We discussed SURPLUS in detail today, and I mentioned UTILITY. Read this preview of what I will be covering on *utility* tomorrow. I will discuss the following in more detail during class, but this makes for good preview reading.

Utility Theory

Utility theory examines the increase in satisfaction buyers gain from consuming an extra unit of a good. It is usually measured as *marginal utility*.

Utility is an idea that people get a certain level of satisfaction / happiness / utility from consuming goods and service.

This utility is not constant. Often we get diminishing marginal utility. The first piece of chocolate cake gives more utility than the 2nd piece; the 2nd piece more than the 3rd and so on. Or we can say that our additional utility decreases as we consume a good.

Quantity (Q)	Total Utility	Marginal Utility
1	100	100
2	170	70
3	190	20
4	200	10
5	200	0

Basically a person will continue buying a good until the marginal (or additional) utility equals 0.

Utility and Price.

- One way to measure utility is to give the utility a monetary value.
- You figure the value as *marginal utility per dollar*. For example, if you pay $2.00 for a piece of chocolate cake, then we say the *marginal utility per dollar* for the first piece is 100/$2, for the second piece 70/$2, etc.
- If you have two different goods, you can calculate how much of each good you would buy based upon a person's MU/$. More on this tomorrow.