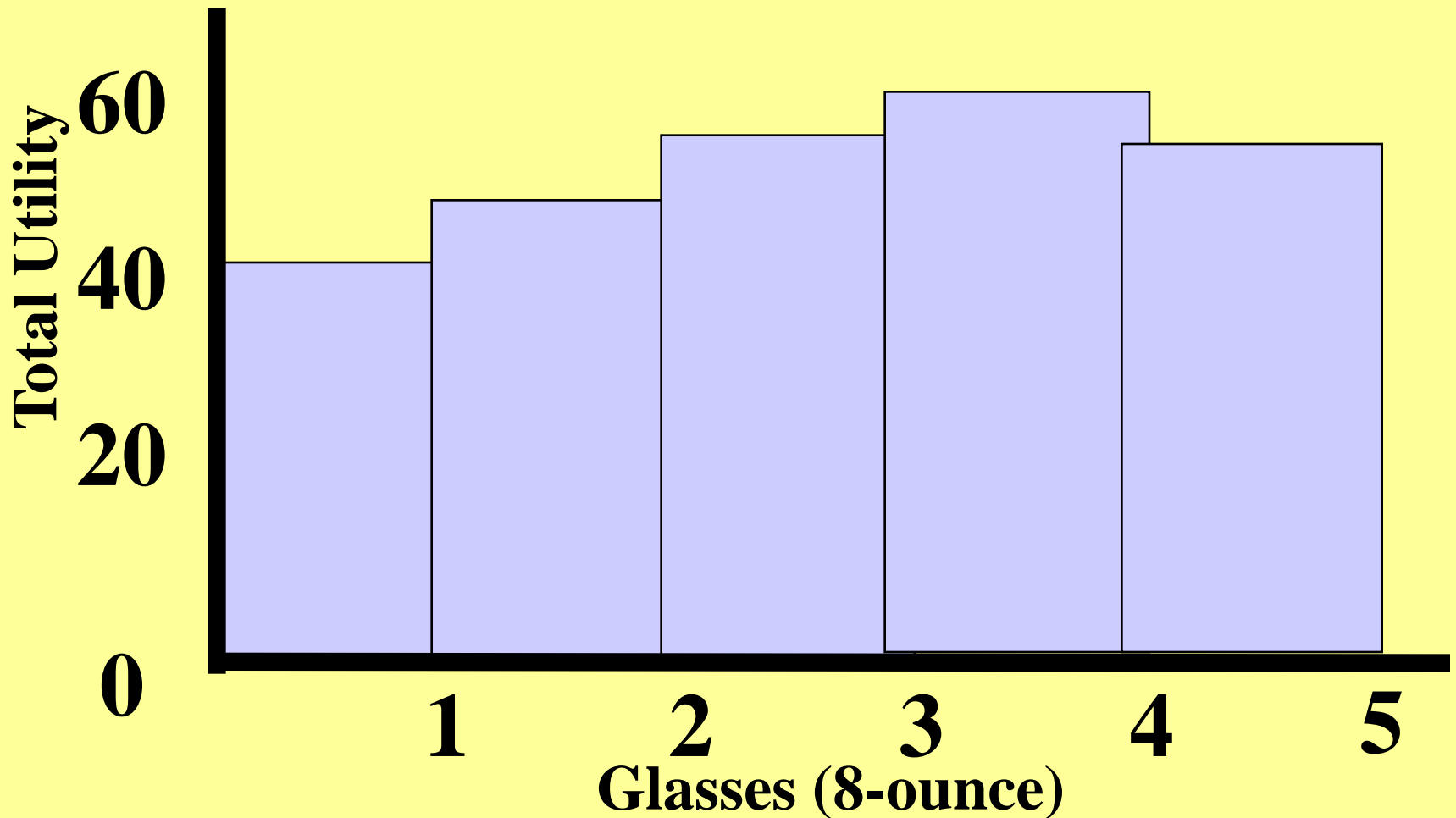
# Utility Derived from Drinking Water after Jogging Four Miles

