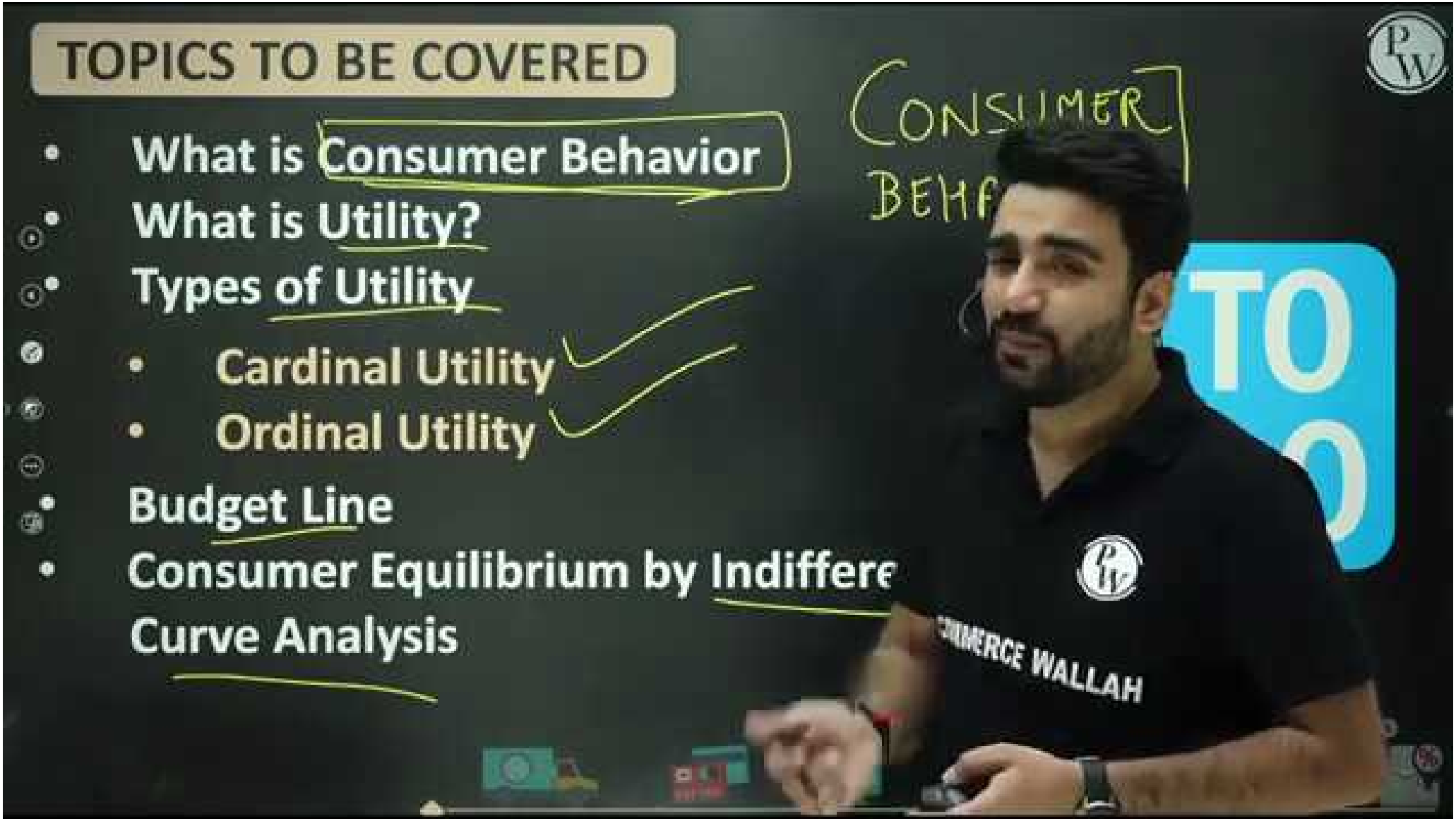
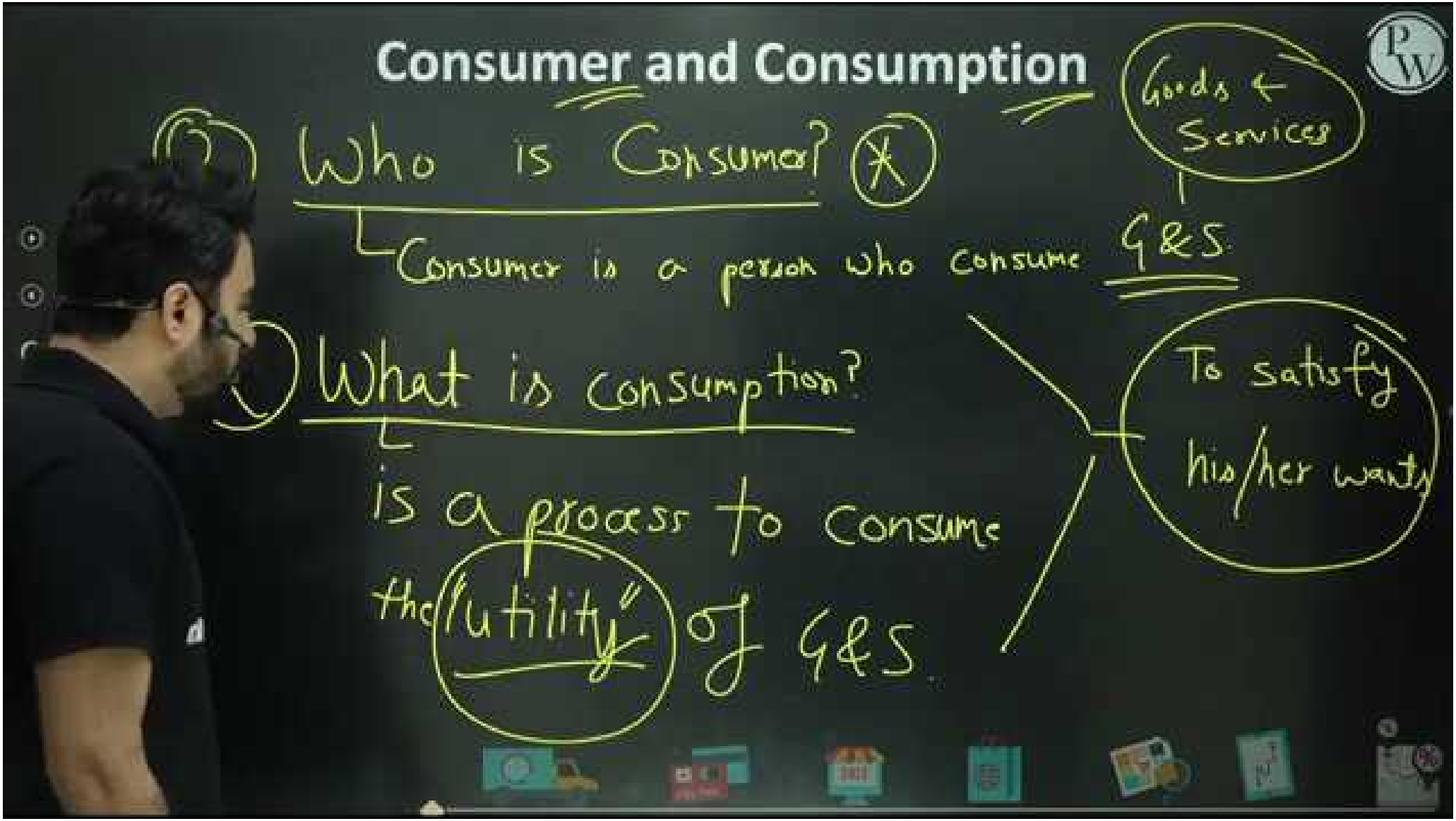
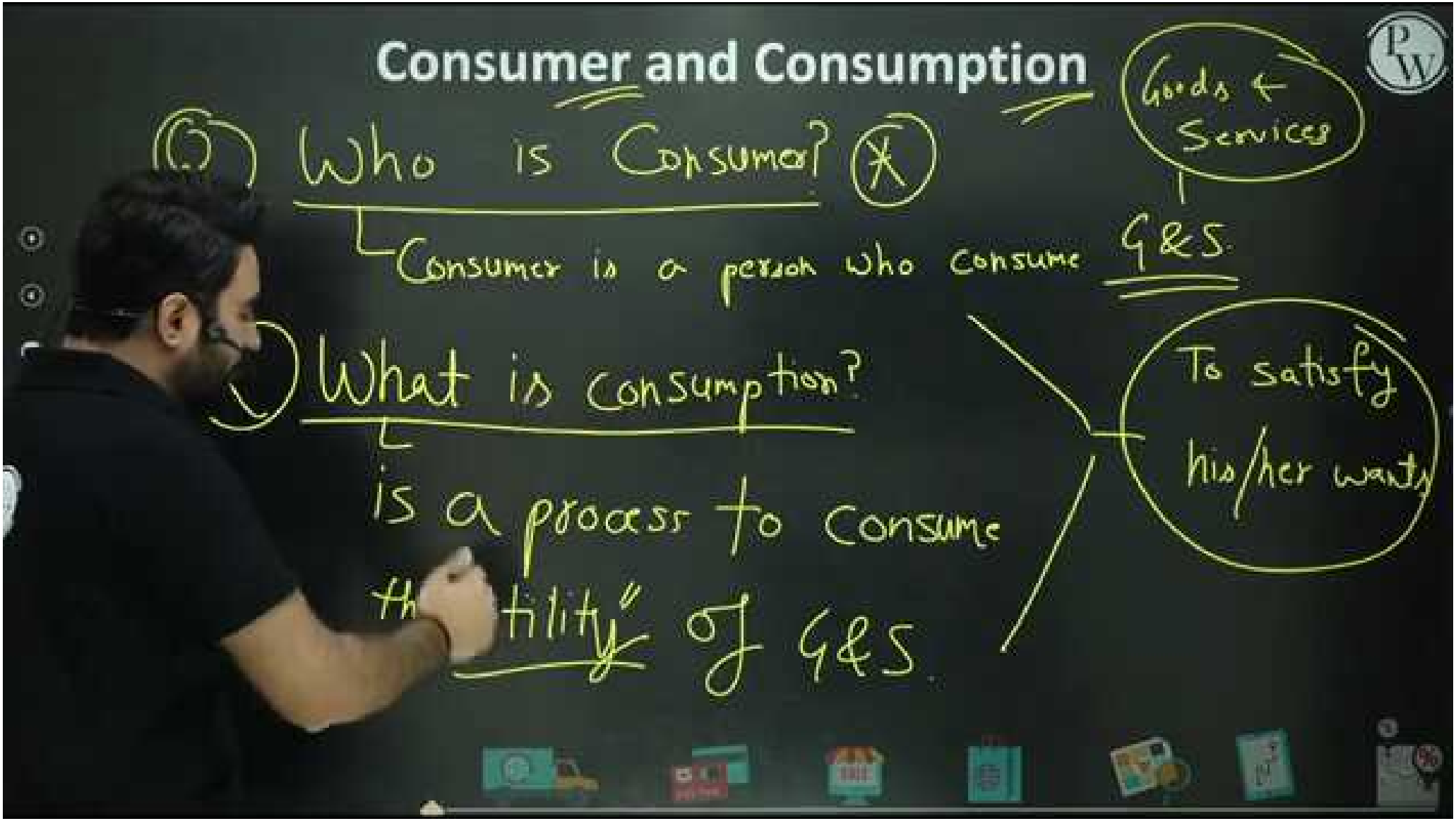

