

Unit 2: Consumer Behaviour and Decision-Making

Student Lesson Handout — Sections 1 to 7 + Review Quiz

How to use this handout

Open the Unit 2 interactive lesson in your browser. Work through each section and complete the matching, gap fill, reading check, and concept questions for that section before moving on. Write your reflection at the end of each page.

Name: _____

Date: _____

Section 1 — What is Utility?

Name: _____ Date: _____

How do economists measure satisfaction, and why does it matter for consumer decisions?

Part A — Vocabulary Matching

Match each term to its correct definition. Write the matching letter in the right column.

Term	Definition	Letter
utility	A) The extra satisfaction gained from consuming one more unit of a good.	___
utils	B) A person who tries to get the most satisfaction from their spending.	___
total utility	C) The unit used to measure levels of satisfaction.	___
marginal utility	D) The overall satisfaction received from consuming all units of a good.	___
rational consumer	E) The satisfaction or benefit a person gets from consuming a good or service.	___

Part B — Gap Fill

Use the words in the box to complete the sentences below.

Word Bank

utility · total utility · utils · marginal utility · satisfaction

1. Economists use the word _____ to measure the satisfaction consumers get from goods and services.
2. The unit used to record satisfaction levels is called _____.
3. When you eat five slices of pizza, the combined satisfaction is called _____.
4. The extra satisfaction from the fourth slice is an example of _____.
5. A rational consumer always tries to maximise their _____ from every dollar spent.

Part C — Reading Check

Complete each sentence by filling in the blank as you read the lesson.

1. Utility is not the same as price — it measures _____, not cost.
2. Economists record utility in imaginary units called _____.
3. As you consume more of a good, _____ utility is the satisfaction gained from each additional unit.

Part D — Concept Check

Answer the questions in your own words. Use the space provided.

1. Give one real-life example of a time when you received high utility from a good or service. Explain why.

2. Is it possible for a good to have high utility for one person and low utility for another? Give an example.

Part E — Knowledge Check

Circle the letter of the best answer for each question below.

1. What does 'utility' mean in economics?

- A) The physical usefulness or durability of a product
- B) The satisfaction a consumer gets from a good or service
- C) The price of a good in the market
- D) The quantity of a good that is produced

2. What are 'utils'?

- A) Real measurement units printed on product labels
- B) Another name for dollars spent by a consumer
- C) Imaginary units used to measure and compare satisfaction levels
- D) Units of production efficiency in a factory

3. A 'rational consumer' in economics is someone who:

- A) Always buys the cheapest product available
- B) Only purchases luxury goods
- C) Spends all their income immediately
- D) Tries to get the most satisfaction from their available budget

◆ MY REFLECTION

What is the most useful thing you learned in this section? Why?

Section 2 — Marginal Utility & Diminishing Returns

Name: _____ Date: _____

Why does the satisfaction from each extra unit of a good usually decrease?

Part A — Vocabulary Matching

Match each term to its correct definition. Write the matching letter in the right column.

Term	Definition	Letter
Law of Diminishing Marginal Utility	A) The total satisfaction received from consuming all units combined.	___
marginal utility	B) As consumption increases, each additional unit provides less extra satisfaction.	___
disutility	C) Calculated as the change in total utility divided by the change in quantity.	___
total utility	D) Negative utility — the good actually causes dissatisfaction.	___
MU formula	E) The additional satisfaction gained from consuming one more unit.	___

Part B — Gap Fill

Use the words in the box to complete the sentences below.

Word Bank

diminishing · marginal utility · disutility · total utility · quantity

- _____ utility is the extra satisfaction you get from one additional unit.
- The Law of _____ Marginal Utility says each extra unit gives less satisfaction.
- When eating too much causes a stomach ache, that negative satisfaction is called _____.
- $MU = \text{change in } \div \text{change in quantity consumed}$.
- Economists track both _____ utility and MU to understand consumer behaviour.

Part C — Reading Check

Complete each sentence by filling in the blank as you read the lesson.

- As you consume more units of a good, marginal utility tends to _____.
- When marginal utility reaches zero, consuming one more unit will not increase _____.
- If consuming a unit actually reduces total utility, we say it produces _____.

Part D — Concept Check

Answer the questions in your own words. Use the space provided.

- Explain the Law of Diminishing Marginal Utility in your own words, using a food example.

2. A student eats 1, 2, 3, and 4 cookies. Describe how their marginal utility changes with each cookie.

Part E — Knowledge Check

Circle the letter of the best answer for each question below.

