

Applied Economics

SENIOR
HIGH
SCHOOL

Socioeconomic Factors Affecting
Business and Industry:
Consumer Behavior

Self-Learning
Module
10

Quarter 4



Applied Economics

Quarter 4 – Self-Learning Module 10: Socioeconomic Factors Affecting Business

and Industry: Consumer Behavior

First Edition, 2020

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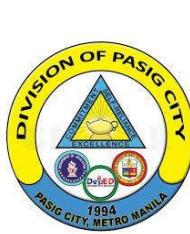
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Socioeconomic Factors Affecting
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Introductory Message

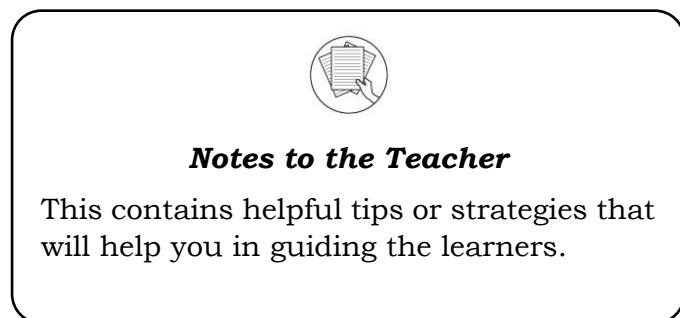
For the facilitator:

Welcome to the Senior High School – Applied Economics Self Learning Module on Socioeconomic Factors Affecting Business and Industry: Consumer Behavior!

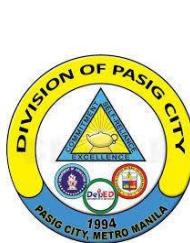
This Self-Learning Module was collaboratively designed, developed and reviewed by educators from the Schools Division Office of Pasig City headed by its Officer-in-Charge Schools Division Superintendent, Ma. Evalou Concepcion A. Agustin, in partnership with the City Government of Pasig through its mayor, Honorable Victor Ma. Regis N. Sotto. The writers utilized the standards set by the K to 12 Curriculum using the Most Essential Learning Competencies (MELC) in developing this instructional resource.

This learning material hopes to engage the learners in guided and independent learning activities at their own pace and time. Further, this also aims to help learners acquire the needed 21st century skills especially the 5 Cs, namely: Communication, Collaboration, Creativity, Critical Thinking, and Character while taking into consideration their needs and circumstances.

In addition to the material in the main text, you will also see this box in the body of the module:



As a facilitator you are expected to orient the learners on how to use this module. You also need to keep track of the learners' progress while allowing them to manage their own learning. Moreover, you are expected to encourage and assist the learners as they do the tasks included in the module.



For the learner:

Welcome to the Applied Economics Self Learning Module on Socioeconomic Factors Affecting Business and Industry: Consumer Behavior!

This module was designed to provide you with fun and meaningful opportunities for guided and independent learning at your own pace and time. You will be enabled to process the contents of the learning material while being an active learner.

This module has the following parts and corresponding icons:



Expectations - This points to the set of knowledge and skills that you will learn after completing the module.



Pretest - This measures your prior knowledge about the lesson at hand.



Recap - This part of the module provides a review of concepts and skills that you already know about a previous lesson.



Lesson - This section discusses the topic in the module.



Activities - This is a set of activities that you need to perform.



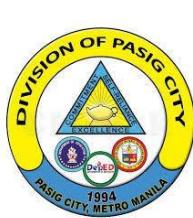
Wrap-Up - This section summarizes the concepts and application of the lesson.



Valuing - This part integrates a desirable moral value in the lesson.



Posttest - This measures how much you have learned from the entire module.





EXPECTATIONS

After going through this module, you are expected to:

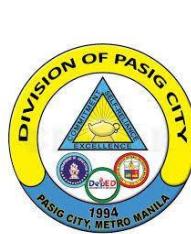
1. understand consumer theory;
2. identify the various socioeconomic factors affecting business and industry in terms of consumers; and
3. explain the importance of consumer behavior in business.



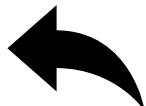
PRETEST

Directions: Choose the letter of the best answer and write it on a separate sheet of paper.

