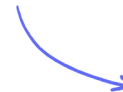


# 2. Individual Economic Decision Making

Consumer Behaviour / Imperfect Information / Behavioural Economics / Using  
Behavioural Economics

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Total Marks

/21

1 According to the hypothesis of diminishing marginal utility, when marginal utility is zero

- A. average utility is negative
- B. the good is a demerit good.
- C. total utility from consuming the good is maximised.
- D. total utility will increase by consuming more of the good.

(1 mark)

2 The behaviour of a consumer buying a 75-inch large screen TV is biased due to bounded rationality and the anchoring effect. This implies that the choice of which TV to buy is based on the price of

- A. all available 75-inch TVs, given sufficient time to obtain the information.
- B. the cheapest available 75-inch TV, in order to maximise utility.
- C. the first 75-inch TV seen and imperfect information about available alternatives.
- D. the most expensive 75-inch TV, believing that this indicates the best quality available.

(1 mark)

3 The hypothesis of diminishing marginal utility

- A. assumes that at least one factor of production is fixed in the short run.
- B. can be used to help explain why a demand curve is downward sloping.
- C. explains why firms try to maximise profit.
- D. states that total utility must fall as consumption increases.

(1 mark)

4 Which one of the following is most likely to be associated with behavioural economic theory?

- A. All consumer behaviour is based on rational utility-maximising decisions.
- B. An individual's economic decisions may be biased.
- C. Price changes cannot explain how competitive markets achieve equilibrium.
- D. The behaviour of firms is based on their desire to maximise profit.

(1 mark)

- 5 A person eats six biscuits a day to maximise their total utility from the consumption of biscuits.

The price of biscuits increases by 50%, leading to a change in the individual's daily consumption of biscuits.

Which one of the following combinations, **A**, **B**, **C** or **D**, shows the most likely changes in the individual's total utility and marginal utility?

	Total utility derived from their daily consumption of biscuits	Marginal utility derived from the last biscuit consumed each day
<b>A</b>	Decrease	Decrease
<b>B</b>	Increase	Decrease
<b>C</b>	Decrease	Increase
<b>D</b>	Increase	Increase

(1 mark)

- 6 The law of diminishing marginal utility states that

- A.** as more of a product is consumed, the extra satisfaction will decline.
- B.** as more of all factors are employed, the additional output produced will fall.
- C.** as more variable factors are added to a fixed factor, the additional output produced will decline.
- D.** the total satisfaction from consuming a product will be maximised when marginal utility starts to fall.

(1 mark)

- 7 For a long time, supermarkets and other commercial firms have understood the benefits of behavioural economic concepts such as choice architecture and framing. The public sector has been slow off the mark, but at last governments are now taking advantage of the opportunities provided by nudging

**Explain** how rules of thumb and irrationality can affect consumers' demand for goods and services

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**(15 marks)**