$1

D

$4 -----

If the price is $4, s/he would buy one cup

If the price is $3, s/he would buy two cups: the first cup because it's worth more than $3 (we know this because s/he was willing to pay $4 for it) and the second cup because she gave up $3 for it

$3 - - - - - - - - -

If the price is $2, s/he buys 3 cups: the first cup which it's worth $4, the second cup which is worth $3 and the third cup which is worth exactly $2
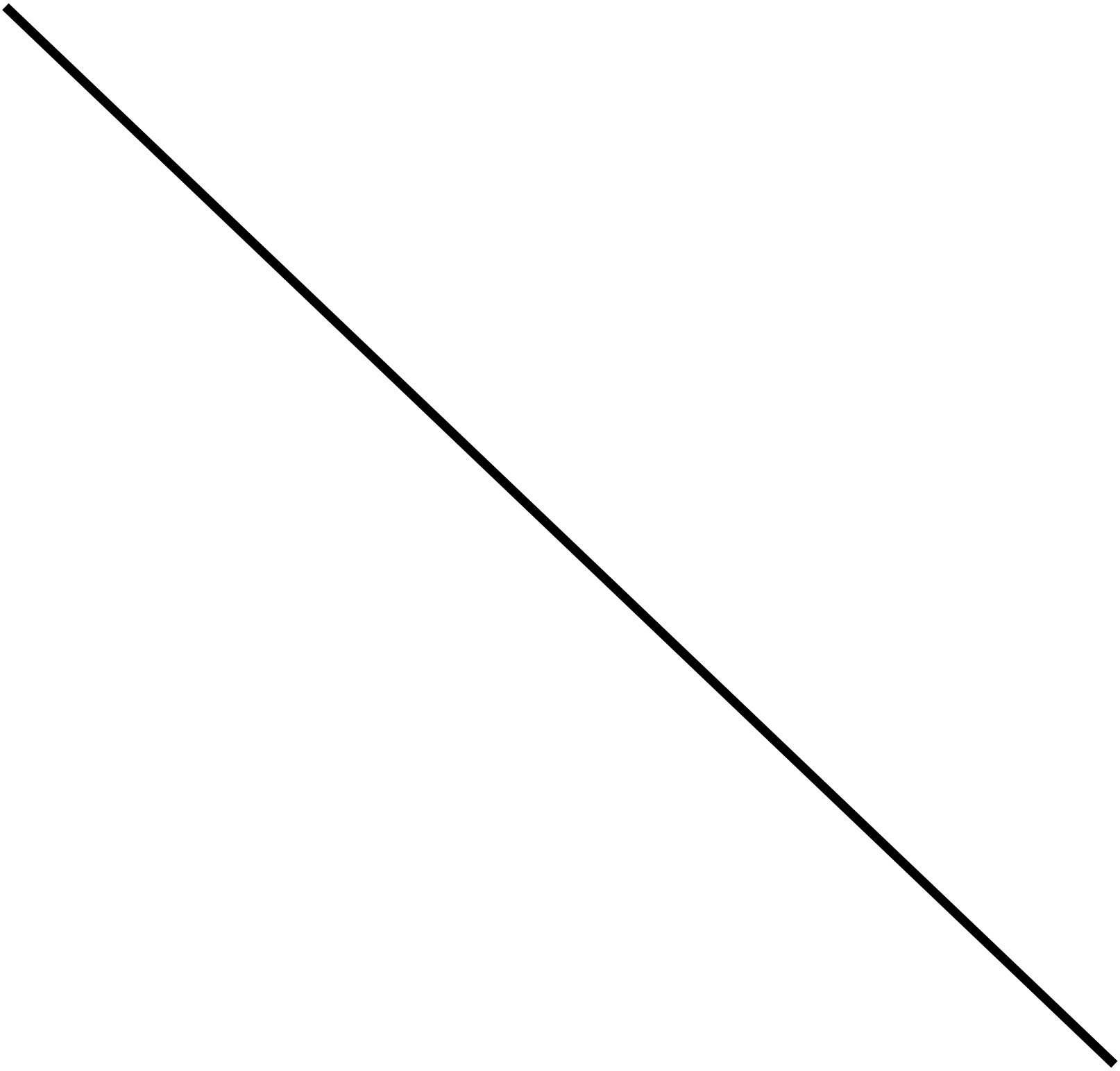
The 1st cup is worth $4 to the consumer

The 2nd cup is worth $3

$5

0

If the price is $5, s/he does not buy coffee

Gives us the Value of each unit to consumer

1

2

Consider the Demand for coffee by the cup
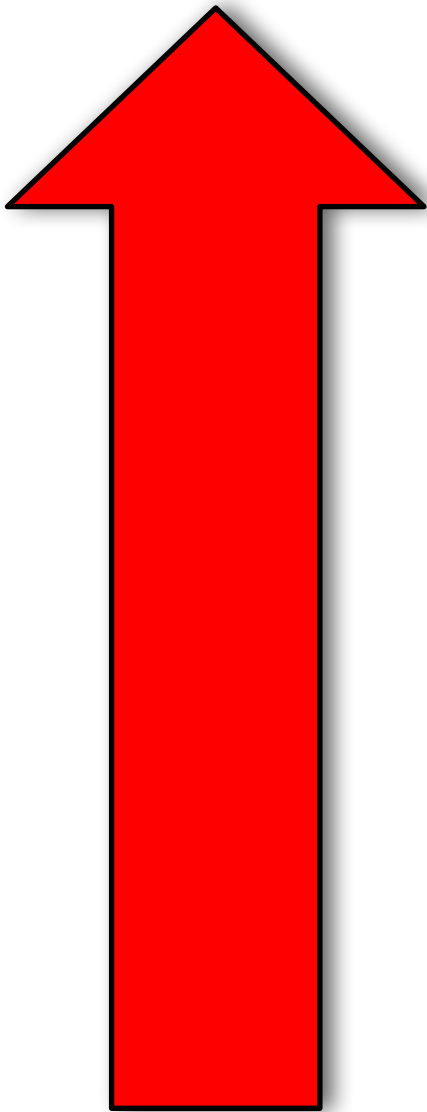
$2 -

