

Past-paper walk-through

Utility ■ 7.1

eXercise

Questions in this set

- 9708/31 N25 Q4 ■ 1 mark
- 9708/32 N25 Q5 ■ 1 mark

Question 4

9708/31 N25 ■ Q4 ■ 1 mark

- 4** A consumer maximises his total utility by initially buying 10 units of good X and 10 units of good Y.

Assuming both goods are normal, what would cause this utility-maximising consumer to purchase more of good Y and less of good X?

- A** an increase in the marginal utility of good Y
- B** an increase in the price of good Y
- C** an increase in the tax on the consumption of good Y
- D** an increase in the tax on the income of consumers

Solution 4

Answer: **A**

Why

- Utility is maximised where the marginal utility per dollar is equal across both goods.
- So a change in the price of either good, or in income, upsets that equality.
- The consumer then rebalances until the ratios are equal again.

Question 5

9708/32 N25 ■ Q5 ■ 1 mark

- 5 The table gives the marginal utility of two goods, X and Y. The price of good X is \$2.00 and the price of good Y is \$1.00.

quantity	marginal utility of good X	marginal utility of good Y
1	110	66
2	80	50
3	66	38
4	56	33
5	33	30

Question 5

If a consumer spends all of their income on goods X and Y, which combination of goods would they choose to maximise their utility?

- A** 1 unit of X and 1 unit of Y
- B** 3 units of X and 1 unit of Y
- C** 3 units of X and 4 units of Y
- D** 5 units of X and 1 unit of Y

Solution 5

Answer: **C**

Why

- Utility is maximised where marginal utility per dollar is equal for both goods.
- So divide each marginal utility by that good's price before comparing.
- Good X costs twice as much, so its marginal utility must be twice as high to be worth buying.