Utility
by
Abdhut Deheri

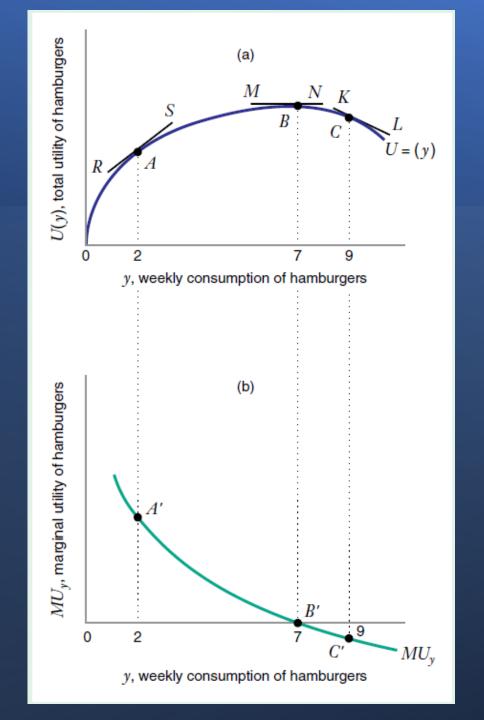
Cardinal Utility	Ordinal Utility
Definition	
It explains that the satisfaction level after consuming any goods or services can be scaled in terms of countable numbers.	1
Example:	
Pizza gives Sam 60 utils of satisfaction, whereas burger gives him only 40 utils.	Sam gets more satisfaction from a pizza as compared to that of a burger.
Measurement:	
Utility is measured based on utils.	Utility is ranked based on satisfaction.
Realistic:	
It is less practical.	It is more practical and sensible.
Used By:	
This theory was proposed by Prof. Marshall	This theory was proposed by Prof. J R Hicks
Theory:	
Utility Analysis	Indifference Curve Analysis

Law of Diminishing Marginal Utility

The principle that after some point, as consumption of a good increases, the marginal utility of that good will begin to fall.

Assumptions:

- Units of commodities consumed should be identical or homogeneous, that is, the same in all respects.
- Units should be consumed in quick succession with minimal breaks in between.
- Units should be of a standard size, that is, neither too big nor too small.
- The taste of the consumers should be constant.
- There should be no change in the price of substitute goods. If the prices of substitute goods change, it may become difficult to have an idea about the utility that the consumer might get from the main commodity.
- The utility is measurable.
- The consumer is rational while making consumption decisions.



Relationship between Marginal Utility and Total Utility:

01

When marginal utility falls but is positive, total utility increases in a diminishing manner.

02

When marginal utility is zero, total utility is maximum.

03

When marginal utility is negative, total utility declines.

Limitations

The law does not operate in the following cases:

- ✓ **Very Small Units:** If the units of commodities are very small then the law does not operate.
- ✓ **Dissimilar units:** The unit should be similar in size, quality etc. The law of diminishing marginal utility will not operate if the units that are consumed are not similar in size and quality.
- ✓ **Too long an interval:** The law will also not operate if the units are consumed after long breaks.
- ✓ Mentally unstable people: People like drunkards or drug addicts will get greater satisfaction with every successive dose of liquor. Hence, the law fails to operate in these cases.
- ✓ Rare collections: This refers to hobbies. When people collect rare coins and stamps for example, in such cases the person's satisfaction increases with every addition to his stock or collection. The law hence cannot operate.
- ✓ **Not applicable to money**: Money is a commodity which is appreciated greatly by rich and poor. There is a saying that the more money a person has the want he wants of it, hence, the law cannot operate in the case of money.

Any Questions?