

# [Marginal utility and pricing strategy](https://assignbuster.com/marginal-utility-and-pricing-strategy/)

20-1. The campus pizzeria sells a single pizza for $12. If you order a second pizza, however, the pizzeria charges a price of only $5 for the additional pizza. Explain how an understanding of marginal utility helps to explain the pizzeria’s pricing strategy. 20-1-A. The pricing method that the pizzeria is using shows they understand how marginal utility works, specifically diminishing marginal utility. After hitting the level of satisfaction from the first pizza, a second pizza will not be quite as rewarding. Getting an additional pizza at a price of only $5 dollars will entice a customer to purchase it because of the lower price.

Because the significance of the second pizza is less than the first, a costumer would spend less on it. 20-2. As an individual consumes more units of an item, the person eventually experiences diminishing marginal utility. This means that to increase marginal utility, the person must consume less of an item. Explain the logic of this behavior using the example in Problem 20-1. 20-2-A. As a consumer eats their first few slices of pizza, the level of satisfaction will eventually hit a maximum where they have thoroughly enjoyed it. After hitting the level of satisfaction, every piece of pizza after that will diminish the pleasure.

Therefor, eating less pizza allows the consumer the greatest enjoyment because no pleasure is being added after eating to the point of satisfaction. 20-3. Where possible, complete the missing cells in the table. 20-3-A. 20-4. From the data in Problem 20-3, if the price of a cheeseburger is $2, the price of a bag of French fries is $1, and you have $6 to spend (and you spend all of it), what is the utility-maximizing combination of cheeseburgers and french fries? 20-4-A. The utility-maximizing combination is two cheeseburgers and two orders of french fries. 20-9.

Consider the movements that take place from one point to the next (A to B to C and so on) along the total utility curve below as the individual successively increases consumption by one more unit, and answer the questions that follow. a. Which one-unit increase in consumption from one point to the next along the total utility curve generates the highest marginal utility? From point A to point B there is a total utility increase of 5 units, meaning the marginal utility is 5 units as well. Therefor, point A to point B generates the highest marginal utility. b.

Which one-unit increase in consumption from one point to the next along the total utility curve generates zero marginal utility? Point E to point F generates no marginal utility, meaning the marginal utility is zero. c. Which one-unit increase in consumption from one point to the next along the total utility curve generates negative marginal utility? Point F to point G decreases total utility from 11 to 10 units meaning marginal utility is negative. 20-10. Draw a marginal utility curve corresponding to the total utility curve depicted in Problem 20-9. 20-12.

Refer to the following table for a different consumer, and assume that each week this consumer buys only hot dogs and tickets to baseball games. The price of a hot dog is $2, and the price of a baseball game is $60. If the consumer’s income is $128 per week, what quantity of each item will he purchase each week at a consumer optimum? 20-12-A. The consumer will purchase 2 baseball game tickets and 4 hot dogs each week at a consumer optimum. Equal marginal utilities per dollar occur at the consumption level of 2 baseball game tickets and 4 hot dogs, with the total income equaling $128. The marginal utility per dollar spent equals 5.