<b>Units of Water</b>	<b>Total Utility</b>	<b>Marginal Utility</b>
<b>0</b>	<b>0</b>	<b>0</b>
<b>1</b>	<b>40</b>	<b>40</b>
<b>2</b>	<b>60</b>	<b>20</b>
<b>3</b>	<b>70</b>	<b>10</b>
<b>4</b>	<b>75</b>	<b>5</b>
<b>5</b>	<b>73</b>	<b>-2</b>

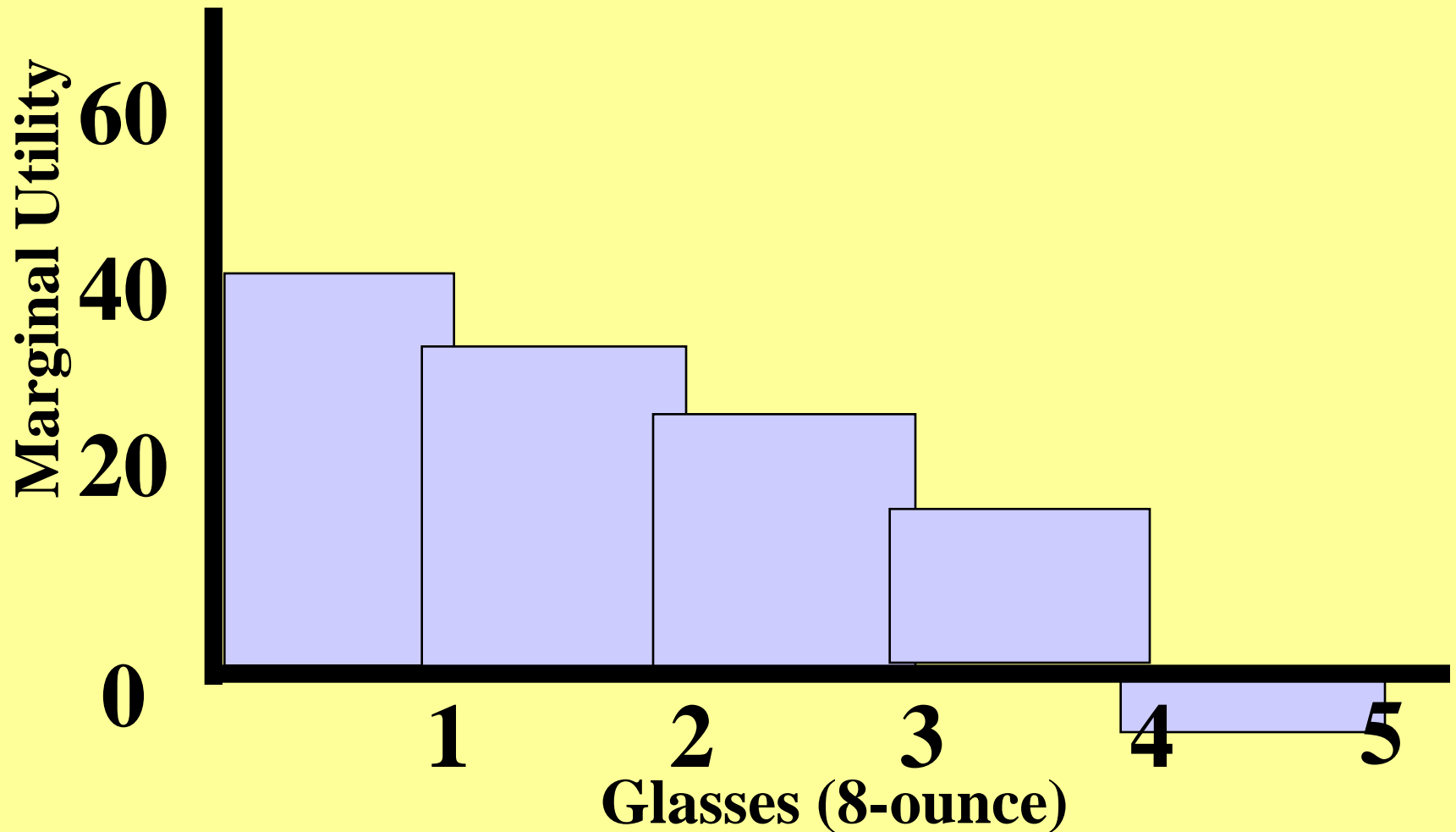
Exhibit 1



# (a) Total Utility and You Derive from Drinking Water after Jogging Four Miles



# (b) Marginal Utility You Derive from Drinking Water after Jogging Four Miles



# Total and Marginal Utility from Food

Units of Food Consumed per Period	Total Utility of Food	Marginal Utility of Food	Marginal Utility of Food per Dollar Expended (price = \$4)
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0	0	-	-
1	25	25	6 $\frac{1}{4}$
2	41	16	4
3	53	12	3
4	62	9	2 $\frac{1}{4}$
5	68	6	1 $\frac{1}{2}$
6	72	4	1

# Total and Marginal Utility from Clothing

<b>Units of Clothing Consumed per Period</b>	<b>Total Utility of Clothing</b>	<b>Marginal Utility of Clothing</b>	<b>Marginal Utility of Clothing per Dollar Expended (price = \$2)</b>
