

Exercise 1

If the marginal benefit of acquiring another suit is 200\$ and the price of suits is 250\$, then:

* Marginal Benefit = 200\$

* Price (Marginal Cost) = 250\$

Since the marginal benefit (200\$) is less than the marginal cost (250\$) a rational individual would not buy another suit because the cost outweighs the benefit.

Exercise 2

If I currently buy 2 DVDs at 29.99\$ each and the price drops to 25.99\$ next month, the following may occur:

* The lower prices increase my purchasing power allowing me to buy more DVDs without exceeding your budget.

* The decrease in price makes each DVD more attractive relative to your budget leading me to reconsider how many more I want to buy.

* As the results, other things being equal, it is likely to increase the quantity of DVDs my purchase because the lower price enhances the perceived value of buying additional DVDs compared to the previous price.

1- purpose of an economic model: The primary purpose of an economic model is to simplify complex real-world economic phenomena to better understand, analyze and predict economic behavior and outcomes.

2- Marginal analysis involves examining the additional benefits (marginal benefits) and additional costs (marginal costs) associated with a decision.

* Rational behavior implies that individuals make choices that maximize their utility or satisfaction.

3- Behavioral Assumption in an economic model

An example of a behavioral assumption in an economic model is the assumption of "rationality" which posits that individuals make decisions aimed at maximizing their utility based on available information.

4- Rationality of habitual decision-making.

A person who makes decisions by habit without considering the benefits or costs cannot be considered fully rational in the economic sense. Rational decision making involves evaluating options based on their expected outcomes.

5- Abstraction in Economic Theories and models.

Economic theories and models abstract from reality by simplifying complex interactions and focusing on specific variables while holding others constant. (ceteris paribus).