**LESSON PLAN**

**TOPIC: Marginal utility**

Marginal utility is a new part of the microeconomics course and this is a lesson where the topic could be applied to a real world example – charging for water. This lesson would follow the teaching of the topic and could be a 1 hour lesson.

**Preparation** – homework prior to the lesson.

Ask students to find out how their homes pay for their water supply. Hopefully some will have a water meter and others will have a fixed charge based on their home’s rateable value. Also ask students to research the reasons why there will be a growing imbalance between demand and supply of water over the coming decades in the UK.

**Lesson.**

Ask students to explain what they found out about how their household water supply is paid for.

Introduce to the students a scenario where there are two identical houses (a semi) which during a dry summer the lawn of one house is very brown and dry and the other is green.

**Discussion:**

Ask them to explain how different payment systems for water produce this outcome.

Ask them to explain this using the utility theory. The answers should be something on the lines that the household with a fixed water charge will consume water up to the point where marginal utility is 0 as water will essentially be a treated as a free good. The house with the meter will treat water like any other product and will have to consider the price of each litre of water consumed.

Discuss the reasons why water companies are worried about the imbalance between the demand and supply of water in the UK.

**Enrichment.**

Explain to the class the law of equi-marginal returns.

Although it is not in the specification it is nevertheless useful in this context justifying the adoption of water meters.

Explain the relevance of rationality to equi-marginal returns and introduce links to behavioural economics.

**Activity.**

Ask the class to work in pairs/threes to try to unravel these questions:

Why is water which is essential to life so cheap while diamonds which are mainly decorative are so expensive?

Ask them to try to use utility theory to answer the question.

**Enrichment:**

Explain to the class the paradox of value with a diagram.

