

Utility Maximization

If you were to compare the shopping carts of almost any two consumers, you would observe differences. Why does Paula have potatoes, peaches, and Pepsi in her cart, while Sam has sugar, saltines, and 7-Up in his? Why didn't Paula also buy pasta and plums? Why didn't Sam have soup and spaghetti on his grocery list?

In this chapter, you will see how individual consumers allocate their incomes among the various goods and services available to them. Given a certain budget, how does a consumer decide which goods and services to buy? This discussion stresses key ideas related to demand.

This chapter also gives a survey of recent insights about consumer behavior from the field of behavioral economics, perhaps, explaining many of the less-rational and oftentimes quirky behaviors exhibited by consumers.