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<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>1</b>	<b>20</b>	<b>20</b>	<b>10</b>
<b>2</b>	<b>34</b>	<b>14</b>	<b>7</b>
<b>3</b>	<b>44</b>	<b>10</b>	<b>5</b>
<b>4</b>	<b>50</b>	<b>6</b>	<b>3</b>
<b>5</b>	<b>54</b>	<b>4</b>	<b>2</b>

# What is consumer equilibrium?

The condition in which an individual consumer's budget is completely spent and utility is maximized

**If you are hungry, how much food will you eat?**

Up to the point where

$$\text{MU} = \text{P}$$

# Why?

Because if  $MU > P$ , you will buy more food.

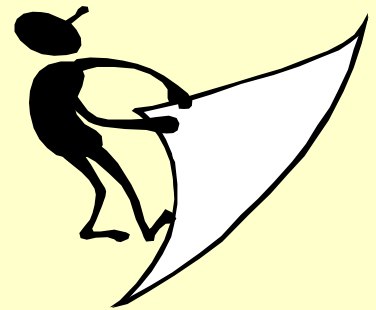
If  $MU < P$ , you will not buy the last unit of food

# When is your *total utility* maximized?

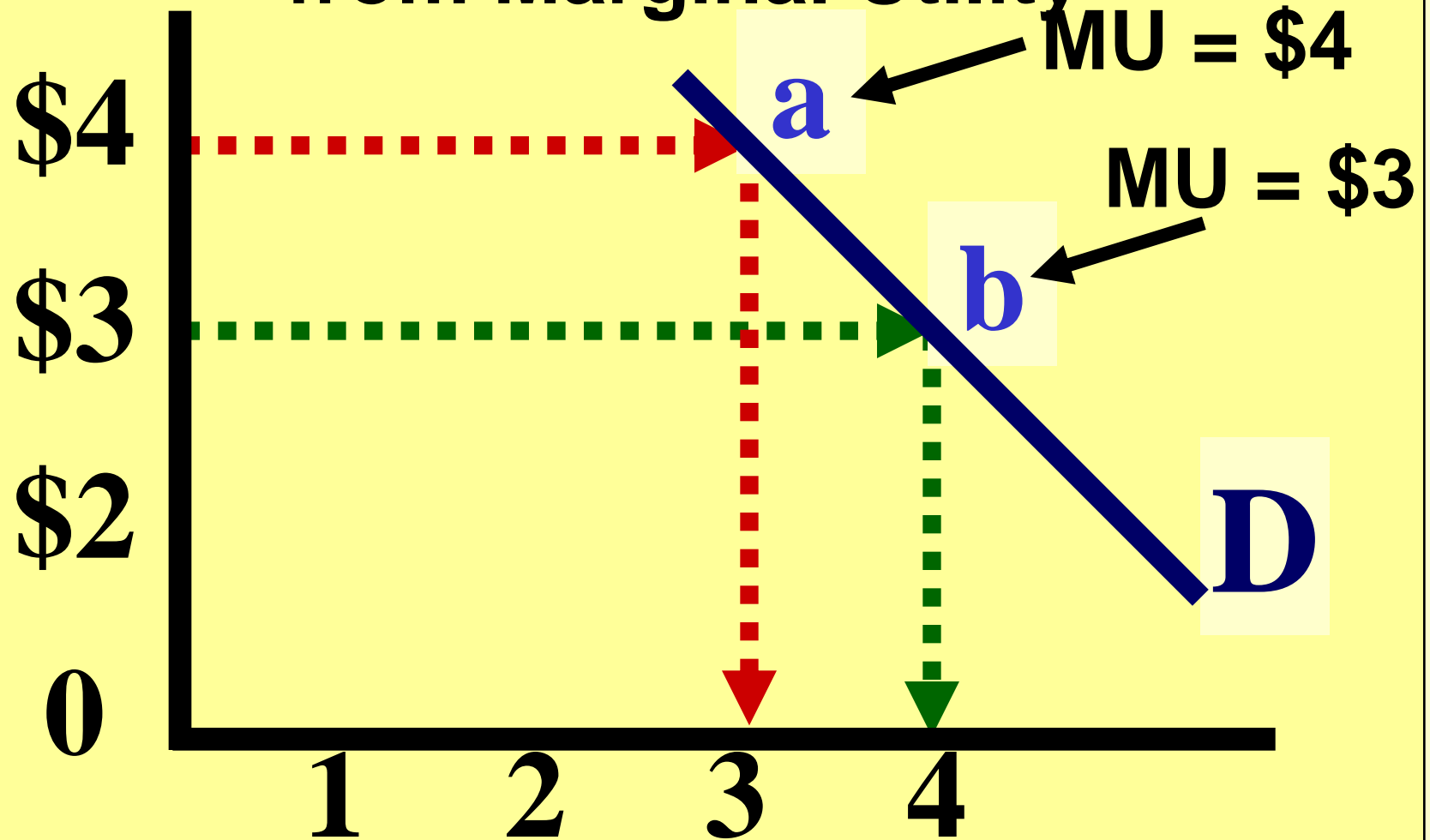
When your budget is completely spent and the last dollar spent on each good yields the same marginal utility