1. It describes how people spend their money based on individual preferences and budget constraints.
 - A. Spending Theory
 - B. Consumer Theory
 - C. Human Choice Theory
 - D. Budget Theory
2. It refers to the use of goods and services to satisfy human wants.
 - A. consumption
 - B. satisfaction
 - C. utility
 - D. opportunity
3. It refers to the total satisfaction received from consuming a good or service.
 - A. opportunity
 - B. consumption
 - C. satisfaction
 - D. utility



4. It is the measure of the unit of satisfaction.
 - A. util
 - B. satis
 - C. happiness
 - D. consumption
5. This law states that as an additional units of goods is consumed, the additional utility derived from each additional unit tends to diminish.
 - A. Law of Utility
 - B. Law of Diminishing Utility
 - C. Law of Diminishing Marginal Utility
 - D. Law of Diminishing Marginal Returns

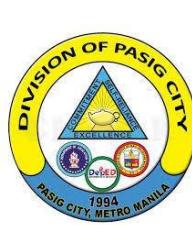


RECAP

Directions: Discuss how the government programs support the MSMEs.

1. Barangay Micro Business Enterprise Act

2. Go Negosyo Act





LESSON

Consumer Theory

Consumer theory is the study of how people decide to spend their money based on their individual preferences, and budget constraints. Consumer theory shows how individuals make choices, subject to how much available income they have to spend, and the prices of products. *Consumption* refers to the use of goods and services to satisfy human wants.

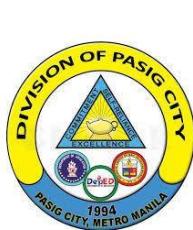
Individuals have the freedom to choose between different bundles of goods and services. Consumer theory seeks to predict their purchasing patterns by making the following three basic assumptions about human behavior:

1. Utility maximization - Individuals are said to make calculated decisions when shopping, purchasing products that bring them the greatest benefit known as a *maximum utility*.
2. Nonsatiation - People are seldom satisfied with one trip to the shops and always want to consume more.
3. Decreasing marginal utility - Consumers lose satisfaction in a product the more they consume it.

The Utility Function

A consumer aims to maximize the satisfaction he/she derives from the use of a good or service. The *utility* is a term in economics that refers to the total satisfaction received from consuming a good or service. Economic theories based on rational choice usually assume that consumers will strive to maximize their utility. The economic utility of a good or service is important to understand, because it directly influences the demand, and therefore price, of that good or service. In practice, a consumer's utility is impossible to measure and quantify. In order easily understand the concept of utility, we shall assume that it is measurable in units, which is called *util*. Util is one unit of satisfaction.

The utility function shows the relationship between utility and consumption. In the equation form, it is $U = f(C)$, which is simply stated as: utility is a function of consumption. Also, the utility for the consumption of goods X and Y can be expressed as $U = f(X,Y)$. The important measures of utility are *Total Utility* and *Marginal Utility*.



Total Utility refers to the combined utility derived from consuming an additional unit of a good. *Marginal Utility* refers to the additional utility derived from consuming an additional unit of a good.

Law of Diminishing Marginal Utility

The Law of Diminishing Marginal Utility states that, as additional units of goods are consumed, the additional utility derived from each additional unit tends to diminish. In other words, as a consumer takes more units of a good, the extra utility or satisfaction that he derives from an extra unit of the good goes on falling. It should be carefully noted that the marginal utility, and not the total utility, that declines as the consumption of good increases. The law of diminishing marginal utility means that the total utility increases but at a decreasing rate.

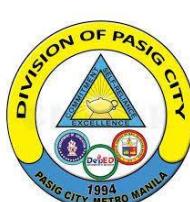
The law is based upon the fact that the total wants of humans are virtually unlimited, each single want is satiable. Therefore, as an individual consumes more and more units of goods, the intensity of his want for that goods declines, to the point that he no longer wants to consume more goods. When the saturation point is reached, the marginal utility of goods becomes zero. The zero marginal utility of goods implies that the individual has reached his/her satisfaction.

