



Diminishing Marginal Utility

Regardless of how satisfying the first taste of an item is, additional satisfaction declines with additional consumption. Assume, for example, that at a price of \$3.00 per bag of peanuts, you have enough after buying two bags. Thus, the value you place on additional satisfaction from a third bag of peanuts would be less than \$3.00. According to what will give you the most satisfaction, you will spend the \$3.00 on something else. Eventually you would receive no additional satisfaction from more peanuts, even if the vendor gave them to you for free.