**Why does  $MU = P$   
explain the  
downward sloping  
demand curve?**



# Demand for Pizza Generated from Marginal Utility



# What is marginal valuation?

The dollar value of the marginal utility derived from consuming each additional unit of a good

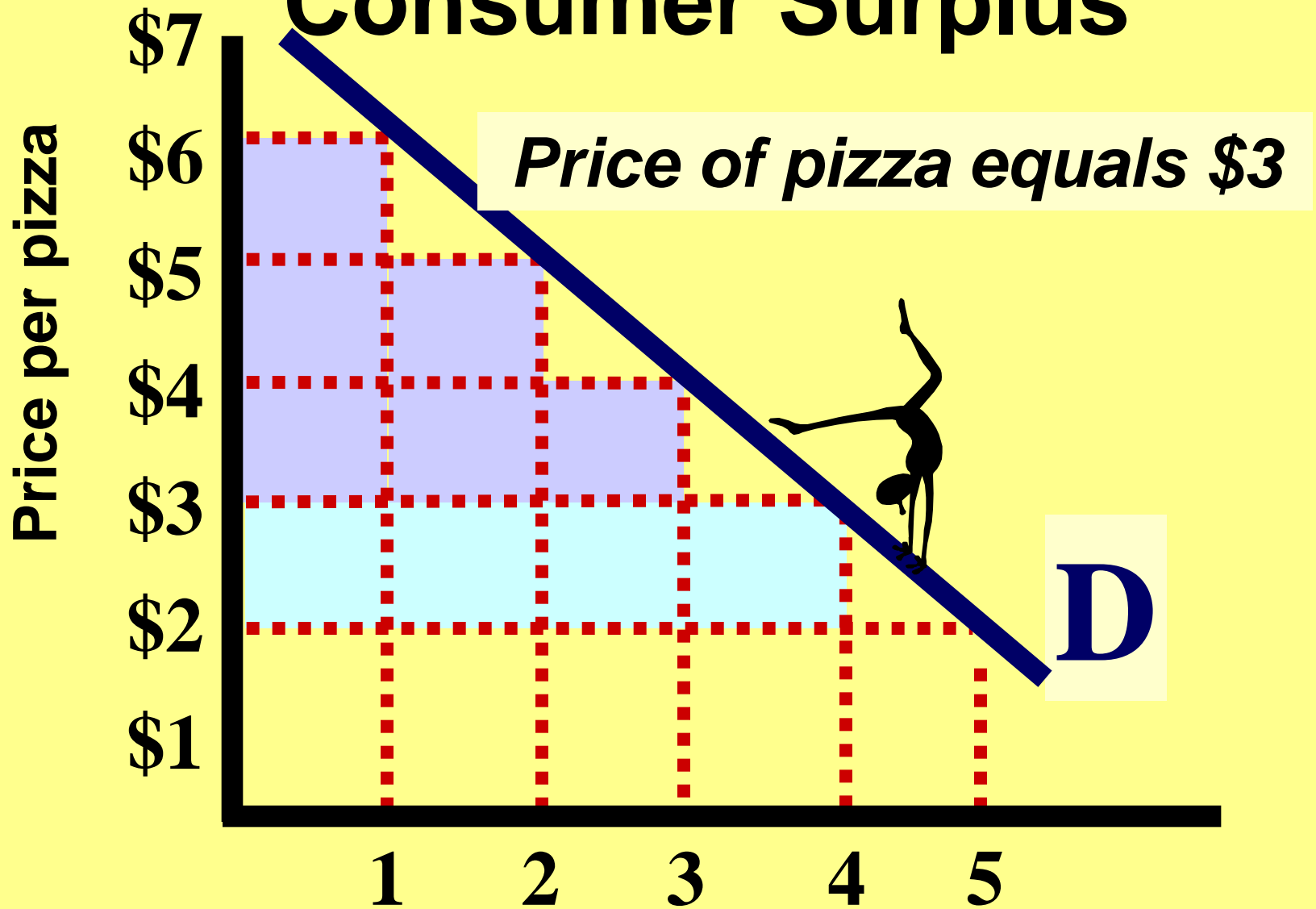
# What is consumer surplus?

The difference between the maximum amount a consumer is willing to pay and what the consumer actually pays

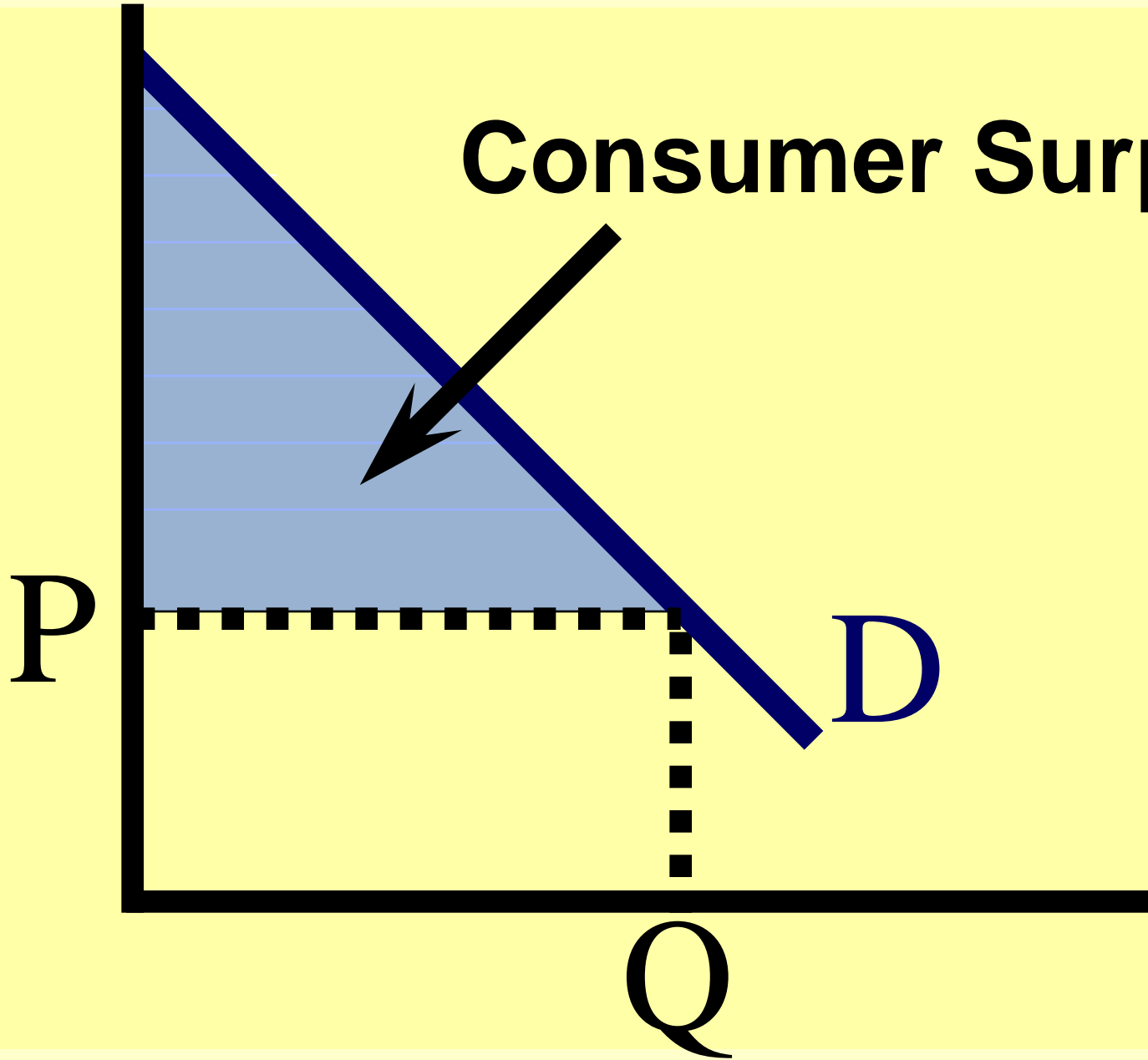
# What is the *consumer surplus* of buying a pizza?