TOPICS TO BE COVERED
What is Consumer Behavior
What is Utility?
Types of Utility
Cardinal Utility
Ordinal Utility
Budget Line
Consumer Equilibrium by Indiffere
Curve Analysis
CONSUMER
BEHA
TO
COMMERCE WALLAH

Consumer Behavior

Consumer Behavior is the study of individuals, groups, or organizations and all the activities associated with the purchase, use and disposal of goods and services.

Consumer Behaviour consists of how the consumer's emotions, attitudes, and preferences affect buying **Behaviour**.


Consumer and Consumption
Who is Consumer?
Consumer is a person who consume G&S
Goods & Services
What is consumption?
is a process to consume the "utility" of G&S
To satisfy his/her wants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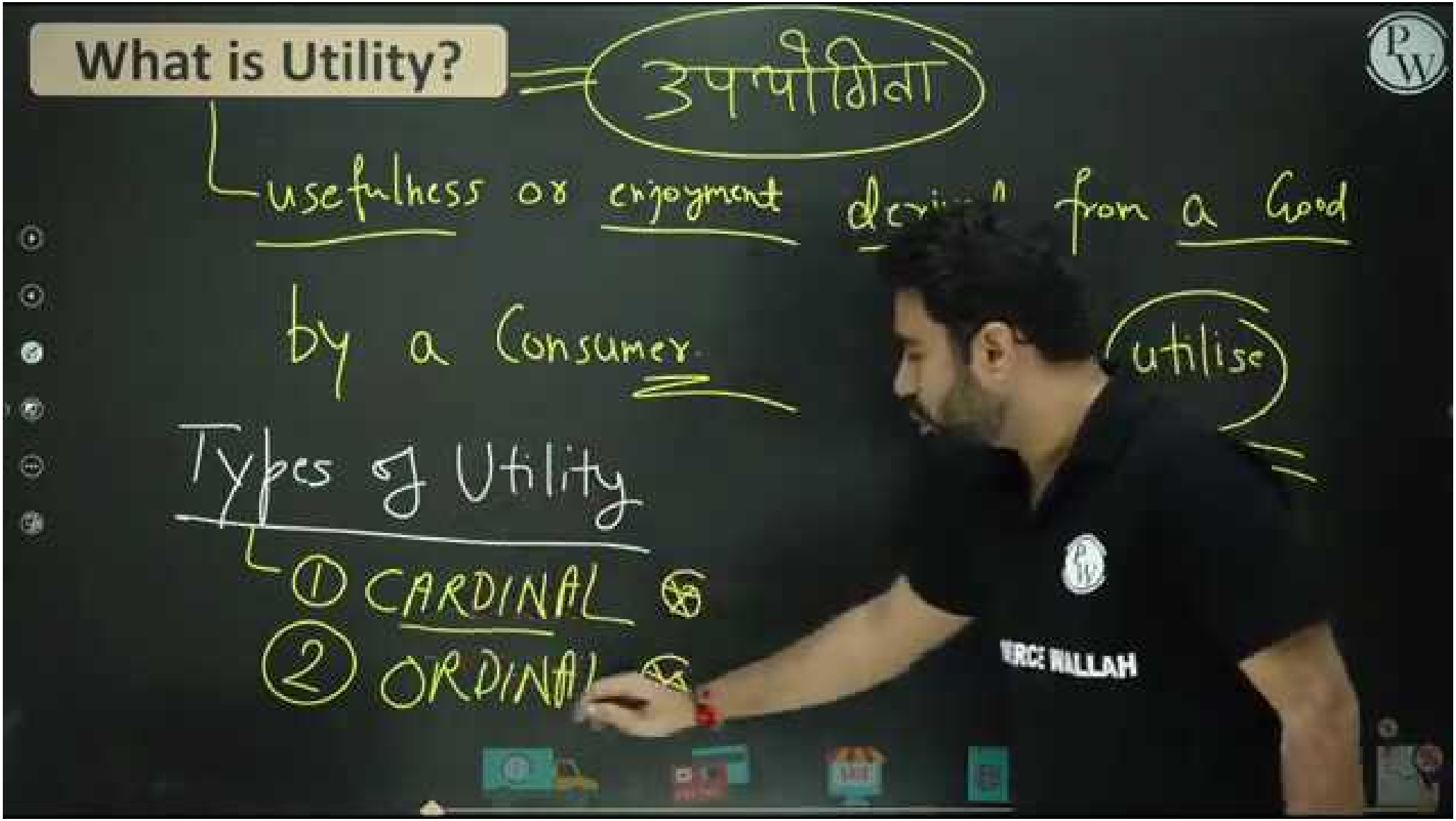
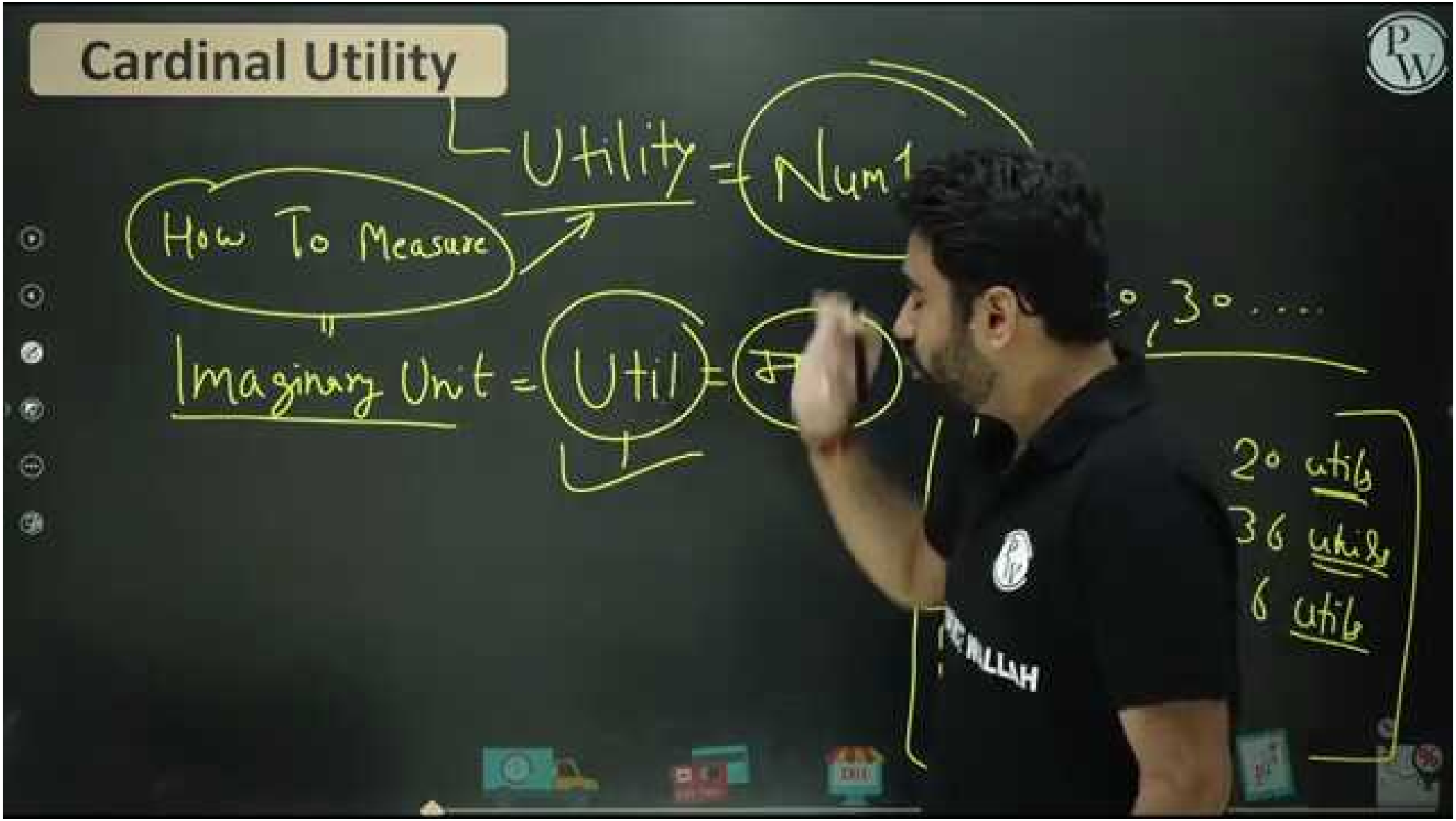

