

### CONCEPT: OPTIMIZING CONSUMPTION – MARGINAL UTILITY PER DOLLAR SPENT

- The consumer's optimum consumption reflects the \_\_\_\_\_ utility possible within their \_\_\_\_\_
  - **Optimum Consumption** occurs where marginal utility per \_\_\_\_\_ is equal for both goods

**EXAMPLE:** Breakfast Bill spends all his income, \$10, on eggs and coffee. Eggs cost \$2 and coffee costs \$1. The following table shows Breakfast Bill's marginal utility at different levels of consumption. What is the optimum consumption?

Number of Eggs	Marginal Utility	Marginal Utility per Dollar
1	20	
2	16	
3	10	
4	6	
5	2	
6	1	

Number of Coffees	Marginal Utility	Marginal Utility per Dollar
1	20	
2	15	
3	10	
4	5	
5	3	
6	1	

5 Eggs and 0 Coffee	4 Eggs and 2 Coffee	3 Eggs and 4 Coffee
1 Egg and 3 Coffee	4 Eggs and 5 Coffee	

**PRACTICE:** As Caffeinated Carl consumes additional cups of coffee, his

- Marginal utility from coffee increases
- Marginal utility from coffee decreases
- Total utility from coffee decreases
- Both (b) and (c) are correct

**PRACTICE:** Hollywood Slim consumes movies and popcorn. If his marginal utility per dollar from movies is 8 and his marginal utility from popcorn is 7,

- Total utility is maximized
- Marginal utility is maximized
- Total income must increase in order to reach an optimum consumption
- Total utility could increase by buying more popcorn and less movies
- Total utility could increase by buying more movies and less popcorn