UNIVERSITY OF THE PEOPLE

BUS 1103-01 Microeconomics- AY2024-T1

Learning Journal Unit 4

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Catherine is having dinner at the Yellow Restaurant. She wants desert after eating her entree. She is trying to decide between a cookie or a slice of pie. The cost of a cookie is $5 and the cost of a slice of pie is $8.

Question 1. Compute the marginal utility for cookie and slice of pie.

Marginal utility is a fundamental concept in economics that helps individuals make rational decisions about how to allocate their resources. Put simply, it refers to the additional satisfaction or benefit gained from consuming one more unit of a product or service.

"The formula for marginal utility is change in total utility (ΔTU) divided by change in number of units (ΔQ): MU = ΔTU/ΔQ". (Bloomenthal, 2023)

Or Marginal Utility = TU2 – TU1 / Q2 – Q1

For Cookie:

Per piece marginal utility of cookie = 18

2 pieces = 34-18/2-1=16

3 pieces = 49-34/3-2=15

4 pieces = 61-49/4-3=18

5 pieces = 71-61/5-4=10

6 pieces = 79-71/6-5=8

7 pieces = 84-79/7-6=5

8 pieces = 87-84/8-7=3

For slice of Pie:

Per slice marginal utility of Pie = 16

2 pieces = 30-16/2-1=14

3 pieces = 42-30/3-2=12

4 pieces = 51-42/4-3=9

5 pieces = 60-51/5-4=9

6 pieces = 68-60/6-5=8

7 pieces = 74-68/7-6=6

8 pieces = 76-74/8-7=2

Question 2. Compute the marginal utility per dollar.

Cookie:

1 piece=18/5=3.6=4

2 pieces=16/5=3.2=3

3 pieces=15/5=3

4 pieces=18/5=3.6=4

5 pieces=10/5=2

6 pieces=8/5=1.6=2

7 pieces=5/5=1

8 pieces=3/5=0.6=1

Slice of Pie:

1 piece=16/8=2

2 pieces=14/8=1.75=2

3 pieces=12/8=1.5=2

4 pieces=9/8=3.6=1.125=1

5 pieces=9/8=1.125=1

6 pieces=8/8=1

7 pieces=6/8=0.75=1

8 pieces=2/8=0.25=2

Question 3. What is the utility maximizing choice for a cookie and slice of pie?

For a cookie, the utility-maximizing option is 18/5, which equals 3.6, and for a slice of pie, it is 16/8, which equals 2.

Question 4. Explain what the utility maximizing choice means.

“A strategy plan called utility maximization aims to make people's and businesses' economic decisions as satisfying as possible. For instance, management may create a plan to buy products or services that will benefit the organization the most when resources are restricted.” (Team, 2023)

Question 5. Discuss how you could use marginal utility to make consumer choices.

In the complex world of consumer choices, understanding marginal utility is crucial. Marginal utility measures the extra satisfaction gained from each additional purchase. To make wise decisions, prioritize essential needs, budget wisely, and consider long-term benefits. Beware of biases, like anchoring, that can cloud judgment. By evaluating the value gained compared to the cost, consumers can optimize their spending and overall well-being. So, always ask, "Is the added satisfaction worth the price?" This question is the key to informed, satisfying consumer choices in a market filled with tempting options.

Reference:

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