What is Utility?
उपयोगिता
usefulness or enjoyment
from a Good
by a Consumer
utilise
Types of Utility
① CARDINAL
② ORDINAL


Cardinal Utility
Utility = Num1
How To Measure
Imaginary Unit = Util
2 utils
6 utils

Cardinal Utility

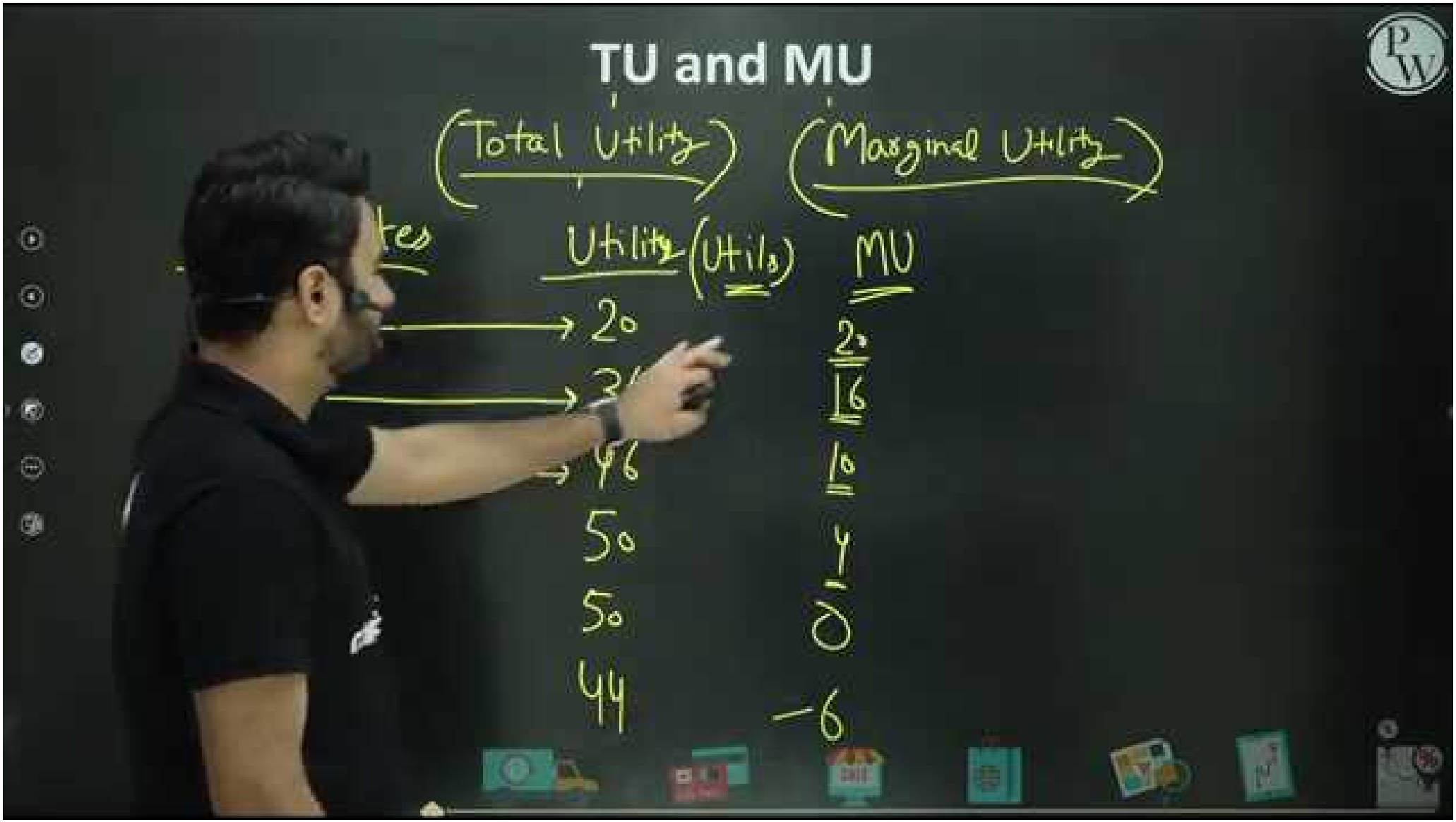
Utility = Numbers

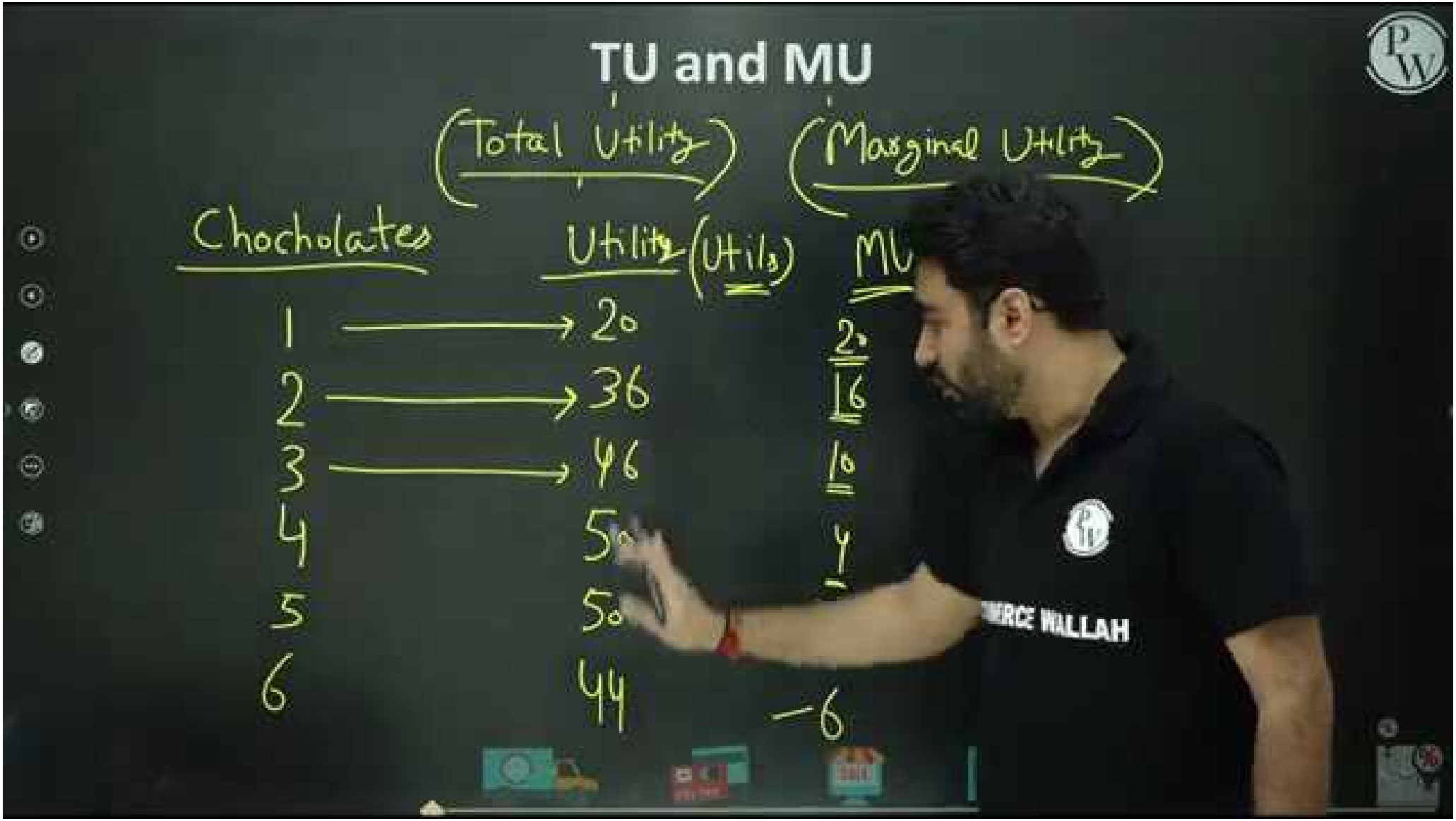
How To Measure

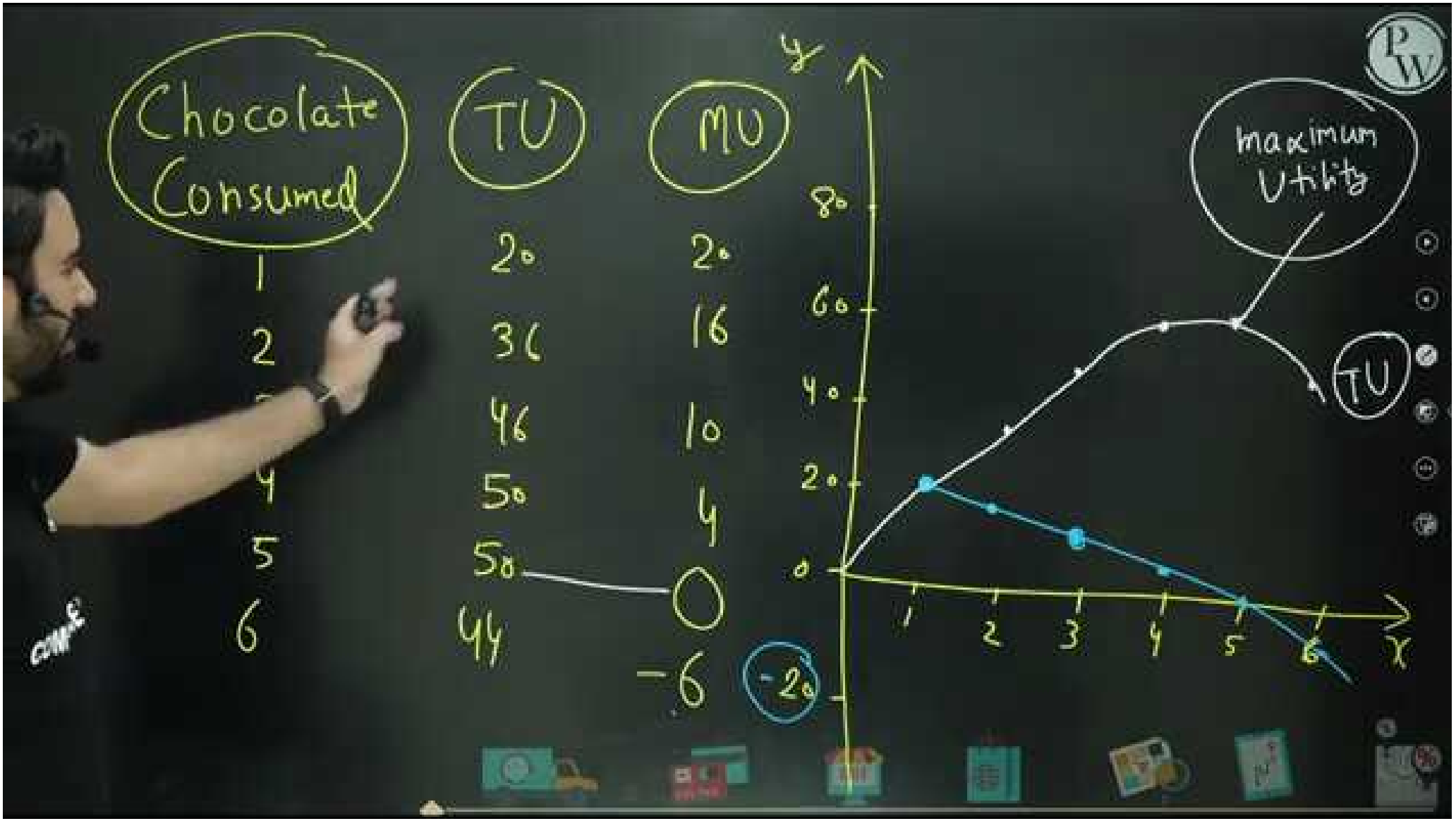
1°, 2°, 3° ....

Imaginary Unit = Utils = मात्रा

1	2° utils
2	36 utils
3	46 utils


TU and MU
(Total Utility)
(Marginal Utility)
Utility (Utils)
MU
20
46
50
50
44
20
16
10
4
0
-6

