

Taylor Economics Chapter 5

1. Based on the information on the bottom of page 112 and top of 113, what is consumer surplus?
2. What is utility?
3. Is everyone's utility for a good uniform?
4. What does utility really measure?
5. In Figure 5.2, what is the utility of consuming 1 pound of grapes and 4 pounds of bananas?
6. In Figure 5.2, what would produce a higher utility, 5 pounds of grapes and 2 pounds of bananas or 5 pounds of bananas and 2 pounds of grapes? What is the number for each combination?
7. What is marginal utility?
8. What is the marginal utility of consuming 3 pounds of grapes instead of 2?
9. What is the marginal utility of consuming a second pound of bananas if the consumer stays with one pound of grapes?
10. What does maximizing utility do for the consumer?
11. Why can't two different people's utility be compared?
12. What is a budget constraint?
13. In Figure 5.3 what is the highest combination of grapes and bananas that can be purchased if both fruits are consumed and price for each is \$1 if you have a budget of \$8?
14. In Figure 5.3 how many pounds of bananas can be purchased if you buy 1 pound of grapes when the prices are \$2 for grapes and \$1 for bananas?
15. Is it possible to maximize utility and still have money left?
16. What is a movement along a demand curve?
17. What is the ONLY reason that a movement along a demand curve would occur?
18. Using Figure 5.3 assume that the consumer has a change in income resulting in having \$10 to spend in the market listed on the right. What is the maximum utility the consumer can achieve?
19. Explain the income effect through an example.
20. Explain the substitution effect through an example.
21. How do people go about determining how much they are willing to pay to consume a good?

# of Songs	Willingness to pay	Marginal Benefit
0	\$0	
1	\$2.49	
2	\$4.75	
3	\$6.73	
4	\$8.51	
5	\$9.88	
6	\$10.67	

Use the table above to do Questions 22-

22. What is the marginal benefit of the 5th song?
23. If the price of a song on iTunes is \$.99 how many songs will the consumer purchase?
24. If the price of a song on iTunes is \$1.49 how many songs will the consumer purchase?
25. At what point do consumers stop buying a product?
26. I have \$10 to spend on music. The price per song is \$1.99. Explain why only 2 songs will be purchased.
27. What is the most benefit that can be had if the price is \$1.70 and you have a budget of \$10?
28. Will a person consume if marginal benefit and price are the same?
29. What is the word used to describe someone's compensity to consume at the level described in #28.
30. Explain why the demand curve is downward sloping.

31. Why does $P=MB$ demonstrate how much a consumer will consume?
32. How is the demand curve for an entire market created?
33. Without rewriting the book definition, explain what consumer surplus represents.
34. Draw an area of consumer surplus that is shaded.
35. What 3 lines will ALWAYS border the area of consumer surplus.
36. What shape will consumer surplus ALWAYS be?
37. If the price rises will consumer surplus grow or shrink?
38. What shape will ALWAYS represent the loss or gain to consumer surplus?
39. At \$35 zero units will be sold of product C, the market price for product C is \$10, 60 units are demanded at the market price. What is the consumer surplus?
40. The price falls to \$8 and 84 units are demanded at that price. What is the consumer surplus?
41. Do problem #1 on page 132.
42. Do problem #2 on page 132.
43. Do problem #4 on page 132.
44. Read the Appendix for Chapter 5 and be prepared to do any of the problems for it in a quiz.