



# UTILITY ANALYSIS



## Utility

- **Utility** is a term used by **economists** to describe the measurement of "useful-ness" that a consumer obtains from any good.

### CARDINAL AND ORDINAL UTILITY

- **Cardinal utility** is the **utility** wherein the satisfaction derived by the consumers from the consumption of good or service can be measured numerically.
- **Ordinal utility** states that the satisfaction which a consumer derives from the consumption of product or service cannot be measured numerically.

# TYPES OF UTILITY

- In economics, production refers to the creation of utilities in several ways. There are four types of utility, they are...
- Form, Time, Place and Possession.

## Kinds of Utility

Utility are of three kinds:

- **Marginal Utility:**(Marginal utility is the utility derived from the last or marginal unit of consumption.)
- **Total Utility:**(Total Utility is the utility from all units of consumption. )
- **Average Utility:**(Average Utility is that utility in which the total unit of consumption of goods is divided by number of Total Units.)

# THE LAW OF DIMINISHING MARGINAL UTILITY

- The **law of diminishing marginal utility** is a **law of economics** stating that as a person increases consumption of a product while keeping consumption of other products constant, there is a decline in the **marginal utility** that person derives from consuming each additional unit of that product.

## **Assumptions:**

All the units of a commodity must be same in all respects.

The unit of the good must be standard.

There should be no change in taste during the process of consumption.

There must be continuity in consumption.

There should be no change in the price of the substitute goods.

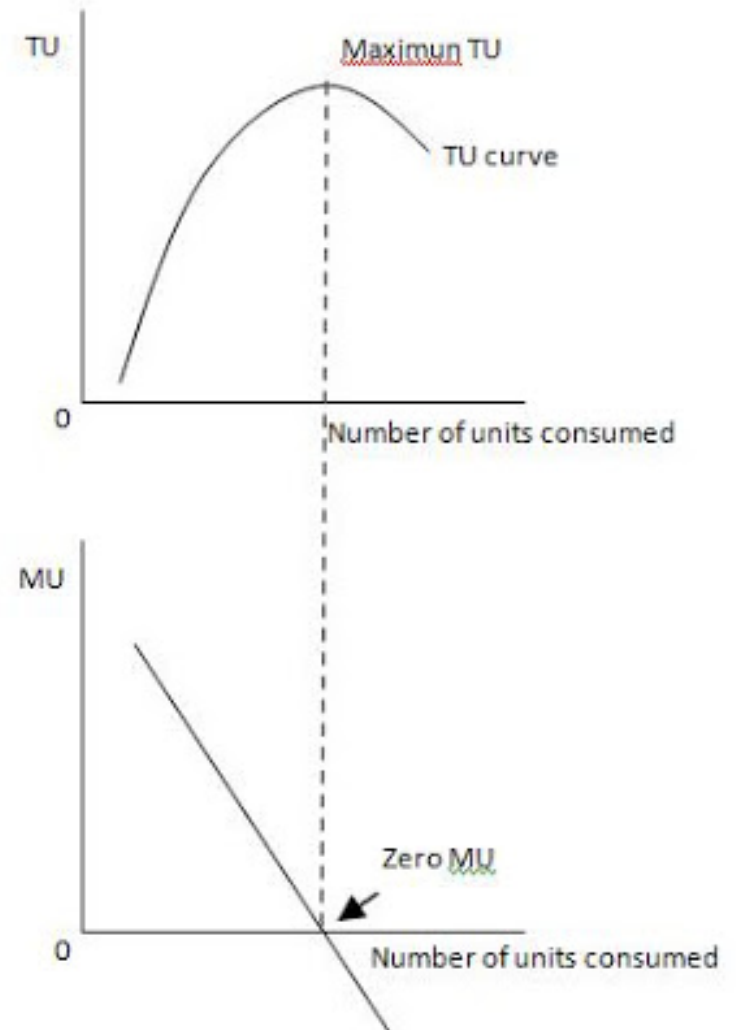
## EXPLANATION

As more and more quantity of a commodity is consumed, the intensity of desire decreases and also the utility derived from the additional unit.

Suppose a person eats Bread. and 1st unit of bread gives him maximum satisfaction. When he will eat 2nd bread his total satisfaction would increase. But the utility added by 2nd bread(MU) is less than the 1st bread. His Total utility and marginal utility can be put in the form of a following schedule.

Plotting the above data on a graph gives

Slices of Bread	Total utility	Marginal utility
0	0	-
1	70	70
2	110	40
3	130	20
4	140	10
5	145	5
6	140	-5



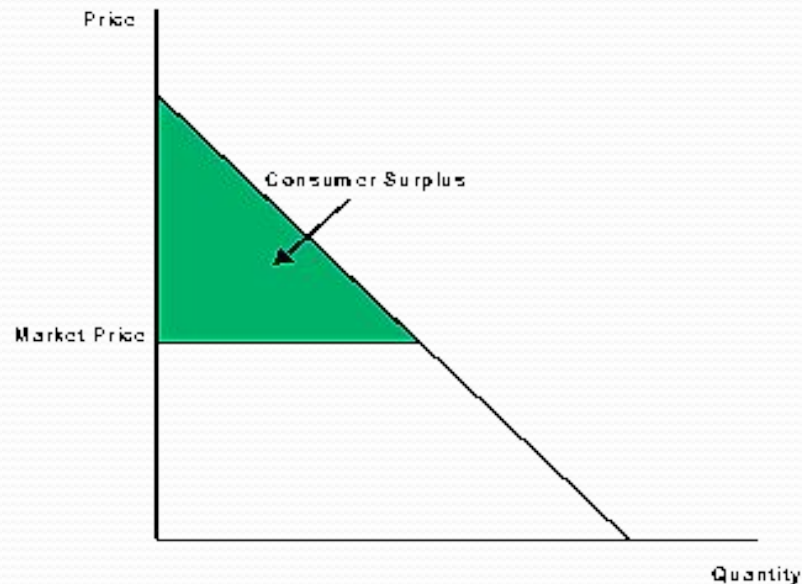
# THE RELATIONSHIP BETWEEN TOTAL AND MARGINAL UTILITY

- Here, from the MU curve we can see that MU is declining as consumer consumes more of the commodity.
- When TU is maximum, MU is Zero.
- After that, TU starts declining and MU becomes negative.

# CONSUMER SURPLUS

- **Consumer surplus** is defined as the difference between the total amount that **consumers** are willing and able to pay for a good or service (indicated by the demand curve) and the total amount that they actually do pay (i.e. the market price).

The Demand Curve







# Thank You!!!

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