1. The Law of Diminishing Marginal Utility states that as you consume more of a good:

- A) Total utility falls immediately from the first unit
- B) Each extra unit provides less additional satisfaction than the one before
- C) Prices automatically drop to match lower satisfaction
- D) Marginal utility stays constant over time

2. Using the formula $MU = \Delta TU \div \Delta Q$: if Total Utility rises from 100 to 120 after one extra unit, what is the Marginal Utility?

- A) 100 utils
- B) 120 utils
- C) 20 utils
- D) 220 utils

3. A consumer experiences 'disutility' when:

- A) The price of a good rises above the market average
- B) They cannot afford to purchase the good at all
- C) Consuming more of a good actually lowers their total utility
- D) The good has many close substitutes

◆ MY REFLECTION

What is the most useful thing you learned in this section? Why?

Section 3 — The Pizza Lab

Name: _____ Date: _____

How can we use data to see the Law of Diminishing Marginal Utility in action?

Part A — Complete the Table

Use the Pizza Lab interactive activity on the website to fill in the missing values. Total Utility (TU) is given for some rows. Calculate Marginal Utility (MU) for each slice.

Slices eaten	Total Utility (utils)	Marginal Utility (utils)
0	0	—
1	—	—
2	—	—
3	—	—
4	—	—
5	—	—
6	—	—
7	—	—
8	—	—

Part B — Interpret the Data

Answer these questions using your completed table.

1. At which slice does marginal utility start to decrease? What does this tell you about diminishing returns?

2. Is there a point where MU reaches zero or becomes negative? What happens to the consumer at that point?

3. Sketch a quick graph below: put 'Slices' on the x-axis and 'MU' on the y-axis. Show how MU changes.

Part E — Knowledge Check

Circle the letter of the best answer for each question below.

1. At which slice does Total Utility reach its highest point?
 - A) After the 1st slice
 - B) After the 4th slice
 - C) After the 6th slice
 - D) After the 8th slice
2. When Marginal Utility becomes negative (e.g., at slice 7), what happens to Total Utility?
 - A) Total utility also becomes negative
 - B) Total utility stays the same
 - C) Total utility rises more slowly
 - D) Total utility starts to fall
3. The pizza data shows the Law of Diminishing Marginal Utility because:
 - A) Total utility is always rising from slice 1 to slice 8
 - B) Marginal utility of each slice gets smaller and eventually becomes negative
 - C) The price of pizza increases with each slice
 - D) Consumers always stop eating after 6 slices

◆ MY REFLECTION

What pattern did you notice in the MU data? How does it prove the law of diminishing marginal utility?

Section 4 — Consumer Choice

Name: _____ Date: _____

How do consumers decide where to spend their money to get the most satisfaction?

Part A — Vocabulary Matching

Match each term to its correct definition. Write the matching letter in the right column.

Term	Definition	Letter
consumer choice	A) The difference between what a consumer is willing to pay and what they actually pay.	___
MU per dollar	B) How consumers decide which combination of goods gives them the most satisfaction.	___
consumer surplus	C) The goal of getting the highest possible total utility from a limited budget.	___
utility maximization	D) A measure of how much satisfaction each dollar of spending produces ($MU \div Price$).	___
budget constraint	E) The spending limit set by a consumer's income.	___

Part B — Gap Fill

Use the words in the box to complete the sentences below.

Word Bank

budget constraint · MU per dollar · consumer surplus · utility maximization · satisfaction

1. A smart consumer compares the _____ of each good to decide how to spend their money.
2. To maximise utility, spend money where _____ per dollar is highest.
3. If you would pay \$10 for a coffee but only pay \$4, your _____ is \$6.
4. _____ occurs when a consumer gets the most utility possible from their income.
5. When income runs out, the consumer has reached their _____.

Part C — Reading Check

Complete each sentence by filling in the blank as you read the lesson.

1. The utility-maximising rule says: keep spending on a good until $MU \div Price$ equals _____ across all goods.
2. Consumer surplus is the extra _____ a buyer receives beyond the price they paid.
3. A budget constraint forces consumers to make trade-offs because _____ is limited.

Part D — Concept Check

Answer the questions in your own words. Use the space provided.

1. If chips give you $MU/\$ = 8$ and drinks give you $MU/\$ = 5$, where should you spend your next dollar? Explain.

2. Describe a real-life situation where you made a consumer choice to maximise your satisfaction.

Part E — Knowledge Check

Circle the letter of the best answer for each question below.

1. A consumer has \$10. Snacks give $MU \text{ per dollar} = 8$; drinks give $MU \text{ per dollar} = 4$. To maximise utility, where should they spend their next dollar?

