

## Chapter 6: Consumer Behavior

We now understand some of the principles of consumer behavior: consumers buy more at lower prices, and the strength of a consumer's response to a price increase depends on the elasticity of demand. But how can we explain the differences *between* consumers? Why are younger people more likely to keep going to the movies when ticket prices rise, while older people are more likely to stay home? When potato chips are placed on sale at half price, why do some shoppers still choose not to buy them while other consumers buy more? Chapter 6 explains how consumers maximize their satisfaction by purchasing products and how that knowledge can be used to determine product demand.

The Law of Diminishing Marginal Utility expresses the notion that as a consumer buys more of a product, the additional satisfaction he gets from each additional unit decreases. A cold glass of water may give you a great deal of satisfaction on a hot day. The second glass will provide somewhat less satisfaction, and clearly the tenth glass will provide much less—and may, in fact, create *dissatisfaction*! This decrease in marginal utility explains the downward slope of the demand curve. Because the utility derived from additional products continues to fall, the consumer is less willing to buy additional products, so firms must reduce the price in order to sell more.

Utility maximization can be determined numerically or graphically. Consumer equilibrium occurs where the consumer maximizes his utility, spending his income until the last dollar spent on each product gives him an equal amount of marginal utility per dollar. In other words, if the last \$3 cup of coffee brought the consumer 6 units of utility, and the last \$2 glass of milk brought the consumer 4 units of utility, that consumer has achieved equilibrium, receiving 2 units of utility per dollar spent on each drink.

The concept of diminishing marginal utility can be used to construct an individual's demand curve, as the quantity demanded is determined at each price. The concept of diminishing marginal utility also explains the income and substitution effects that contribute to the downward slope of the demand curve, as changes in real income and the relative expense of the product change the quantity demanded at each price.

Material from Chapter 6 consistently appears in a multiple-choice question or two on the AP Microeconomics Exam and has appeared infrequently as part of a free-response question—sometimes as the entire question. It is important to know how to construct the marginal utility table and to determine the utility-maximizing combinations of products, as well as how to interpret the total and marginal utility graphs. The indifference curve analysis in the appendix to this chapter is not included in the AP exam, but can be helpful in understanding the mechanics behind utility maximization.