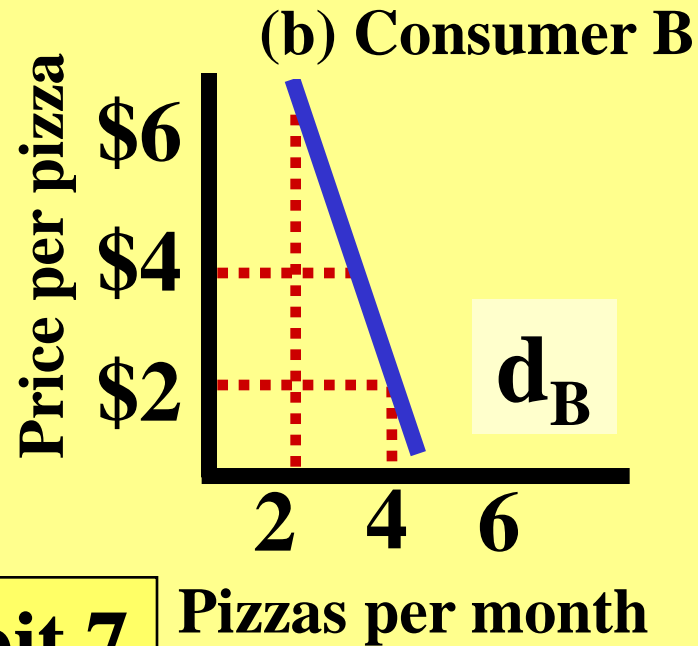
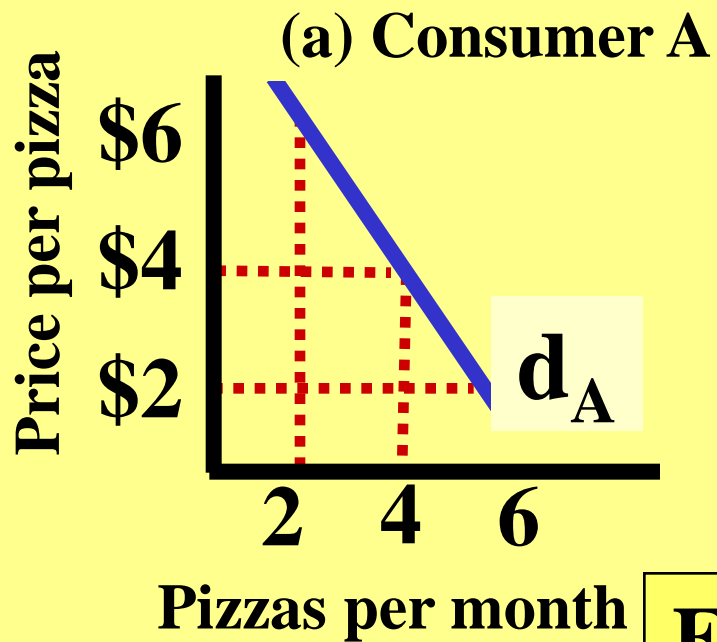
The value of the total utility you receive from consuming the pizza minus your total spending on the pizza.