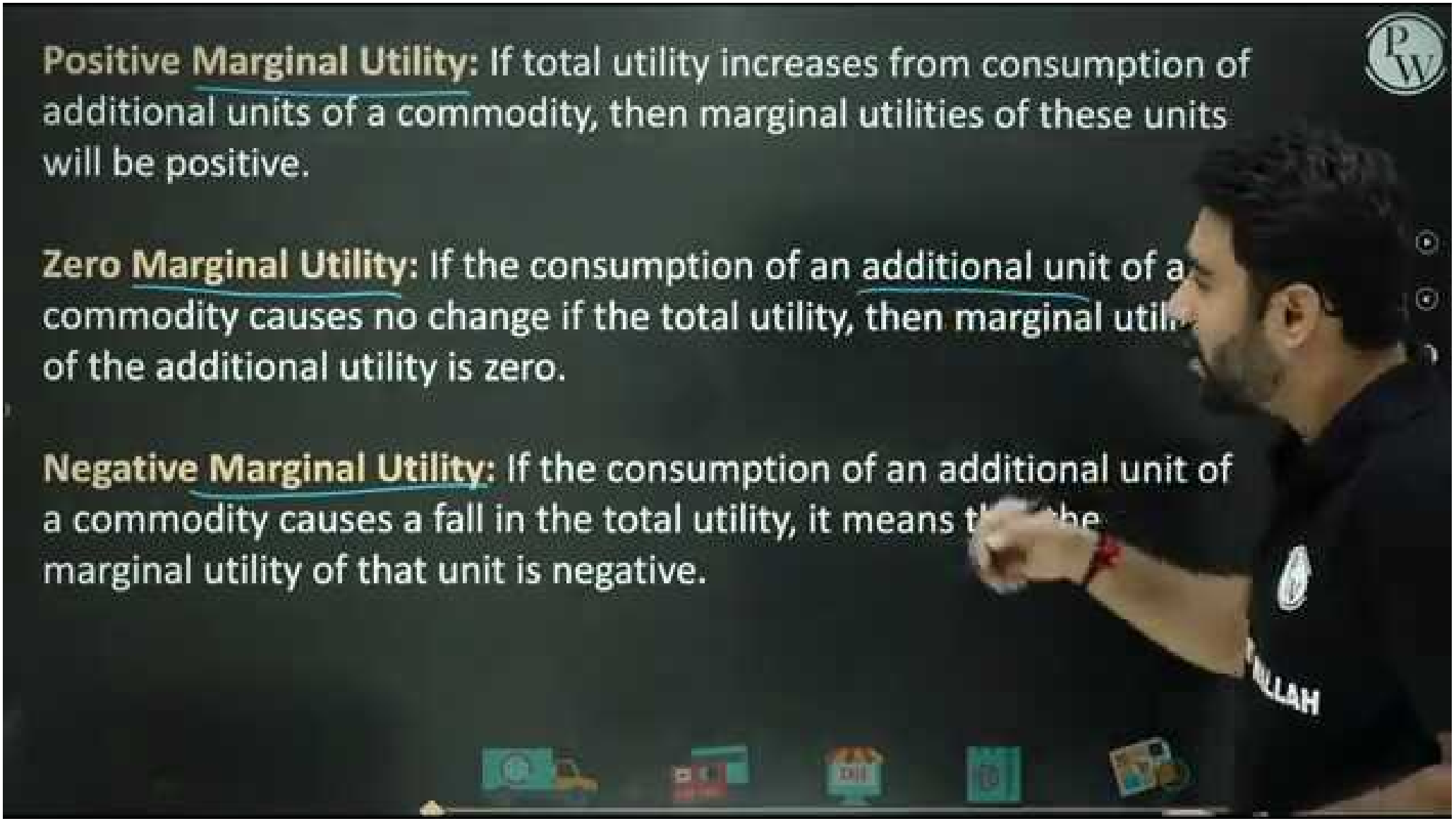

TU and MU
(Total Utility)
(Marginal Utility)
Chocholates
Utility (Utils)
MU
1 → 20
2 → 36
3 → 46
4 → 50
5 → 50
6 → 44
20
16
10
4
0
-6
ERCE WALLAH


Chocolate Consumed
TU
MU
1
2
4
5
6
20
36
46
50
50
44
20
16
10
4
0
-6
-20
y
80
60
40
20
0
1
2
3
4
5
6
x
maximum Utility
TU

Positive Marginal Utility: If total utility increases from consumption of additional units of a commodity, then marginal utilities of these units will be positive.

Zero Marginal Utility: If the consumption of an additional unit of a commodity causes no change if the total utility, then marginal util... of the additional utility is zero.

Negative Marginal Utility: If the consumption of an additional unit of a commodity causes a fall in the total utility, it means t... the marginal utility of that unit is negative.



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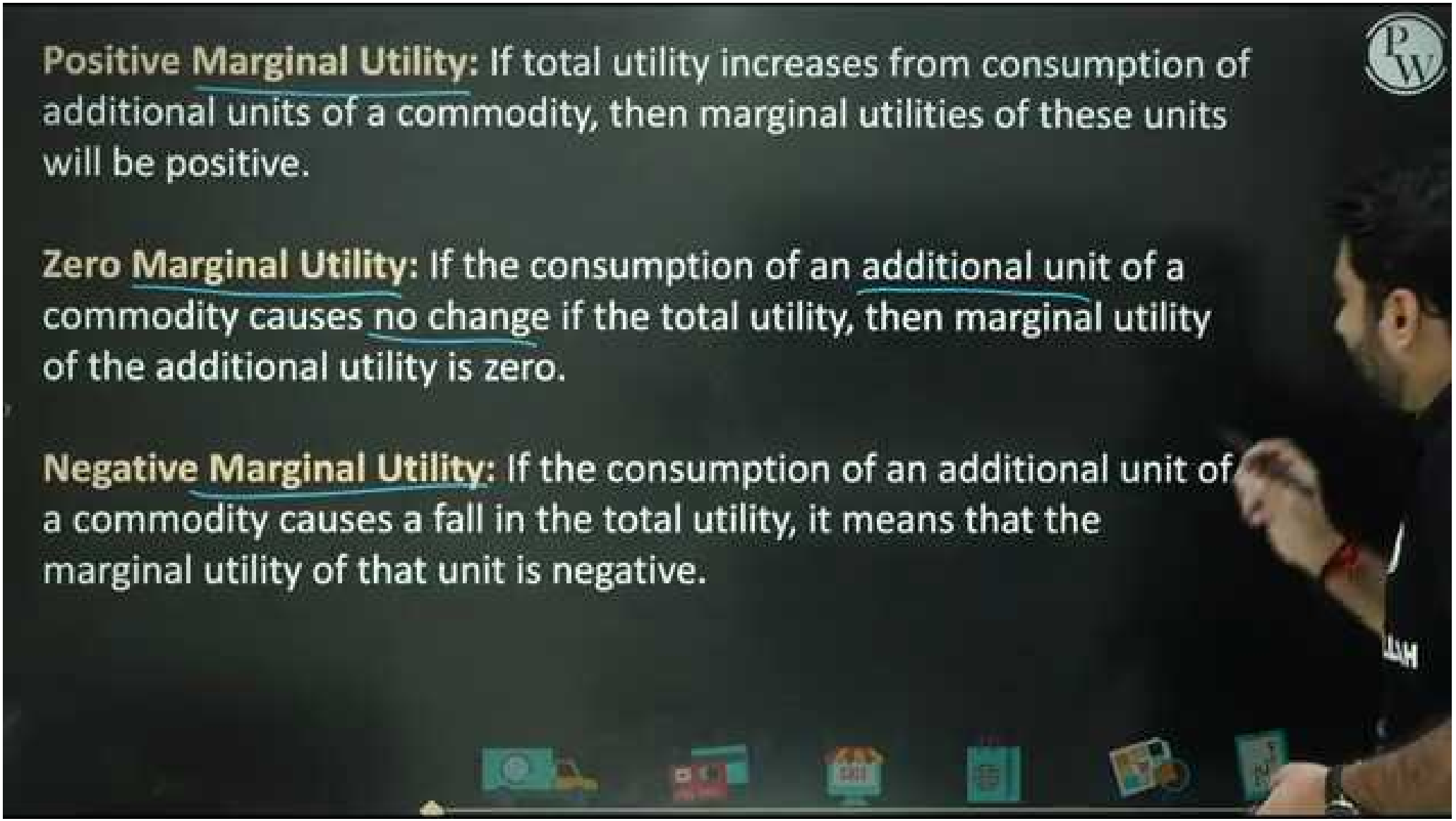

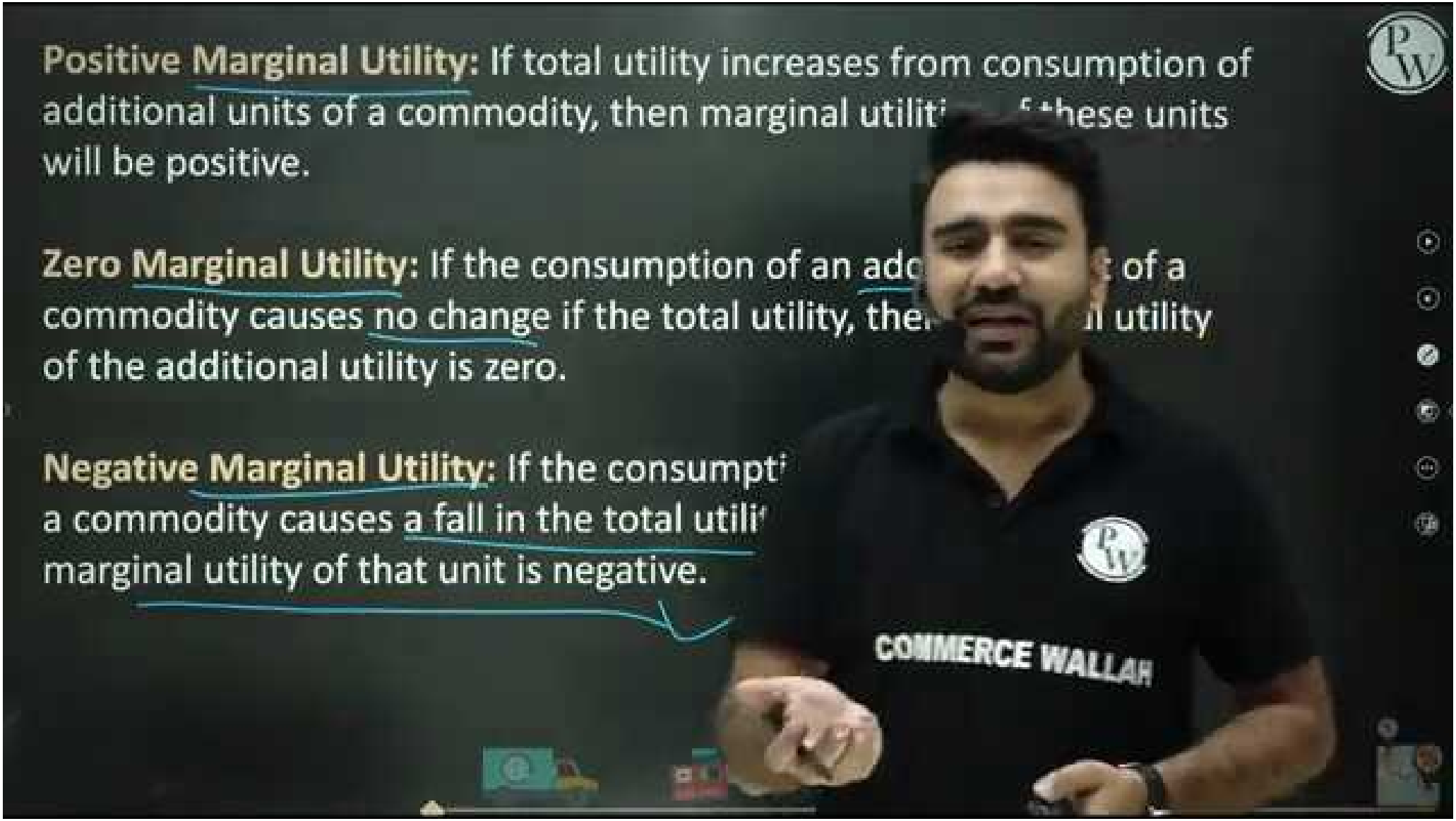
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Negative Marginal Utility: If the consumpt a commodity causes a fall in the total utili marginal utility of that unit is negative.
COMMERCE WALLAH