3

If the price is $1, s/he buys 4 cups: the first cup because it's worth $4, the second cup which is worth $3, the third cup which is worth $2 and the fourth cup which is worth exactly $1
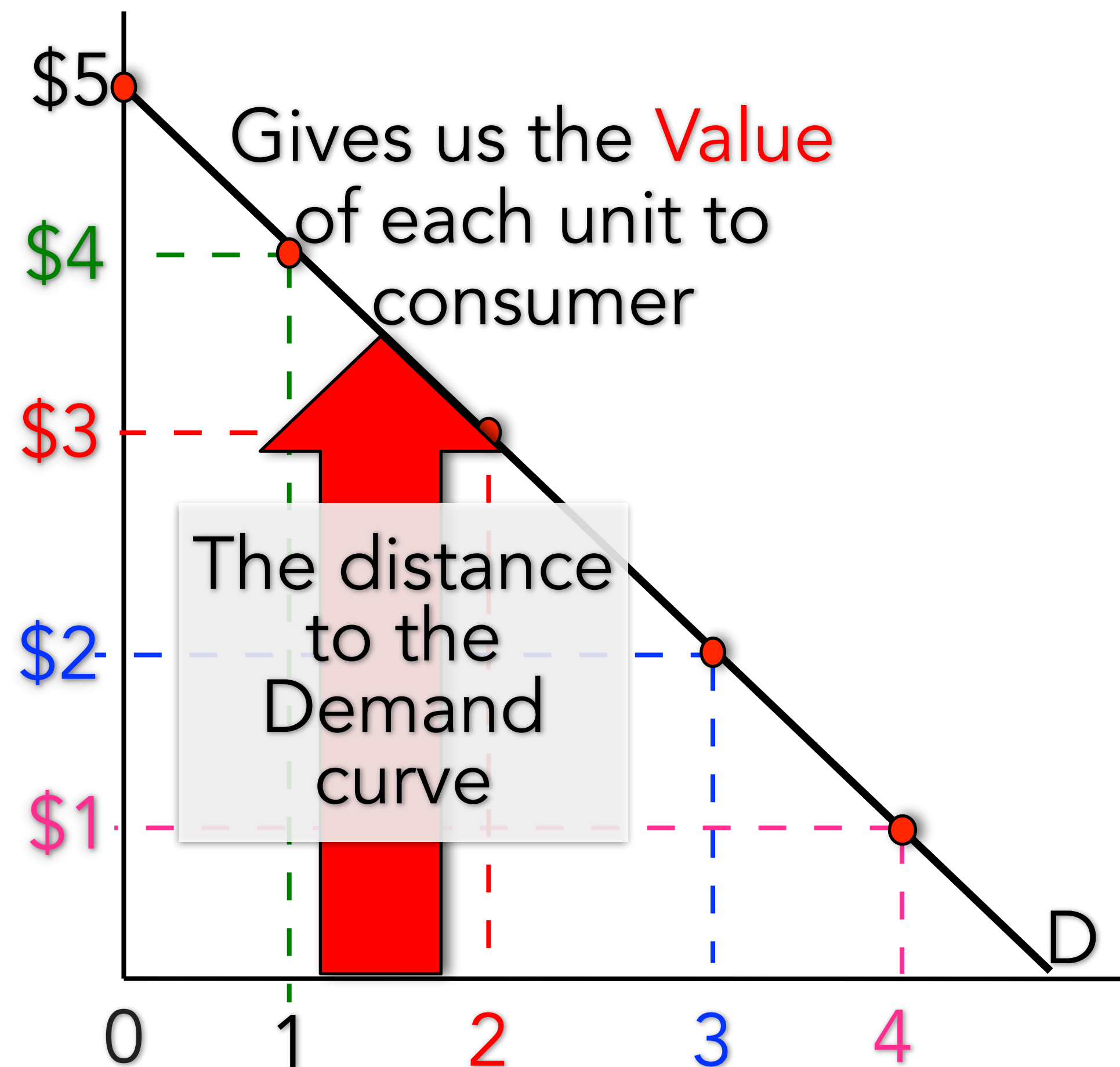
The 3rd cup is worth $2

The 4th cup is worth $1

The distance to the Demand curve

Consider the Demand for coffee by the cup

Gives us the Value of each unit to consumer

The distance to the Demand curve

$5
$4
$3
$2
$1

0   1   2   3   4

D

If the price is $5, s/he does not buy coffee

If the price is $4, s/he would buy one cup

If the price is $3, s/he would buy two cups: the first cup because it's worth more than $3 (we know this because s/he was willing to pay $4 for it) and the second cup because she gave up $3 for it

If the price is $2, s/he buys 3 cups: the first cup which it's worth $4, the second cup which is worth $3 and the third cup which is worth exactly $2

If the price is $1, s/he buys 4 cups: the first cup because it's worth $4, the second cup which is worth $3, the third cup which is worth $2 and the fourth cup which is worth exactly $1

4

Cost per unit

2

1

0.66

0.50
0.40

5   10   15   20   25

Pounds of Coffee Produced