2 In the UK, new consumers paid an average of £130 for home insurance in 2020. Consumers who had remained with the same insurance company since 2015 paid £238 for the same annual home insurance cover. Despite this, many consumers stay loyal to their insurance company.

Which **one** of the following is the most likely reason why consumers stay loyal to their insurance company?

- ☒ **A** Consumers feel undervalued
- ☒ **B** Consumers have good computational skills
- ☒ **C** The free-rider problem
- ☒ **D** Habitual behaviour

(Total for Question 2 = 1 mark)

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5 In April 2020 electricity prices increased on average by 10% in the UK. In the same month, a record number of 668 371 consumers switched to cheaper electricity suppliers.

Which **one** of the following can explain the behaviour of those consumers who switched to cheaper electricity suppliers?

- ☒ **A** Consumers experienced habitual behaviour
- ☒ **B** Consumers aimed to maximise their utility
- ☒ **C** Consumers had poor computational skills
- ☒ **D** Consumers aimed to minimise their utility

(Total for Question 5 = 1 mark)

2 In 2019 an energy consumer in the UK could save an average of £290 by changing to a different energy supplier. In 2019 over 6.4 million households changed energy supplier.

Which **one** of the following could explain this behaviour?

- ☒ **A** Consumers being valued by the original supplier
- ☒ **B** Consumers aiming to maximise utility
- ☒ **C** Consumers being poor at computation
- ☒ **D** Consumers aiming to minimise utility

(Total for Question 2 = 1 mark)

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3 Procter & Gamble, a US-based international business, sells beauty, grooming, personal healthcare and fabric care goods. In 2022 it increased its prices, on average, by 10%. The quantity of items sold decreased by 6%.

Which **one** of the following explains why consumers bought fewer Procter & Gamble products?

- ☒ **A** Consumers aimed to maximise utility
- ☒ **B** Consumers aimed to minimise utility
- ☒ **C** Consumers suffered from habitual behaviour
- ☒ **D** Consumers had poor computational skills

(Total for Question 3 = 1 mark)

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4 The table shows the total utility obtained as a consumer drinks milk.

Glasses of milk	Total utility
1	2
2	5
3	8
4	10
5	9
6	4

Which **one** of the following can be deduced from the table?

- ☒ **A** Utility is maximised when three glasses of milk are consumed
- ☒ **B** Diminishing marginal utility sets in with the consumption of the fourth glass of milk
- ☒ **C** Diminishing marginal utility sets in with the consumption of the fifth glass of milk
- ☒ **D** Utility is maximised when six glasses of milk are consumed

(Total for Question 4 = 1 mark)

5 In the USA the average price of an all-you-can-eat buffet is $20.

The table shows the marginal utility gained from consuming each plate of food from the buffet for a typical consumer.

Plate	Marginal utility
1st	6
2nd	4
3rd	2
4th	1
5th	−2

At which **one** of the following would total utility be maximised?

- ☒ **A** 2nd plate
- ☒ **B** 3rd plate
- ☒ **C** 4th plate
- ☒ **D** 5th plate

(Total for Question 5 = 1 mark)

8 Unilever, a manufacturer of food, personal care and home care products, experienced an increase in total costs of €4.4 billion in 2022. As a result, the company raised its prices, on average, by 13.2% in Europe. Consequently, there was a 6.8% decrease in the number of items sold by Unilever because consumers switched to cheaper alternatives.

With reference to this information, explain what is meant by the term 'rational decision making'.

11 The table shows the total utility gained by Luca as he increases the number of drinks he consumes in one day.

Number of drinks	Total utility	Marginal utility
1	15	
2	32	
3	52	
4	73	
5	85	
6	90	

Explain how the above table may be used to illustrate the concept of diminishing marginal utility. Use the last column in the table to show your workings.

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9 In Canada, two of the largest internet providers, Bell and Rogers, increased prices in 2018. Consumers could save 25% by switching to smaller internet providers. However, most consumers remained with their more expensive internet providers.

Explain **one** reason why many consumers behave in this way and remain with their current internet providers.

8 Many hotels offer an all-you-can-eat breakfast buffet. 80% of hotel guests go to the breakfast buffet three times for food but only 10% visit five times.

With reference to hotel breakfasts, explain why the above information illustrates 'diminishing marginal utility'.

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