Law of Diminishing Marginal Utility
DMU
Law of diminishing marginal utility states that more and more units of a commodity are consumed, marginal utility derived from every additional unit must decline.
It is known as fundamental law of satisfact
fundamental psychological law.
COMMERCE WALLA

Law of Diminishing Marginal Utility

Law of **diminishing marginal utility** states that as more and more units of a commodity are consumed, marginal utility derived from every additional unit must decline.

It is known as **fundamental law of satisfaction** or **fundamental psychological law.**

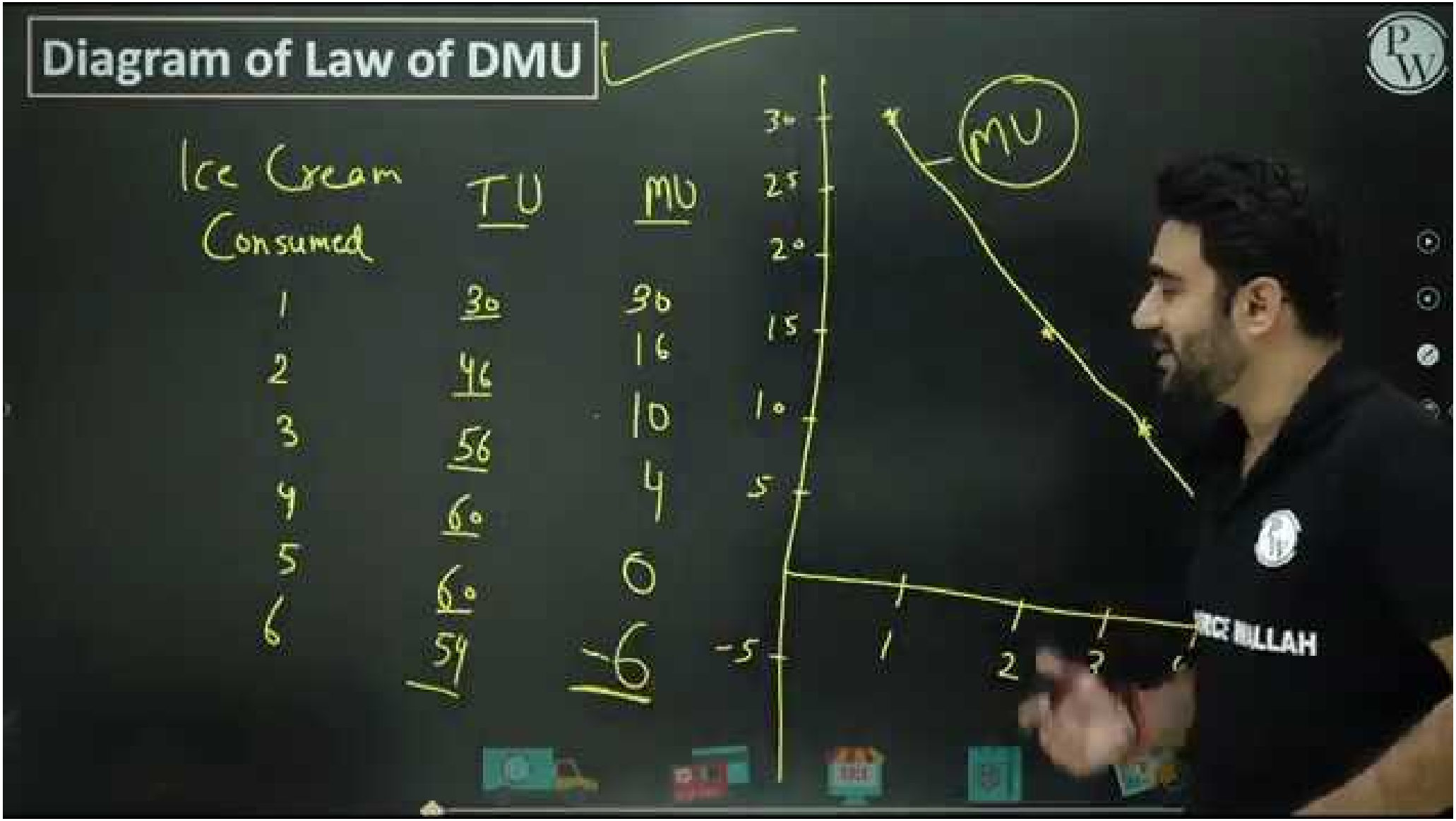


Diagram of Law of DMU
Ice Cream Consumed
TU
MU
1
2
3
4
5
6
30
46
56
60
60
54
30
16
10
4
0
-6
MU
30
25
20
15
10
5
-5
1
2
3

Consumer Equilibrium

Consumer's Equilibrium means a **state of maximum satisfaction.** A situation where a consumer spends his given income purchasing one or more commodities so that he gets maximum satisfaction and has no urge to change this level of consumption, given the prices of commodities, is known as the consumer's equilibrium.

Consumer Equilibrium

max

Consumer's Equilibrium means a **state of maximum satisfaction**. A situation where a consumer spends his given income purchasing one or more commodities so that he gets maximum satisfaction and has no urge to change this level of consumption, given the prices of commodities, is known as the consumer's equilibrium.

