

Module 51 Utility Maximization

Discussion Questions:

Are people today more constrained by time or money?

Why do people buy so many cookbooks and spend so little time cooking?

Do you have a budget constraint? What determines your budget constraint? Does everyone have a budget constraint? Is it possible to consume beyond your budget constraint? If so, for how long?

Example of a budget line

Consumption Bundle	Quantity of guns	Quantity of hairspray
A	0	10
B	1	8
C	2	6
D	3	4
E	4	2
F	5	0

In-class assignment: Graph the budget line

Example: Calculating Marginal Utility

Quantity (Q) of bags of peanuts	Total utility (TU measured in utils)	Marginal Utility ($\Delta TU / \Delta Q$)
0	0	
1	10	10
2	19	9
3	27	8
4	34	7
5	40	6

Law of diminishing marginal utility