|  |  |  |
| --- | --- | --- |
| Units consumed | Total Utility, $ | Marginal Utility, $ |
| 0 | 0 | --- |
| 1 | 10 |  |
| 2 | 18 |  |
| 3 | 25 |  |
| 4 | 30 |  |
| 5 | 33 |  |
| 6 | 34 |  |
|  |  |  |

1. a. Is total utility increasing at a: a constant rate, a decreasing rate, or an increasing rate?

b. "A rational consumer will purchase only one unit of the product represented by these data, since that amount maximizes marginal utility." Explain if true or false.

c. "It is possible that a rational consumer will not purchase any units of the product represented by these data."  Explain if true or false.

2. You are willing and able to pay 50 cents for today's "Washburn Review". The cost of printing the newspaper is 15 cents per copy, but you get one for free. What is your consumer surplus from the "Washburn Review"?

3. The table below contains information about the total utility Jerry gains from coffee he buys from the Corner Shop.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Cups of coffee | 1 | 2 | 3 | 4 | 5 |
| Total Utility, $ | 1.50 | 2.70 | 3.60 | 3.60 | 2.00 |

3a. Does this example exhibit the Principle of diminishing marginal utility? Explain.

3b. How many cups of coffee will Jerry buy if the price of each cup is $1? Why?

3c. How many cups of coffee will he buy if the price of each cup is 50 cents? Why?