Price Spend = Total Satisfaction

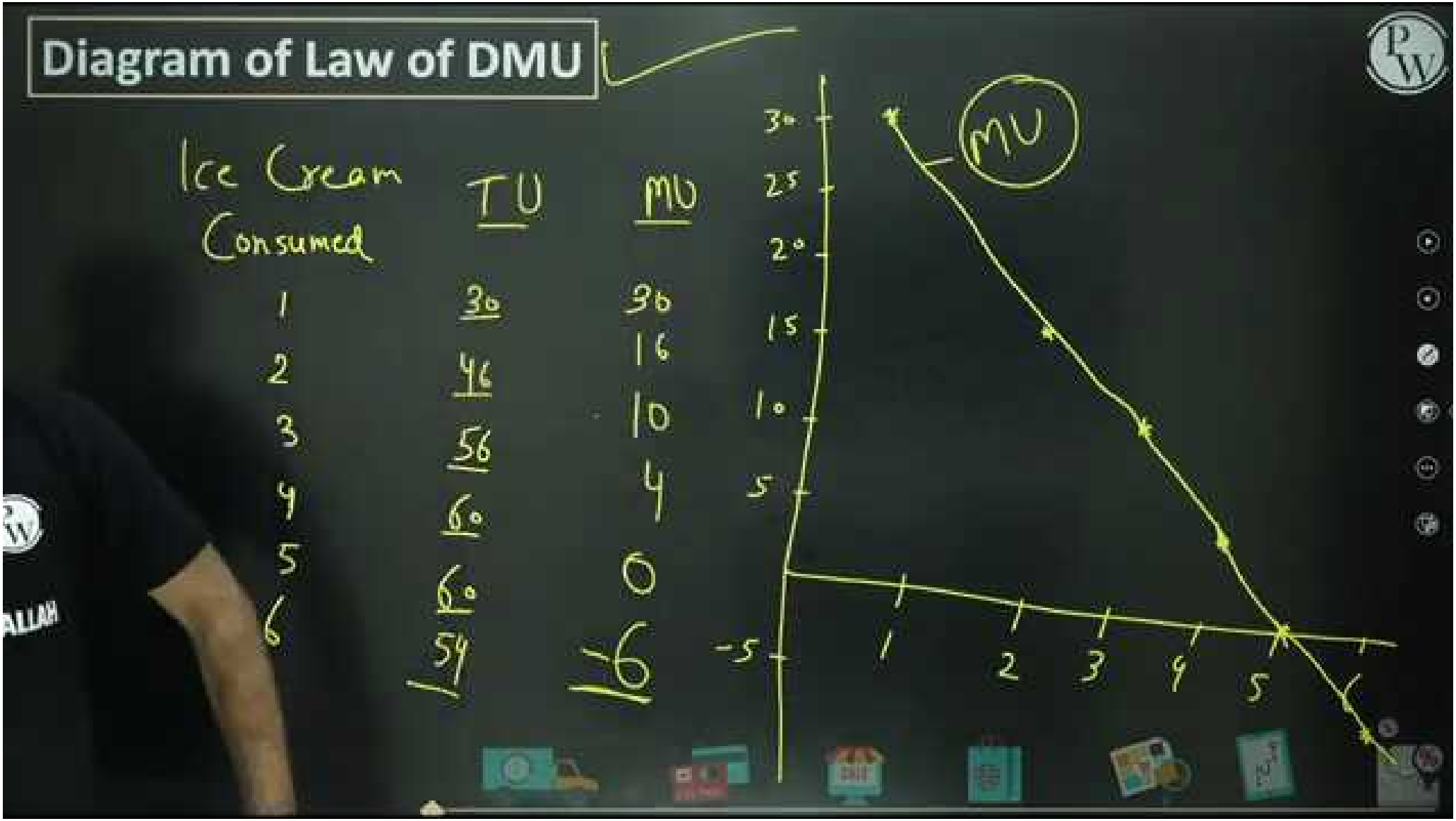


Diagram of Law of DMU
Ice Cream Consumed
TU
MU
1 30 30
2 46 16
3 56 10
4 60 4
5 60 0
6 54 -6
MU
30
25
20
15
10
5
-5
1
2
3
4
5
6

