OCR Economics A-level

Microeconomics

Topic 2: The Role of Markets

2.7 The Concept of the Margin

Notes

The importance of the margin when making choices

- Thinking at the margin means thinking about the effect of an additional action.
- An action could involve a marginal increase in product or a marginal cost. For example, working for one extra hour could produce 6 more units of output. However, each extra unit of output costs 10 minutes. In this scenario, the marginal cost of producing an extra unit of output is 10 minutes.

Marginal utility of (X) = Total utility of (Xn+1) - Total utility of (Xn)

- Thinking at the margin is important, because it allows consumers to keep thinking ahead. It prevents consumers thinking about things they have already done, and allows them to consider how to maximise their utility now or in the future.
- When making choices, margins can also increase productivity, since the most important tasks which maximise utility the most, are the ones which are prioritised.
- Marginal utility is the extra satisfaction derived from consuming one extra unit of the good.
- The demand curve is downward sloping because of **diminishing marginal utility.** The law of diminishing marginal utility suggests that consumer surplus generally declines with extra units consumed. This is because the extra unit generates less utility than the one already consumed. Therefore, consumers are willing to pay less for extra units.