- A) On drinks — they are cheaper per item
- B) On snacks — they give more satisfaction per dollar
- C) Split equally between snacks and drinks
- D) Save the money — both MU values are too low

2. You were willing to pay \$30 for a book but you find it on sale for \$20. What is your consumer surplus?

- A) \$30
- B) \$20
- C) \$10
- D) \$50

3. Why do rational consumers typically buy a mix of goods rather than spending all their money on one item?

- A) Because any single item is always too expensive
- B) As they buy more of one good, diminishing MU reduces its satisfaction per dollar, making other goods more attractive
- C) The government requires consumers to spread their spending
- D) Total utility always falls immediately when buying any good

◆ MY REFLECTION

What is the most useful thing you learned in this section? Why?

Section 5 — Price Elasticity of Demand

Name: _____ Date: _____

How do we measure how sensitive buyers are to price changes, and why does it matter?

Part A — Vocabulary Matching

Match each term to its correct definition. Write the matching letter in the right column.

Term	Definition	Letter
price elasticity of demand (PED)	A) Demand is sensitive to price — a small price rise causes a large fall in quantity demanded.	___
elastic demand	B) When $PED = 1$: the percentage change in quantity equals the percentage change in price.	___
inelastic demand	C) A measure of how much quantity demanded changes when price changes.	___
unit elastic	D) Price $\times$ Quantity — the income a seller receives.	___
total revenue	E) Demand is not sensitive to price — quantity demanded changes little when price changes.	___

Part B — Gap Fill

Use the words in the box to complete the sentences below.

Word Bank

elastic · inelastic · price elasticity · total revenue · percentage

- _____ of demand measures how responsive buyers are to a price change.
- If demand is _____, a 10% price rise causes a more than 10% fall in quantity demanded.
- Necessities like insulin tend to have _____ demand because consumers must buy them.
- When demand is unit elastic, total _____ stays the same when price changes.
- PED is calculated by dividing the _____ change in quantity by the percentage change in price.

Part C — Reading Check

Complete each sentence by filling in the blank as you read the lesson.

- A PED value greater than 1 indicates _____ demand.
- When demand is inelastic and price rises, total revenue will _____.
- Goods with close substitutes tend to have _____ elastic demand.

Part D — Concept Check

Answer the questions in your own words. Use the space provided.

1. Why would a bus company raise fares only if it knows demand is inelastic? Explain using PED.

2. Give one example each of a good with elastic demand and one with inelastic demand. Justify your choices.

Part E — Knowledge Check

Circle the letter of the best answer for each question below.

1. A 5% rise in price causes a 15% fall in quantity demanded. What is the PED, and what type is it?

- A) 0.33 — inelastic
- B) 3 — elastic
- C) 1 — unit elastic
- D) 5 — perfectly elastic

2. A cinema raises ticket prices and total revenue falls. This tells us that demand for cinema tickets is:

- A) Perfectly inelastic
- B) Inelastic
- C) Elastic
- D) Unit elastic

3. Which of the following would make demand for a good MORE elastic?

- A) It is a necessity with no close alternatives
- B) There are many close substitutes available in the market
- C) It takes up a tiny share of the consumer's income
- D) Consumers have very little time to change their habits

◆ MY REFLECTION

What is the most useful thing you learned in this section? Why?

Section 6 — Elasticity Explorer (Interactive Activity)

Name: _____ Date: _____

How does changing the price of a good affect the quantity demanded and total revenue?

Part A — Activity Instructions

On the website, open the Elasticity Explorer. Choose a demand type (inelastic, unit elastic, or elastic), then move the price slider. Observe how quantity demanded and total revenue respond. Record your observations in the table below.

Demand type	Price change	What happened to Qty?	What happened to TR?
Inelastic	Increased		
Elastic	Increased		
Unit elastic	Increased		

Part B — Interpret the Results

1. When demand is inelastic and price rises, what happens to total revenue? Explain why.

2. Which type of demand curve looks steepest on a price–quantity graph? Why?

Part C — Knowledge Check

Circle the letter of the correct answer.

1. When demand is inelastic and price rises, what happens to total revenue?

- A) Total revenue falls because fewer units are sold
- B) Total revenue stays exactly the same
- C) Total revenue rises because the price increase outweighs the small drop in quantity
- D) Total revenue becomes zero

2. Which demand curve would look steepest on a standard price–quantity graph?

- A) A good with $|PED| = 2.5$
- B) A good with $|PED| = 1$
- C) A good with $|PED| = 0.4$
- D) A good with $|PED| = 5$

3. If a good has perfectly inelastic demand and its price rises by 40%, how does quantity demanded change?

- A) It falls by 40%
- B) It falls by 20%
- C) It does not change at all
- D) It rises by 40%

◆ MY REFLECTION

What did the Elasticity Explorer show you about the link between elasticity and total revenue?