Table 1. Hypothetical Utility Schedule for Milk tea

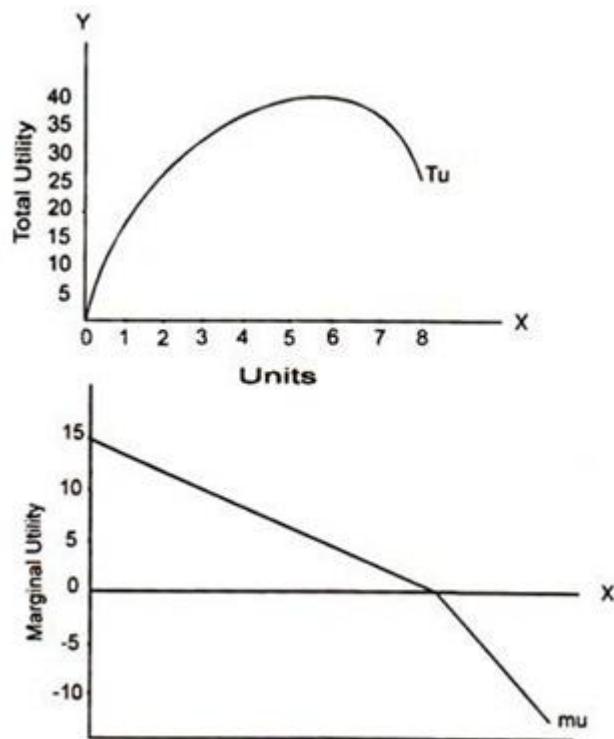
Cups of Milk Tea	Total Utility	Marginal utility
Consumption per day		
1	12	12
2	22	10
3	30	8
4	36	6
5	40	4
6	41	1
7	39	-2
8	34	-5

Consider Table 1 in which we have presented the total and marginal utilities derived by a person who consumes milk tea per day. When one cup of milk tea is taken per day, the total utility derived is 12 units. And because this is the first cup its marginal utility is also 12 utils. With the consumption of 2nd cup per day, the total utility rises to 22 but the marginal utility falls to 10 utils. It will be seen from the table that as the consumption of milk tea increases to six cups per day, the marginal utility from the additional cups diminishes (the total utility is increasing at a diminishing rate).

However, when the cups of tea consumed per day increased to 7, then instead of giving positive marginal utility, the 7th cup gives negative marginal utility which is equal to -2. Too many cups of milk tea consumed per day (say more than six for an individual) can cause acidity and gas trouble. Thus, the extra cups of milk tea beyond 6 cups to a person gives him disutility, instead of positive satisfaction.



The figure represents the data taken from the above table. We have to put the utility on the y-axis and the number of cups of milk tea consumed per day are on the x-axis. As the figure shows, the curve increases up to the 6th cup of milk tea, and beyond that the curve declines. This indicates that the utility reaches its maximum satisfaction up to 6th cups, and beyond that, the marginal satisfaction declines.

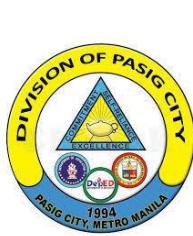


ACTIVITIES

Activity 1: My Utility!

Directions: Explain and graph the utility schedule below. Use the space below for your answer.

Hypothetical Schedule of Chocolate Candy		
Quantity of Consumption	Total Utility	Marginal Utility
1	7	7
2	16	9
3	22	6
4	26	4
5	28	2
6	28	0



Activity 2: I am Important

Directions: As a student-consumer, explain your importance to the businesses.

1. _____.

2. _____.

3. _____.

4. _____.

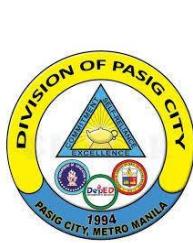
5. _____.



WRAP-UP

To summarize what you have learned in the lesson, answer the following questions:

1. What is consumer theory?
2. What are the factors affecting business and industry in terms of consumers?
3. What is the importance of consumer behavior in business?





VALUING

Reflect on this!

“Satisfaction is not always the fulfillment of what you want; it is the realization of how blessed you are for what you have.”

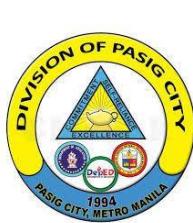
— Anonymous



POSTTEST

Directions: Read each statement carefully. Write **T** if the statement is correct, otherwise write **F**.

- _____ 1. The law of diminishing marginal utility means that the total utility increases but at a decreasing rate.
- _____ 2. Total Utility is defined as the sum of the satisfaction that a person can receive from the consumption of all units of a specific product.
- _____ 3. Consumers lose satisfaction in a product the more they consume it.
- _____ 4. People are seldom satisfied with one trip to the shops and always want to consume more.
- _____ 5. Utility function shows how individuals make choices, subject to how much income they have available to spend, and the prices of goods and services.





KEY TO CORRECTION

PRETEST:	1. T 2. A 3. D 4. A 5. C
POSTTEST:	1. T 2. T 3. T 4. T 5. F

References

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