

7.1 Utility

Name: _____ Class: _____ Date: _____ Total: 24 marks

- KEY WORDS** utility • marginal utility
- diminishing marginal utility
 - total utility
 - equi-marginal principle

Objective

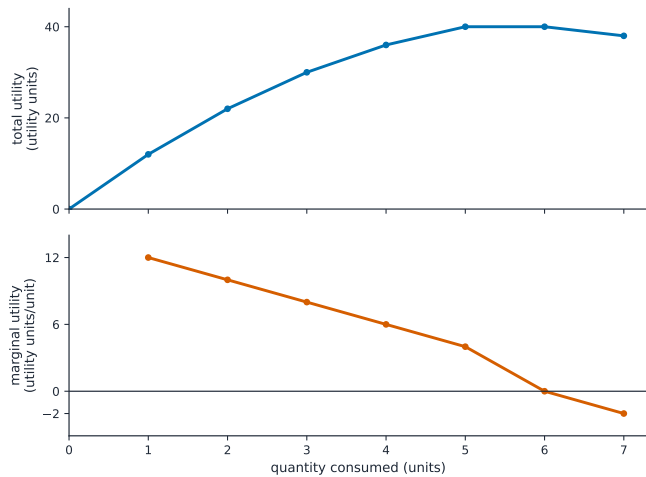
Build the skills to answer exam questions on **utility** – **total and marginal utility**, **diminishing marginal utility**, and the **equi-marginal principle**.

You must be able to:

- define total and marginal utility
- explain diminishing marginal utility and why demand slopes downward
- apply and evaluate the equi-marginal principle

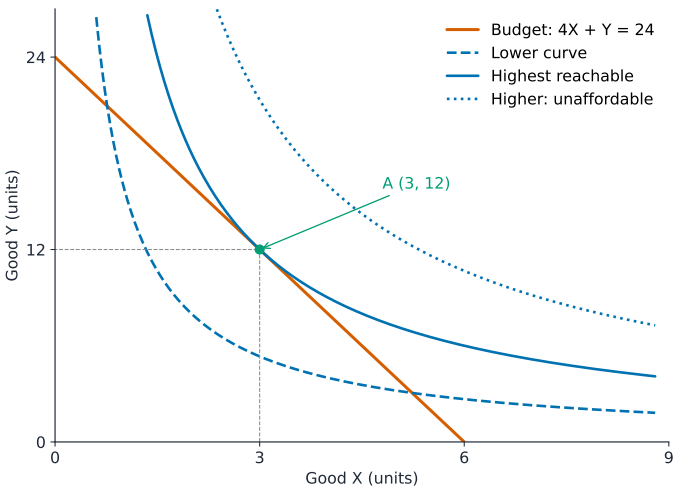
1 Key knowledge and worked examples

■ Utility and consumer choice



Each extra unit adds less satisfaction – so buyers pay less for later units

- **Total utility** : satisfaction from all units; **marginal utility** : satisfaction from one more unit.
- **Diminishing marginal utility** : each extra unit adds less → demand slopes **down**.
- **Equi-marginal principle**: utility is maximised when $\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$.



The same utility-maximising choice shown with indifference curves and a budget line

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (judgement, for evaluate questions).

2 Practice

2.1 Define the term *marginal utility*. [2]

2.2 State the law of diminishing marginal utility. [2]

2.3 State the equi-marginal condition for two goods A and B. [1]

3 Exam-style questions

3.1 A consumer maximises total utility from two goods when: [1]

A the price of each good is equal
B the marginal utility of each good is equal
C the marginal utility per dollar spent on each good is equal
D total utility from each good is equal

3.2 Explain how diminishing marginal utility helps explain the downward-sloping demand curve. [6]

3.3 Discuss the usefulness of marginal utility theory in explaining consumer behaviour.[12]