Section 7 — Types of Goods

Name: _____ Date: _____

How does income affect what consumers buy, and how do goods relate to each other?

Part A — Vocabulary Matching

Match each term to its correct definition. Write the matching letter in the right column.

Term	Definition	Letter
normal good	A) Goods that are consumed together — a rise in the price of one reduces demand for both.	—
inferior good	B) A good whose demand falls when income rises — consumers switch to better options.	—
substitutes	C) A measure of how demand changes when consumer income changes.	—
complements	D) Goods that can replace each other — a rise in price of one increases demand for the other.	—
income elasticity of demand (YED)	E) A good whose demand rises when income rises — consumers buy more as they get wealthier.	—

Part B — Gap Fill

Use the words in the box to complete the sentences below.

Word Bank

normal · inferior · substitutes · complements · income

- As household income rises, demand for _____ goods increases.
- Bus travel is often an _____ good — wealthier people switch to cars or taxis.
- Tea and coffee are _____ — when coffee becomes expensive, many people buy more tea.
- Cars and petrol are _____ — if petrol prices rise sharply, demand for cars may fall.
- _____ elasticity of demand (YED) measures how demand responds to changes in income.

Part C — Reading Check

Complete each sentence by filling in the blank as you read the lesson.

- A positive YED indicates a _____ good; a negative YED indicates an inferior good.
- When two goods are substitutes, their cross-price elasticity of demand is _____.
- When two goods are complements, an increase in the price of one will _____ demand for the other.

Part D — Concept Check

Answer the questions in your own words. Use the space provided.

1. A student starts earning more money from a part-time job. Give one example of a normal good and one inferior good that might be affected. Explain.

2. Are smartphones and phone cases substitutes or complements? How would a rise in smartphone prices affect demand for phone cases?

Part E — Knowledge Check

Circle the letter of the best answer for each question below.

1. When consumer incomes rise and demand for a good falls, that good is classified as:

- A) A normal good
- B) A substitute
- C) An inferior good
- D) A complement

2. If the price of printers rises and demand for ink cartridges also falls, printers and ink are:

- A) Substitutes
- B) Normal goods
- C) Inferior goods
- D) Complements

3. Which of the following goods would most likely have a positive income elasticity of demand ($YED > 0$)?

- A) Instant noodles
- B) Second-hand clothing purchased during a recession
- C) Restaurant meals
- D) Budget bus passes

◆ MY REFLECTION

What is the most useful thing you learned in this section? Why?

Unit 2 Review Quiz

Name: _____ Date: _____

Circle the letter of the best answer for each question. 8 questions — covers all sections of Unit 2.

1. The Law of Diminishing Marginal Utility states that as you consume more of a good:

- A) Total utility decreases immediately
- B) Each extra unit gives less satisfaction than the one before
- C) Prices automatically fall
- D) Marginal utility stays the same

2. Total Utility from 3 slices = 150 utils. Total Utility from 4 slices = 175 utils. What is the Marginal Utility of the 4th slice?

- A) 150 utils
- B) 175 utils
- C) 25 utils
- D) 43.75 utils

3. A rational consumer compares pizza and drinks. Right now, pizza gives more satisfaction per dollar. What should the consumer do?

- A) Buy more drinks
- B) Buy more pizza
- C) Stop spending money
- D) Buy equal amounts of both

4. The price of good X rises by 10% and quantity demanded falls by 25%. What is the PED, and what type is it?

- A) 0.4 — inelastic
- B) 2.5 — elastic
- C) 1.0 — unit elastic
- D) 25 — perfectly elastic

5. A business raises its prices and sees its total revenue go up. This tells us that demand is:

- A) Elastic
- B) Inelastic
- C) Perfectly elastic
- D) Unit elastic

6. Which of the following goods is most likely to have INELASTIC demand?

- A) Designer handbags
- B) Insulin for diabetics

- C) Luxury cruises
- D) Brand-name sneakers

7. When the price of coffee rises, demand for tea increases. Coffee and tea are:

- A) Inferior goods
- B) Complements
- C) Substitutes
- D) Normal goods

8. As household incomes rise, sales of instant noodles fall. This makes instant noodles:

- A) A normal good
- B) A luxury good
- C) An inferior good
- D) A complement

Score: _____ / 8

Teacher comments: