7 Utility – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
utility			
total utility			
marginal utility			
diminishing marginal utility			

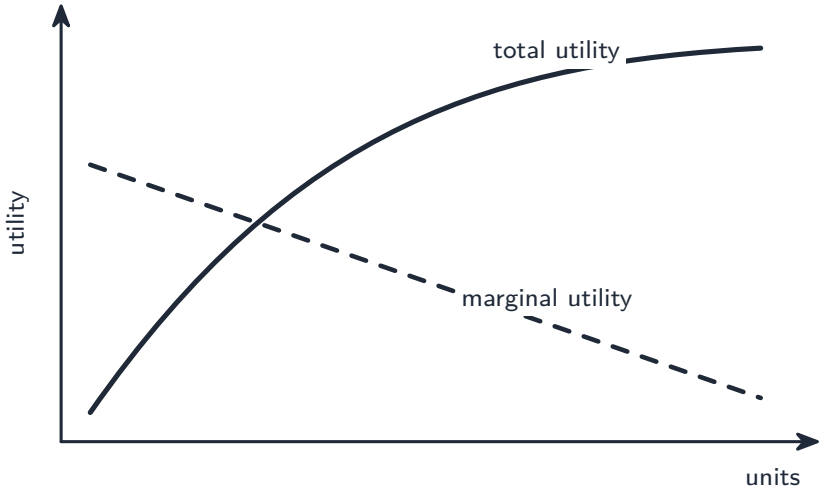
Recall

When you buy something, you get satisfaction from it. Economists call that satisfaction **utility** .

New ideas

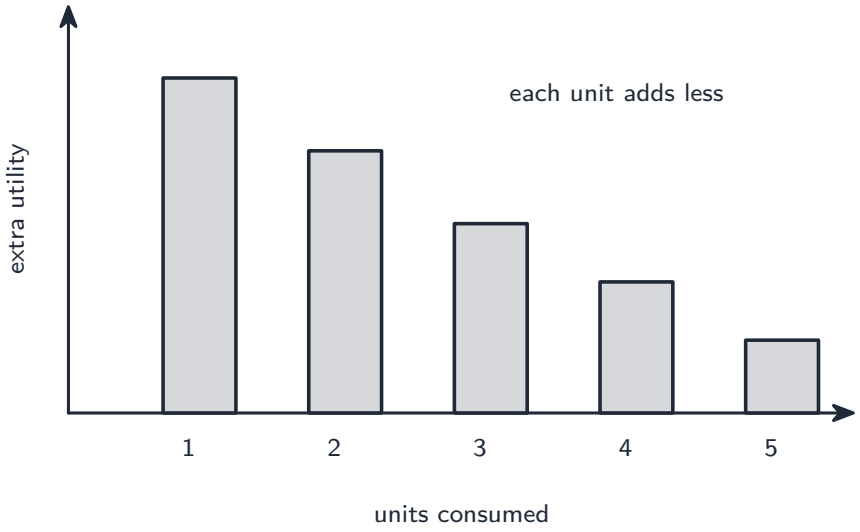
Read these first, then do the Practice.

1 Total and marginal utility



- **total utility** is the satisfaction from *all* the units you consume;
- **marginal utility** is the *extra* satisfaction from one more unit.

2 Diminishing marginal utility



The law of **diminishing marginal utility** says each extra unit gives *less* extra satisfaction. (Your first slice of pizza is great; the fourth, less so.) Total utility still rises – just more slowly.

Watch out: total utility = satisfaction from *all* the units; marginal utility = the *extra* from one more. As you consume more, marginal utility *falls* but total utility still *rises* (just more slowly) – until marginal utility reaches zero.

Practice

Try these in order.

7.1 What does *utility* mean? [1]

7.2 What is *marginal utility*? [1]

7.3 State the law of *diminishing marginal utility*. [1]

7.4 As you eat more slices of pizza, does each extra slice give more or less extra satisfaction? [1]

7.5 When marginal utility is falling, is total utility still rising? [1]

7.6 Challenge. Use diminishing marginal utility to explain why a shop usually has to *lower* the price to sell a second or third unit to the same customer. [2]