# Consumer Surplus

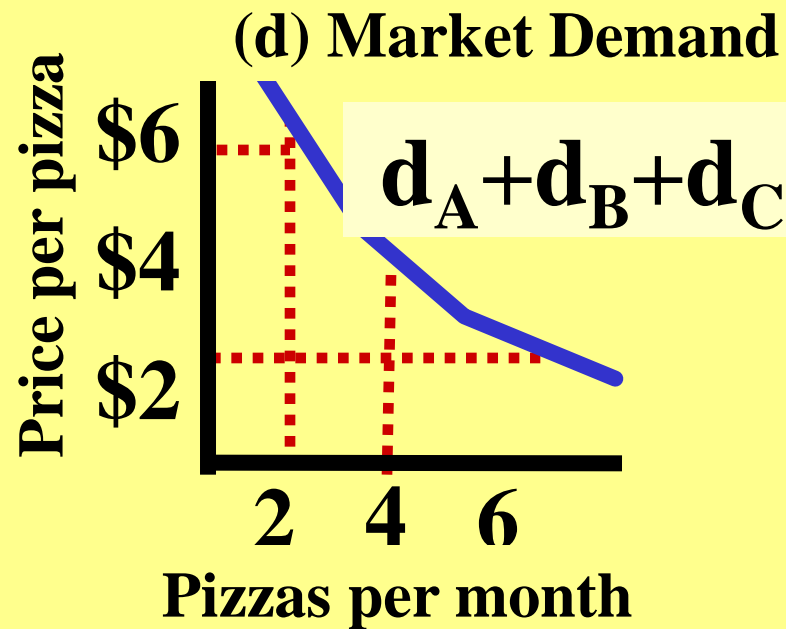
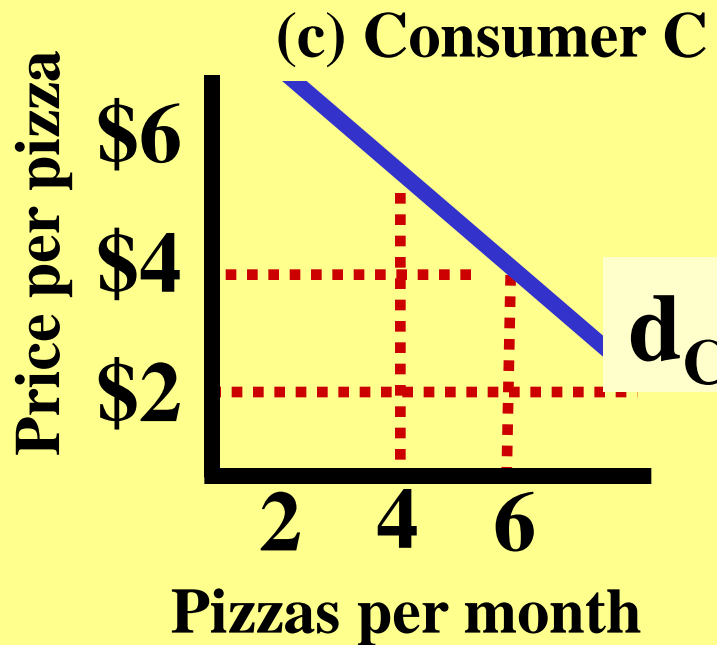


