1 Marginal analysis and consumer choice – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
Marginal analysis			
marginal benefit			
marginal cost			
Utility			
diminishing marginal utility			

Recall

Most real choices are not "all or nothing" but "a little more or a little less":

- Should I study one more hour, or take a break?
- Should I buy one more snack?
- The first slice of pizza is great; the fifth, not so much.

This sheet lines up how economists make "one more" decisions. Each idea has a worked example.

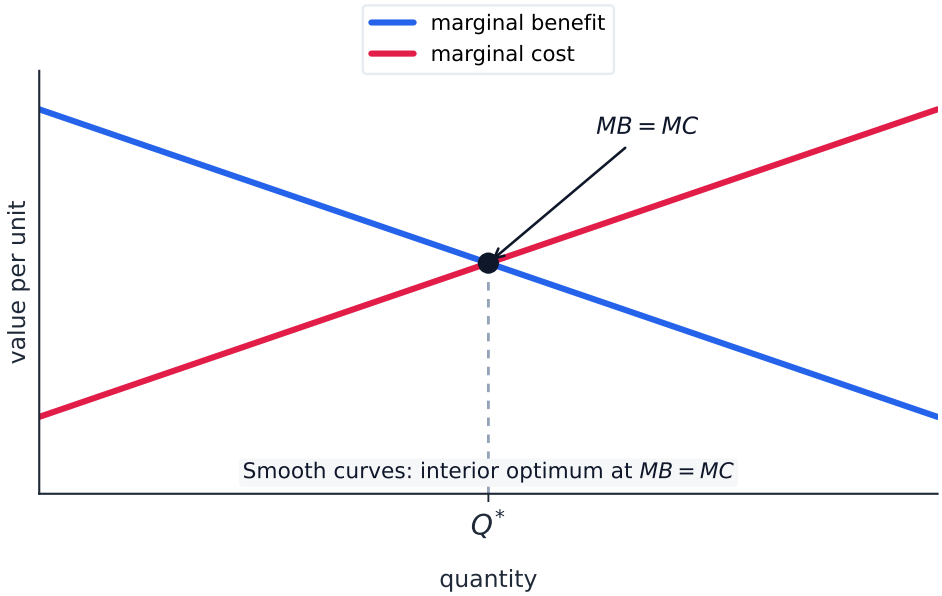
New ideas

1 Marginal analysis

Marginal analysis compares the **marginal benefit** (the benefit of one more unit) with the **marginal cost** (the cost of one more unit).

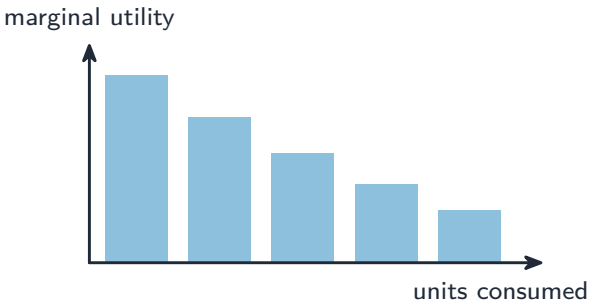
2 The decision rule

Keep doing the activity while marginal benefit is **greater** than marginal cost, and stop where they are **equal** ($MB = MC$). That point gives the most net benefit.



3 Diminishing marginal utility

Utility is the satisfaction you get from a good. Each extra unit usually gives **less** added satisfaction – the law of **diminishing marginal utility** .



Worked example. The first glass of water on a hot day is worth a lot; the fourth is worth much less – its marginal utility has fallen.

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4 Getting the best value

A shopper gets the most satisfaction by spending so that the **satisfaction per dollar** is equal across all goods. If one good gives more satisfaction per dollar, buy more of it.

Watch out: the decision rule is $MB = MC$ – stop where they are **equal**, not where benefit is highest. Going past $MB = MC$ adds units that cost more than they are worth.

Practice

Try these in order. The methods are all above.

2.1 State what marginal benefit and marginal cost mean. [2]

2.2 State the rule for the best amount of an activity to do. [1]

2.3 Explain the law of diminishing marginal utility, with an example. [2]

2.4 An activity has marginal benefit \$8 and marginal cost \$5 for the next unit. State whether you should do it, and why. [2]

2.5 Explain why you should stop where marginal benefit equals marginal cost, not where benefit is highest. [2]