🔖 **Chapter 6** Project

Consumer Choices

Purpose

At the beginning of the course, we learned that economics is the study of how individuals, businesses, and governments all face the problem of scarcity. Because resources are scarce, these members of the economy must make choices about how to use resources. In this chapter, we focus on how individuals as consumers make choices about how to use their scarce incomes to purchase goods and services.

The purpose of this exercise is to help you understand how rational consumers allocate their scarce incomes to choose which goods and services to purchase based on income, prices of goods and services, and preferences.

Directions

Suppose that the building where all of your classes are held is very far away from the nearest restaurant or school cafeteria. The building has vending machines, so on the two days of the week when you are in class almost all day, you eat at the vending machines. You've budgeted $10 per day for food from the machines. Your favorite vending machine purchases are Cokes, bottled water, pretzels, peanut butter crackers (PNBC), and M&Ms. Suppose that initially, Cokes cost $1.50; bottled water, $1.25; pretzels, $0.50; peanut butter crackers, $1.00; and M&Ms, $0.75.

Part 1 - Calculate Marginal Utility

In the following table, estimate the marginal utility of various amounts of each of the drinks and snacks. Then, calculate the marginal utility per dollar for each. Use the marginal utility per dollar to decide how much of each snack to buy.

Coke	MU	MU/$	Water	MU	MU/$	Pretzel	MU	MU/$	PNBC	MU	MU/$	M&M	MU	MU/$
1			1			1			1			1		
2			2			2			2			2		
3			3			3			3			3		
4			4			4			4			4		
5			5			5			5			5		

Now, suppose that the price of Cokes increases to $2. Recalculate the marginal utility per dollar for Cokes.

Coke	MU	MU/$	Water	MU	MU/$	Pretzel	MU	MU/$	PNBC	MU	MU/$	M&M	MU	MU/$
1			1			1			1			1		
2			2			2			2			2		
3			3			3			3			3		
4			4			4			4			4		
5			5			5			5			5		

Has the price increase changed your allocation of your $10 vending machine budget? Has the quantity of Cokes that you would purchase changed? If so, how?
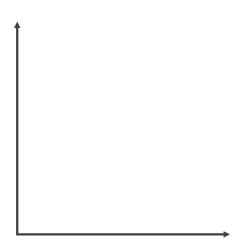
Now, suppose that the price of Cokes decreases to $1. Recalculate the marginal utility per dollar for Cokes.

Coke	MU	MU/$	Water	MU	MU/$	Pretzel	MU	MU/$	PNBC	MU	MU/$	M&M	MU	MU/$
1			1			1			1			1		
2			2			2			2			2		
3			3			3			3			3		
4			4			4			4			4		
5			5			5			5			5		

Has the price increase changed your allocation of your $10 vending machine budget? Has the quantity of Cokes that you would purchase changed? If so, how?

Part 2 - Plot the Demand Curve

Based on your previous answers, plot your demand curve for Cokes.

✍ Checklist

Part 1

- ☐ Estimate the marginal utility and marginal utility per dollar of the drink and snack options you have.
- ☐ Complete the same task, assuming the price of Coke has risen to $2.
- ☐ Reflect on the changes made.
- ☐ Complete the same task, assuming the price of Coke has decreased by $1.

Part 2

- ☐ Plot the demand curve on the graph.