# Consumer Surplus



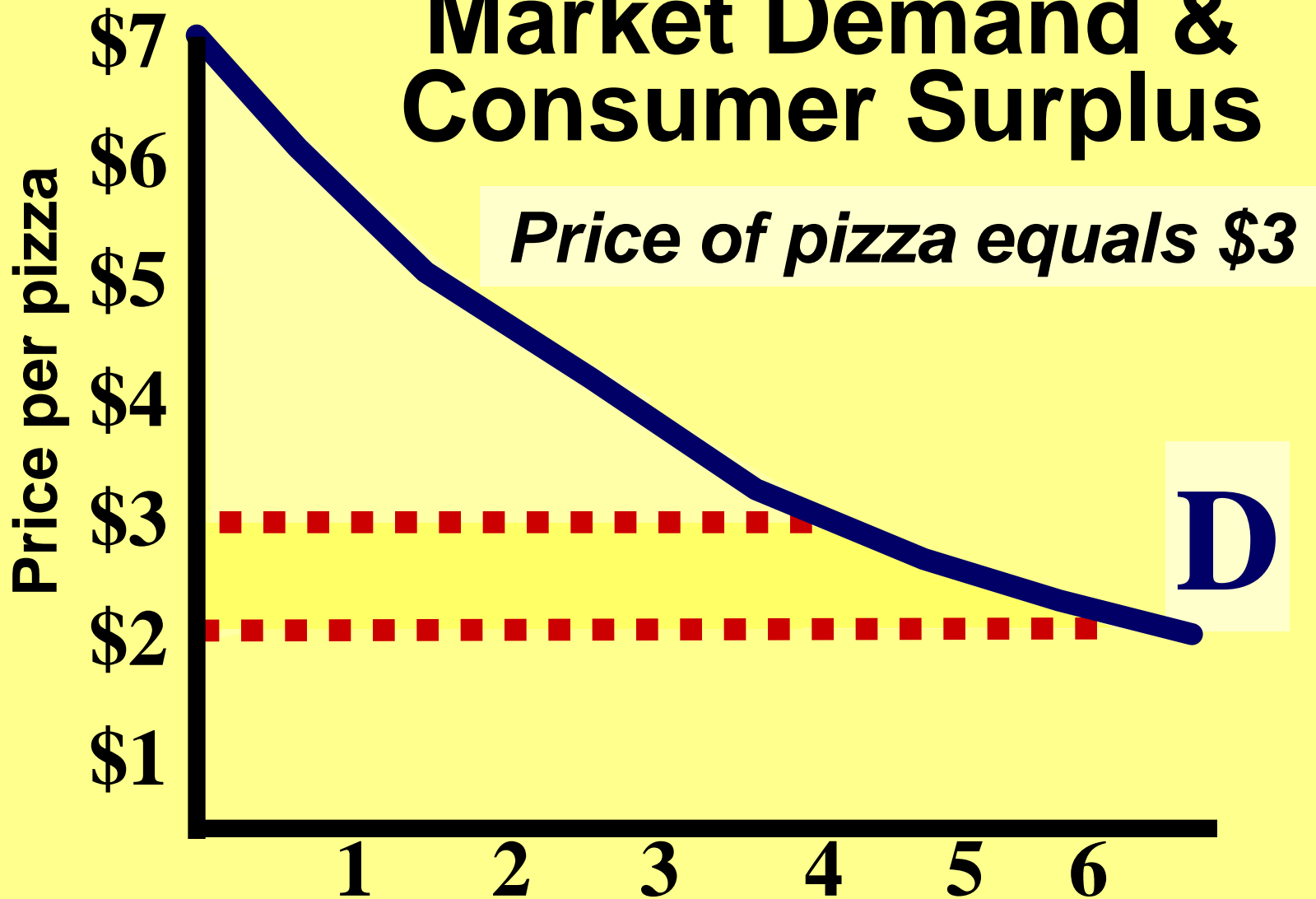


**Exhibit 7**





# Market Demand & Consumer Surplus



# What does time have to do with MU?

People will have a greater MU the shorter the time

# What is an example of time and MU?

People will be willing to pay more to fly to California from Virginia than they would be willing to pay to take a bus to California

**END**