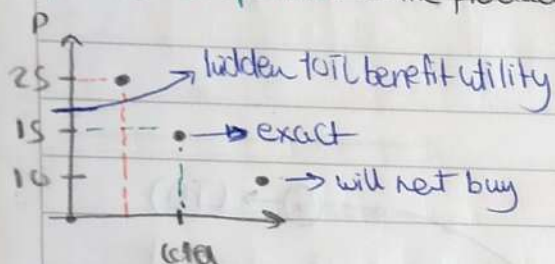


Chapter 6

• **Perfect Knowledge**: households possess knowledge of the qualities & prices of everything available in the market & that firms have all info abt wage rates, capital costs, tech, & output prices

• **perfect competition**: same products, few ppl & many firms (veg & fruits)



several factors that influence the Q of a given G&S demanded by a single household

- price of the product
- Income available in household
- Household's accumulated wealth
- prices of other products available to the household
- tastes & preferences
- Household's expectations about future income, wealth, & prices.

• **Budget constraint**: the limits imposed on household's choice by income, wealth, & product

• **Choice set or opportunity set**: the set of options that's defined & limited by a budget constraint

Utility: the satisfaction a product yields

Marginal utility: The additional satisfaction gained by the consumption of one more unit of a good or service

Total utility: total satisfaction a product yields

• **law of diminishing marginal utility**: The more of any good consumed in a given period, the less the satisfaction generated by consuming each additional (marginal) unit of the same good