

Utility

1. Answer the following questions if Bert’s Total Utility for comic books is as indicated below. Bert has no budget constraint and he is deciding on only one good.

Quantity, Comics	1	2	3	4	5	6	7
Total Utility	\$10	\$18	\$25	\$30	\$34	\$36	\$37
Marginal Utility							

- a. What is the optimizing rule for maximizing consumer surplus in the simple case?
- b. If the price of comic books is \$5 how many will Bert buy in order to maximize his consumer surplus and what will be the value of his total consumer surplus?
- c. Draw the graph that illustrates your answer to part “b” above. Show price, MU and Bert’s total consumer surplus.

2. Optimization in the more realistic case.

- a. What is the optimization rule for maximizing consumer surplus for two goods with a budget constraint.
- b. If the price of pizza is \$2.00 and the price of soda is \$1 which one of the following consumers is optimizing her Consumer Surplus?

Person:	Marginal Utility of last pizza	MU/P pizza	Marginal Utility of last soda	MU/P soda
Alice	6		4	
Beth	10		5	
Clair	8		3	

- c. Which of the above consumers needs to increase the number of pizzas and/or decrease the number of sodas to maximize Consumer Surplus?

In addition to the above questions and topics there will be a few questions (for a few points) on the exam regarding some specific details discussed in lecture. Some of these will be for extra credit points and some will be part of the exam. In the past, for example, I have asked who Adam Smith was and what OPEC stands for. These questions reward those students who come to class, pay attention and take good notes—something you should all strive for. Hint, pay attention when I talk about current or historic events.