BurkeyAcademy on Utility! www.burkeyacademy.com

Total Utility Table

Beer	Pretzels 0	1	2	3	4	5	6
6	81	101	116	126	131	132	132
5	80	100	115	125	130	131	131
4	75	95	110	120	125	126	126
3	65	85	100	110	115	116	116
2	50	70	85	95	100	101	101
1	30	50	65	75	80	81	81
0	0	20	35	45	50	51	51

Marginal Utility

Calculate the MU of each pretzel and each beer. Does the MU of each beer depend on the quantity of pretzels eaten? Should it?

By always purchasing the item with the highest marginal utility ***per dollar*** , when we have spent all of our money, the marginal utility per dollar will be almost equal for each good.

Quantity	MU Beer		MU Pretzel	
1				
2				
3				
4				
5				
6				

Scenario 1: Budget $10, Price of Beer $2, Price of Pretzels $2

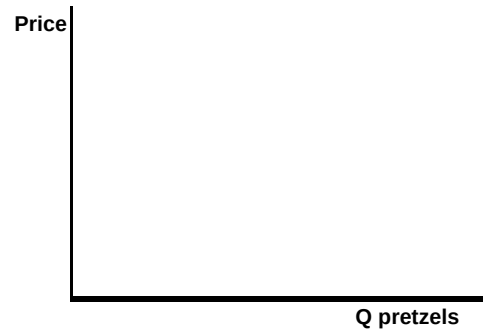
Scenario 2: "Pure" income effect: Budget $12, Price of Beer $2, Price of Pretzels $2

Scenario 3: Budget $10, Price of Beer $2, Price of Pretzels $1

Scenario 4: Budget $10, Price of Beer $2, Price of Pretzels $0 (Free!)

Scenario 5: Budget $20, Price of Beer $4, Price of Pretzels $4

Now: Use #1, 3, and 4 to Construct a Demand Curve for Pretzels!!
Use #2 to show how the demand curve shifts!



So, we have seen theoretically, where demand comes from. We have also seen that when you are optimizing, the marginal utility per dollar (bang for your buck) should be approximately equal for all goods.