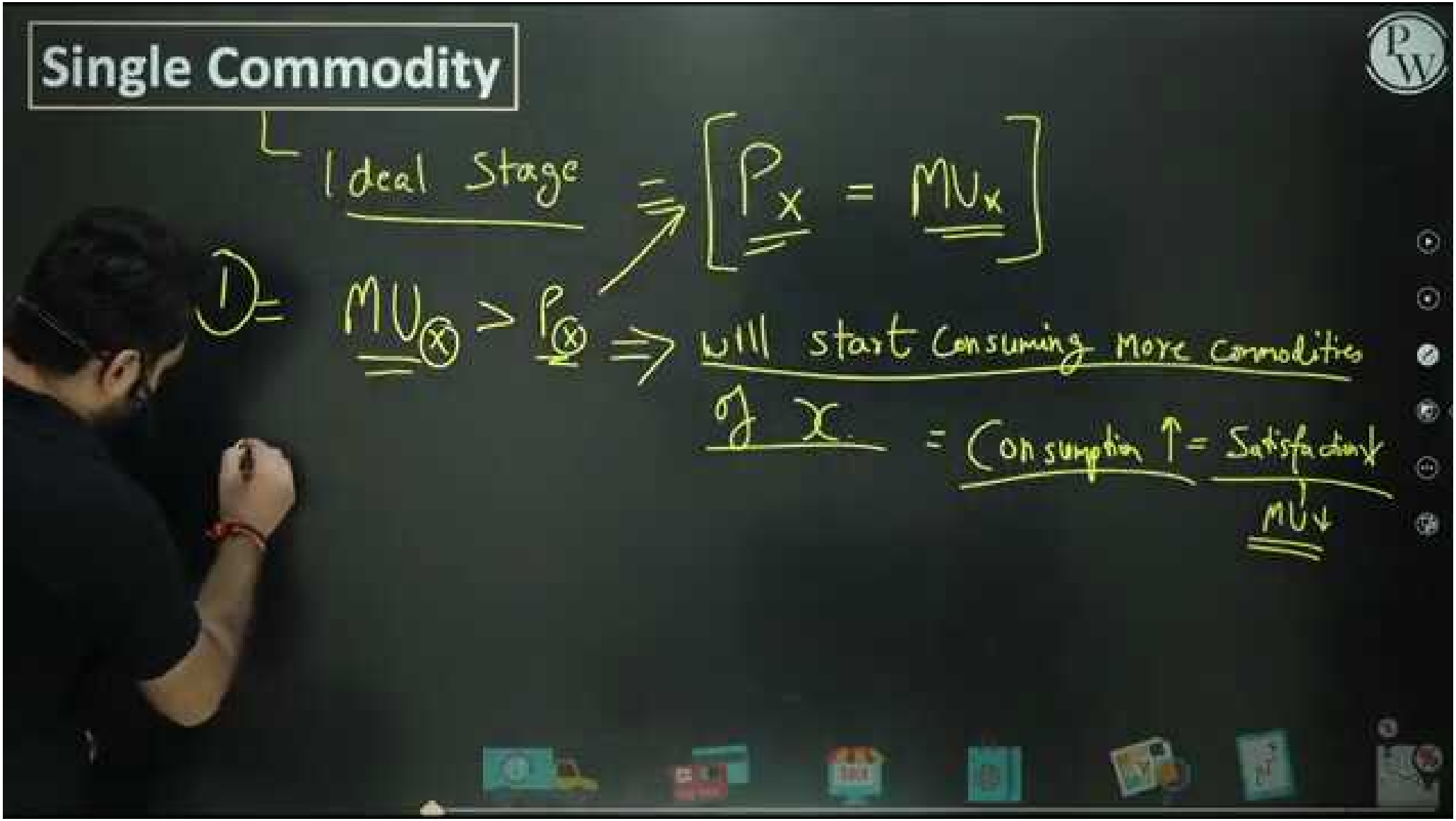
Consumer Equilibrium

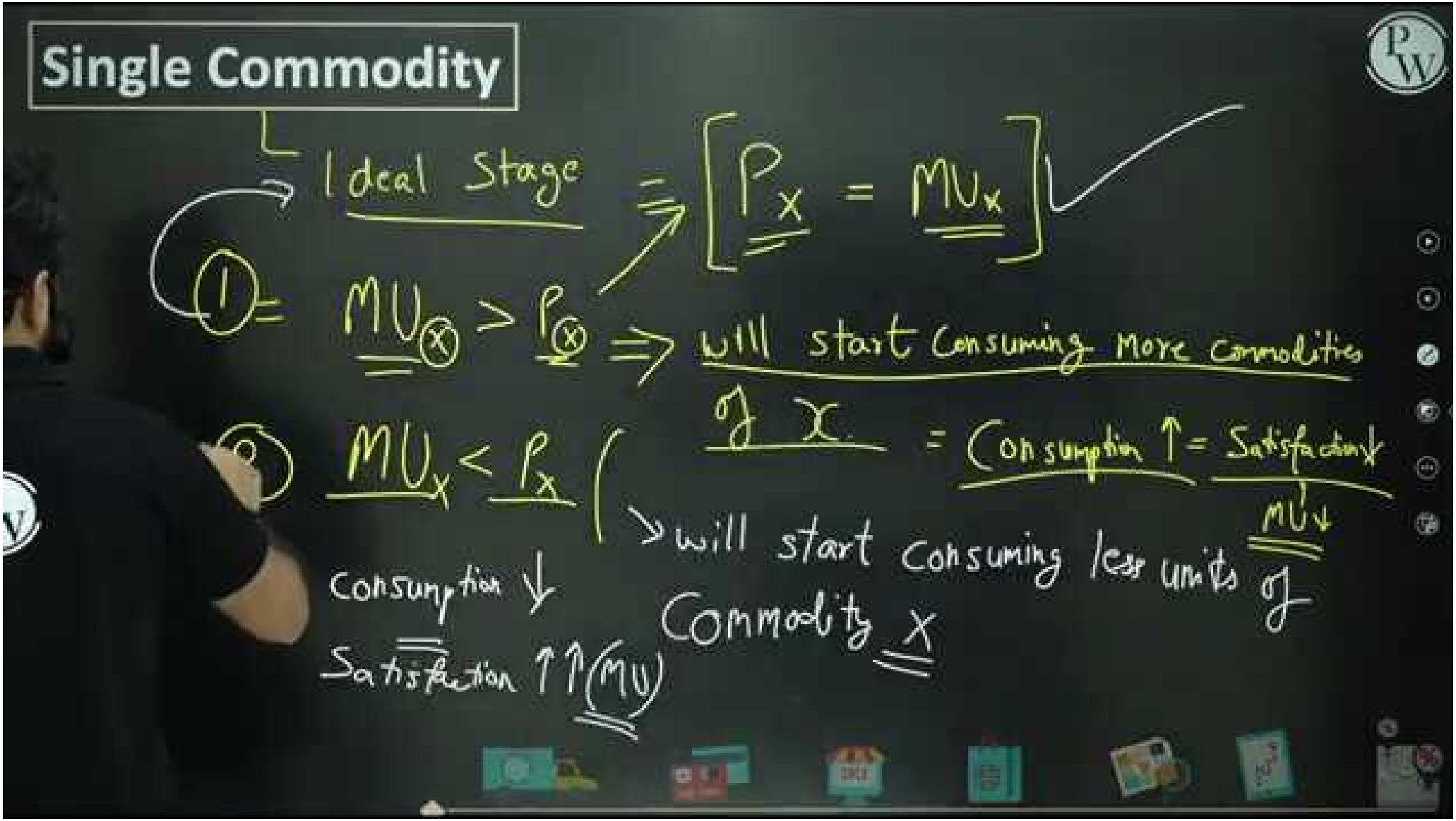
max

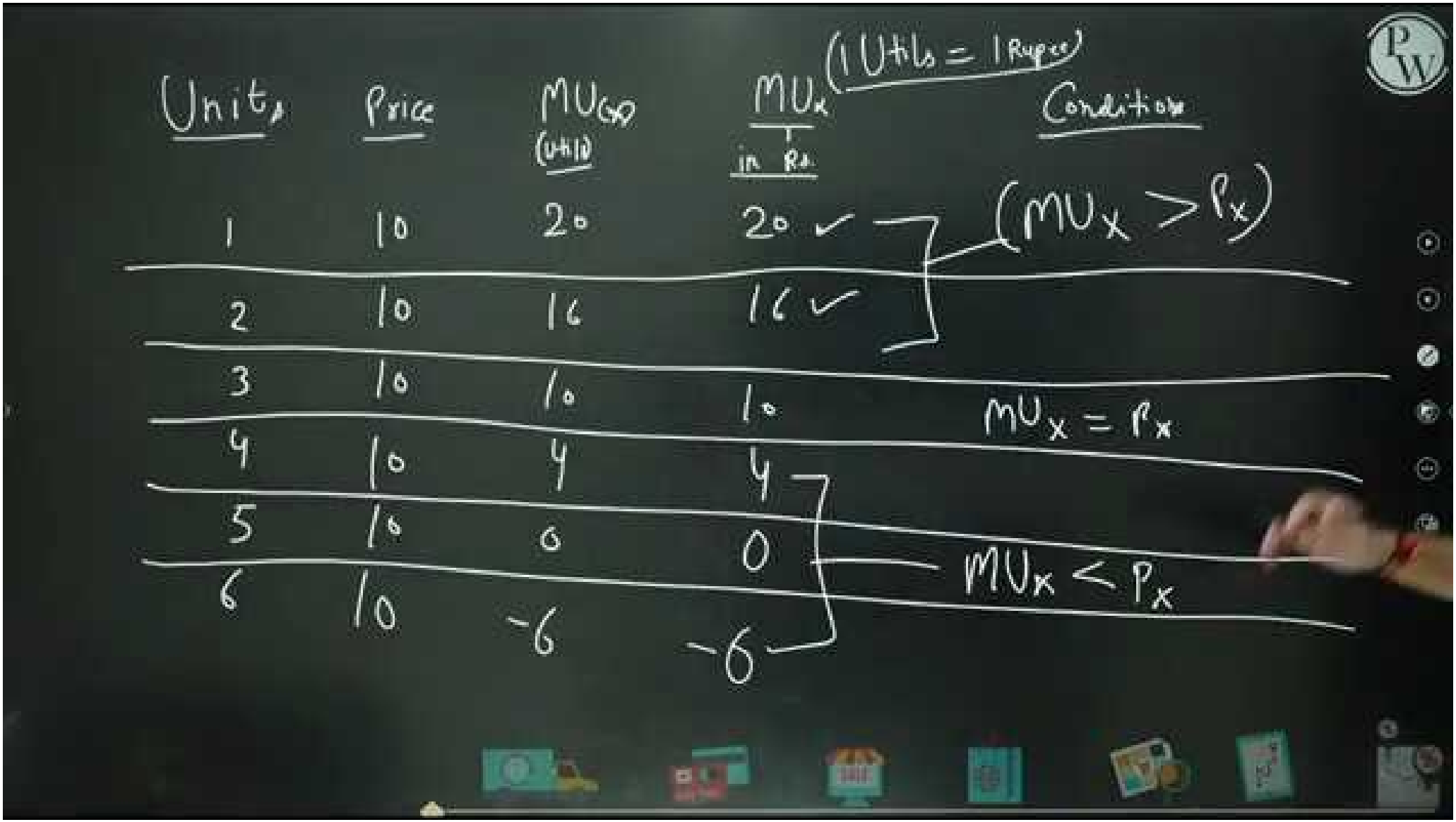
Consumer's Equilibrium means **a state of maximum satisfaction.** A situation where a consumer spends his given income