

The Common Sense of Consumer Choice

LEARNING OBJECTIVES

After completing the material in this chapter you should be able to:

- define, understand and use correctly the terms and concepts total utility and marginal utility
- distinguish between total and marginal utility
- explain the role of marginal utility as a guide to the maximization of total utility
- explain how the law of diminishing marginal utility can be used to derive an optimal purchase rule
- explain how the optimal purchase rule can be used to derive a demand curve
- explain what assumptions underlie the theory of consumer choice and why various goods may have different values and uses

- distinguish between the income and substitution effects of a price change

IMPORTANT TERMS AND CONCEPTS

Diminishing marginal utility
Marginal utility
Total utility
Marginal utility
Diminishing marginal utility
Optimal purchase rule of a consumer
Budget line and marginal utility
Consumer surplus
Substitution effect

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