Student 2: High Merit

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[*The concept covered in this exemplar is marginal utility and demand. The student also explained elasticity of demand in detail and applied the concept to a product, using calculated data and changes shown on a total revenue model to support a detailed explanation.]*

H's Utility Schedule and Demand Schedule for Up & Go (1)

Quantity purchased	Total Utility	Marginal Utility ($)	Price ($)	Quantity Demanded
0	0	0	1	4
1	6	6	2	3
2	11	5	3	3
3	14	3	4	2
4	15	1	5	2
5	15	0	6	1
			7	0

Student also drew a Demand Curve for Up & Go from the Demand Schedule. (2)

The marginal utility (MU) for H is the amount of satisfaction she will get from the next Up & Go. The optimum purchase rule states that, we will continue to buy as long as the MU is higher than or equal to the price (MU≥P). This is because… (1)

The Law of Diminishing MU states that as we consume more of the same product our overall satisfaction (Total Utility) will increase but at a decreasing rate. For H, this means that for each next Up & Go she will get less satisfaction from it than the previous one, which we see in her Utility Schedule. It shows that she gets $5 worth of satisfaction (or utility) from her second Up & Go, but only $3 worth from her third.

Her demand curve is downwards sloping to the right because as the Law of Demand states, if price decreases, her quantity demanded for Up & Go increases, ceteris paribus. The data shows this because… (2)

H's Utility Schedule for Primo

Quantity purchased	Total Utility	Marginal Utility ($)
0	0	0
1	4	4
2	7	3
3	8	1
4	8	0

The price of a Primo is $4 and the price of an Up & Go is $3.
[*Calculations completed.]*

Therefore, the Up & Go is better value for the price for H, so she will buy an Up & Go. (3)

When given the option of an Up & Go or a Primo, and assuming ceteris paribus, H will buy what is the best value for money. This is figured out by calculating the MU divided by the price (MU/P). Consumer equilibrium is when the value for money (MU/P) of one product is (3)

equal to another product. To reach consumer equilibrium H will buy… (*correct figures provided*).

The MU of a product is important for producers to consider when making pricing decisions, because if consumers' MU is lower than the price then they will not buy the product. Total utility is also important for producers because they may be able to sell more by selling in bulk. This is best when the total utility is enough for the consumer to buy them together, and their MU for the last one is lower than what they would have bought if sold singularly. An example of this is... 4