**Outline for Lecture 9**

Theory of Consumer Behavior

*Utility-Maximizing Rule*

According to the utility-maximizing rule, how should a consumer allocate limited income across different products?

*Numerical Example*

Suppose that the consumer has $10 of income to buy two goods (apples at $1 and oranges at $2) as shown by Table 7.1.

How do we define marginal utility per dollar?

Based on marginal utilities (from columns 2a and 3a) and product prices, report marginal utilities per dollar for apples and oranges for units 1 through 7?

Given these per-dollar marginal utilities, we proceed to the utility maximization process.

*Step 1*

The consumer compares the per-dollar marginal utility of first apple, \_10\_ units, to the per-dollar marginal utility of first orange, \_12\_ units. Because the first \_orange\_ yields greater per-dollar utility than the first \_apple\_, the consumer buys \_the first orange\_.

At the end of step 1, the consumer has \_1 orange and 0 apples\_ in his basket and income falls to \_$8\_.

*Step 2*

The consumer compares the per-dollar marginal utility of \_\_\_\_ apple, \_\_\_\_ units, to the per-dollar marginal utility of \_\_\_\_ orange, \_\_\_\_ units. Because \_\_\_\_ yields the same per-dollar utility as \_\_\_\_, the consumer buys \_\_\_\_.

At the end of step 2, the consumer has \_\_\_\_ in his basket and income falls to \_\_\_\_.

*Step 3*

The consumer compares the per-dollar marginal utility of \_\_\_\_ apple, \_\_\_\_ units, to the per-dollar marginal utility of \_\_\_\_ orange, \_\_\_\_ units. Because \_\_\_\_ yields greater per-dollar utility than \_\_\_\_, the consumer buys \_\_\_\_.

At the end of step 3, the consumer has \_\_\_\_ in his basket and income falls to \_\_\_\_.

*Step 4*

The consumer compares the per-dollar marginal utility of \_\_\_\_ apple, \_\_\_\_ units, to the per-dollar marginal utility of \_\_\_\_ orange, \_\_\_\_ units. Because \_\_\_\_ yields the same per-dollar utility as \_\_\_\_, the consumer buys \_\_\_\_.

At the end of step 4, the consumer has \_\_\_\_ in his basket with no income left.

At this point, you may refer to Table 7.2 to confirm your work.

Based on marginal utilities (from columns 2a and 3a), what is the total utility the consumer receives from his basket?

Is this the highest possible utility that can be attained with $10 of income? Explain.

**Materials for Lecture 9**

Start with the textbook to get familiar with the content and progression of the lecture. Then, go to videos and supplemental articles, if provided, for further clarification and additional examples.

Textbook

Read carefully pages 142 through 144 from the textbook.

Video

Utility maximization process

<http://www.youtube.com/watch?v=JiJlZGqZXZk&list=PL336C870BEAD3B58B&index=20>

Another take on utility maximization after seven-minute mark

<https://www.khanacademy.org/economics-finance-domain/microeconomics/choices-opp-cost-tutorial/marginal-utility-tutorial/v/marginal-utility>