Answers to End-of-Chapter Review Questions chapter 10

1. Consumption most directly addresses living standard, or lifestyle, goals.

2. Consumption takes place at all levels of social organization.

3. According to the marketing view, the five steps of consumer decision making are problem recognition, information search, evaluation of alternatives, purchase decision, and post-purchase behavior.

4. The five categories of needs that psychologists have identified as sources of consumer motivation are physiological needs, safety needs, social needs, esteem needs, and self-actualization needs.

5. According to the marketing view, we tend to notice changes in satisfaction relative to reference points (situations to which we have adapted) and relative to reference groups (groups of people to which we compare ourselves). These comparisons affect consumer behavior because the use of reference points causes people to seek things that are new and different, while reference groups influence people towards behaving like people in the group.

6. The utility theory view of consumer behavior seeks to answer the question of how consumers should rationally allocate their limited budget over the various goods and services that they may want.

7. A budget line represents the possible combinations of two goods that a consumer can purchase (see Figure 7.1, for example).

8. When income changes, the budget line shifts parallel to the original line. When one price changes, the budget line rotates out from one of the points where it hits an axis.

9. Real income is important for consumer decisions because it defines the purchasing power of income with prices taken into account.

10. Utility theory was first developed by Jeremy Bentham around 1800.

11. A utility function represents the relation of utility levels to consumption levels. Changes in its slope represent the concept of diminishing marginal utility (see Figure 7.4 for an example).

12. The rule for utility maximization is $(MU_x/P_x) = (MU_y/P_y) = ... (MU_z/P_z)$. This means that consumers should allocate their money such that they equate the marginal utility per dollar over all purchases.
13. Utility theory has been extended to include a wide range of individual choices beyond the purchase of consumer goods (such as choices about time use, whether to have children, etc.), to examine consumer choice in terms of desires for various characteristics of goods (such as auto gas mileage and auto safety), and to examine consumption in the presence of network externalities. Utility theory has been criticized for assuming that people are rational, well-informed decision makers and for the idea that all benefits from choices can be summed up into one factor.

14. Consumer society came about from a historical process that created mass markets, industrialization, and cultural attitudes that ensure that rising incomes are used to purchase an ever-growing output. The Industrial Revolution transformed production, and mass production required mass consumption. Workers were eventually transformed into consumers through higher wages and the availability of consumer goods.

15. Two major institutions that were invented to support the consumer society are advertising and consumer credit.

16. Two major institutions in society that were modified by the turn to consumerism were households, which became places for “consumption,” and the displacement of public infrastructure.

17. In the “old utility theory” view, consumption was equated with pleasure. It was thought that everyone had similar utility curves characterized by diminishing marginal utility and that redistribution from the wealthy to the poor could increase social well-being.

18. In the “new utility theory” view, well-being is associated with the satisfaction of consumer desires, whatever they may be. Further, it is assumed that interpersonal comparisons of utility cannot be made, wants cannot be distinguished from needs, and implications about redistribution cannot be made.

19. In the “capabilities” view policies and actions are judged by whether they give people opportunities for valuable ways of living.

20. Absolute deprivation is a lack of the minimal necessities for sustaining life while relative deprivation is a feeling of lack that comes from comparing yourself with someone who has more.

21. About one-fifth of the world’s population suffers from absolute deprivation.

22. Increasing consumption does not always increase people’s well-being because it may lead to ill health, psychological disturbances, spiritual malaise, and, in general, a neglect of other goals.
23. At any point in time, people with more to spend generally report themselves as somewhat more satisfied with their lives than do people with less to spend. Over time, however, more consumption does not seem to be related to more happiness, in affluent societies.
24. The world could not sustain its population if everyone had a typical U.S. level of consumption because of adverse environmental effects and limited resources. Analysts have estimated that giving everyone in the world a U.S. style of diet and other consumption would require an extra two to four planets, to supply resources and absorb waste.

**Answers to End-of-Chapter Exercises**

1. The two views are similar in that consumers make choices based on information and choose the alternative that is “best” according to some criteria. Beyond this similarity, the two views differ significantly. Utility theory assumes that consumers have perfect information and can accurately compare the benefits of alternatives, while the marketing view assumes that people must search for information. Utility theory assumes that people make the correct choice, while consumers may end up dissatisfied in the marketing view. Utility theory assumes that people are rational, while the marketing view understands that people can be motivated through little-examined emotional responses. Utility theory emphasizes autonomy, while the marketing view emphasizes social connections and reference groups. Utility theory takes preferences as given, while one goal of marketing is to shape them in favor of the products being sold.

2. a. Monifa’s budget line would be:

   ![Budget Line Diagram](image)

   b. Monifa can afford six movie tickets and one concert (point B on the graph above).
   c. Monifa cannot afford two movie tickets and six concert tickets (point C on the graph above).
   d. Monifa can afford four movie tickets and three concert tickets (point D on the graph above).
   e. The combination in part (d) uses up all her income of $100 (point D lies exactly on her budget line).
3. If Monifa’s income increased to $120, her new budget line would expand outward as:

![Budget Line Diagram](image)

4. a. If the price of concert tickets drops from $20 to $12.50 and Monifa’s income stays at $100, her new budget line would be:

![Budget Line Diagram](image)

b. Monifa can afford two movie tickets and six concert tickets after the price drop.
5. a. Monifa’s new budget line would be:

b. This is the same exact budget line she faced in Exercise 2.

c. This illustrates the principle of real income—if income changes in proportion with prices then a budget line is unaffected.

6. Using the equation \( \frac{MU_c}{P_c} = \frac{MU_m}{P_m} \) for utility maximization, we have \( \frac{60}{20} = \frac{MU_m}{10} \), so \( MU_m \) must be 30.

7. The correct matches are a\( \rightarrow \)vii, b\( \rightarrow \)vi, c\( \rightarrow \)x, d\( \rightarrow \)ii, e\( \rightarrow \)viii, f\( \rightarrow \)iii, g\( \rightarrow \)i, h\( \rightarrow \)v, i\( \rightarrow \)ix, j\( \rightarrow \)iv.

8. a. Someone who believes strongly in consumer sovereignty would probably think that consumers should be allowed to make their own decisions and that consumer protection interferes with this freedom.

b. Someone who believes strongly that consumers make rational decisions would probably think that consumers should be presented with all available information and they could then make decisions that are best for them without government interference.

c. Someone who believes that consumers sometimes have less than perfect information about what they are buying would probably think that the government should play a role in providing accurate information to consumers.

d. Someone who believes that consumers can be overly influenced by marketing campaigns would probably believe that consumer protection is necessary to prevent consumers from being tricked into buying products they do not need or that might be dangerous.

e. Someone who believes that policies should focus on human capabilities would probably think consumer protection is appropriate if it promotes health and does not interfere with freedoms that people also value.