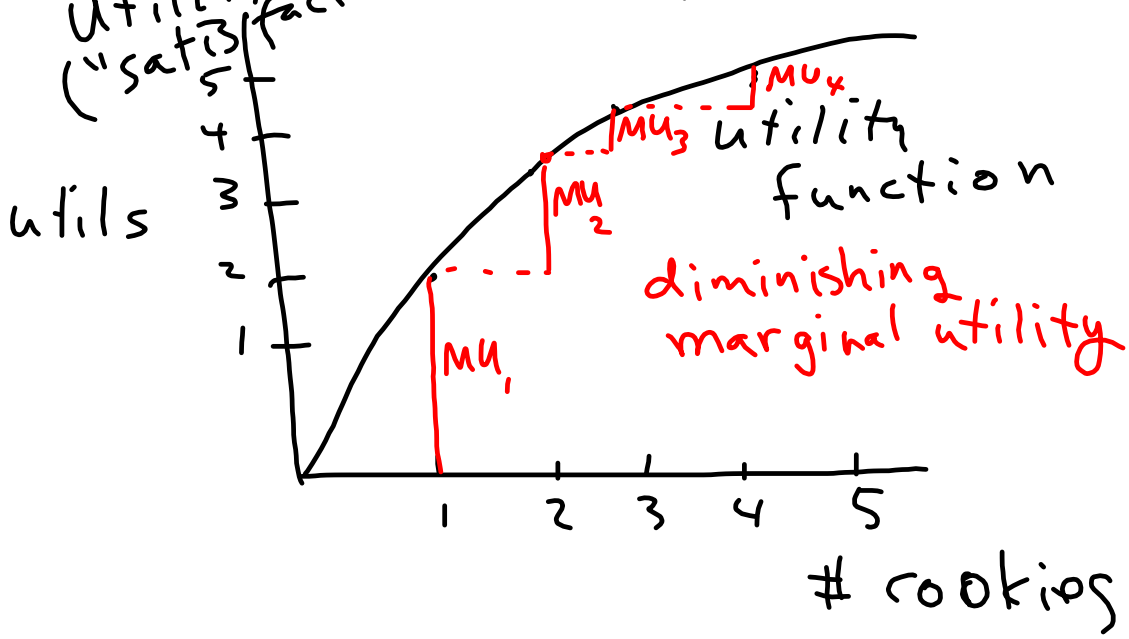
Topic: Utility-Maximization.

Utility ("satisfaction") of cookies



Utility Theory:

① you have a "bundle" of consumption items

- potatoes
- apples
- Snickers
- rent
- cookies
- detergent

$c_1, c_2, c_3, \ldots, c_{500}$

② consume each until...

$$\frac{MU_{c_1}}{P_{c_1}} = \frac{MU_{c_2}}{P_{c_2}} = \frac{MU_{c_3}}{P_{c_3}} = \ldots$$

MU = marginal utility

Marginal Utility: the additional satisfaction (utility) I get from consuming 1 more of a consumption item.

$\frac{MU}{P}$ ← price = marginal utility per dollar.

Example:
French Fries vs. Sprite

you have $20

$MU_{ff} = 10$ $MU_s = 6$

$P_{ff} = 2$ $P_s = 1.50$

$\frac{MU_{ff}}{P_{ff}} = 5$ $\frac{MU_s}{P_s} = 4$

You buy ff.

you have $18

MU_{ff} 8

P_{ff} 2

$\frac{MU_{ff}}{P_{ff}} = 4$ $\frac{MU_s}{P_s} = 4$