purchasing one or more commodities so that he gets maximum satisfaction and has no urge to change this level of consumption, given the prices of commodities, is known as the consumer's equilibrium.

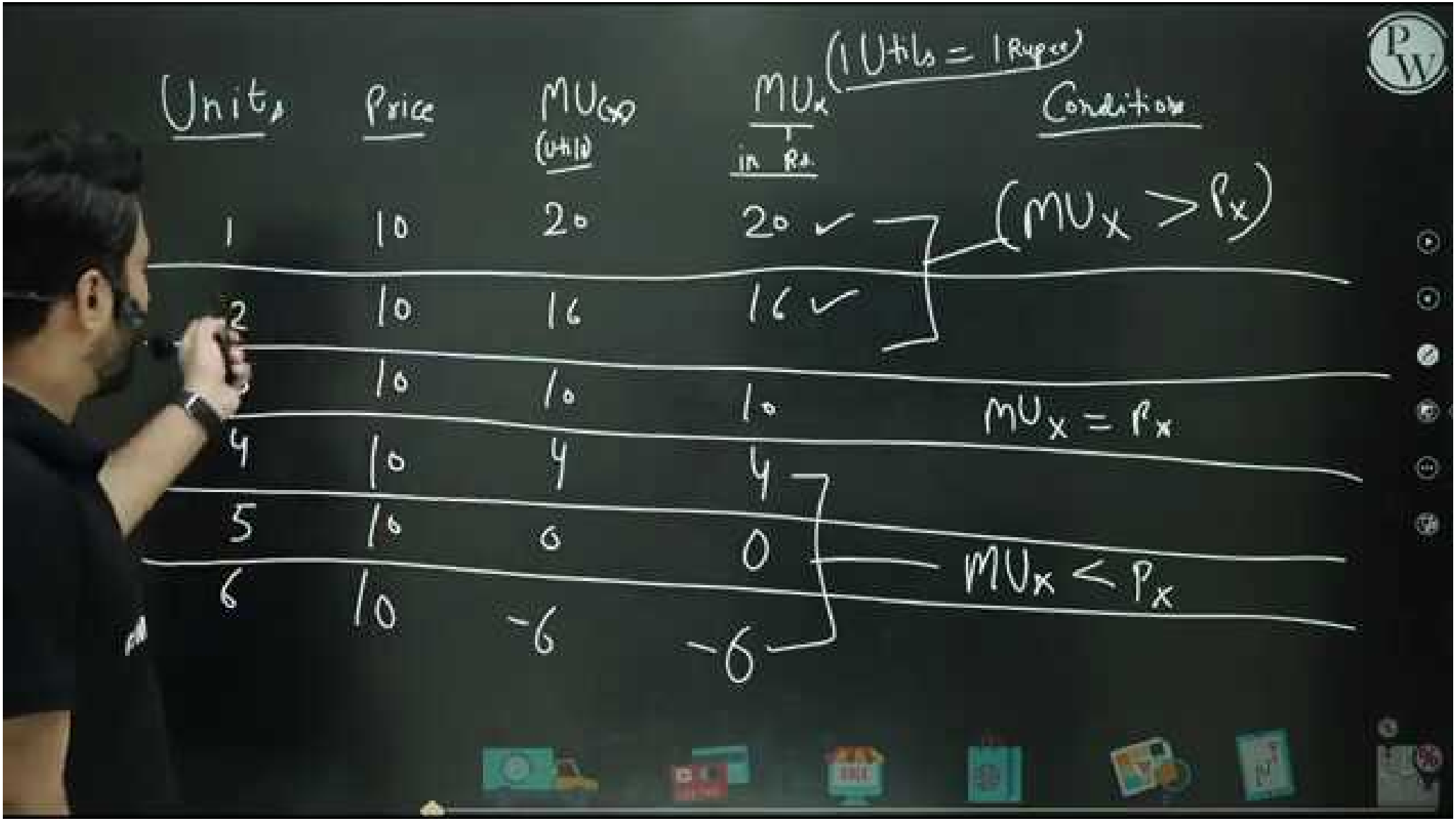
Price Spend = Total Satisfaction

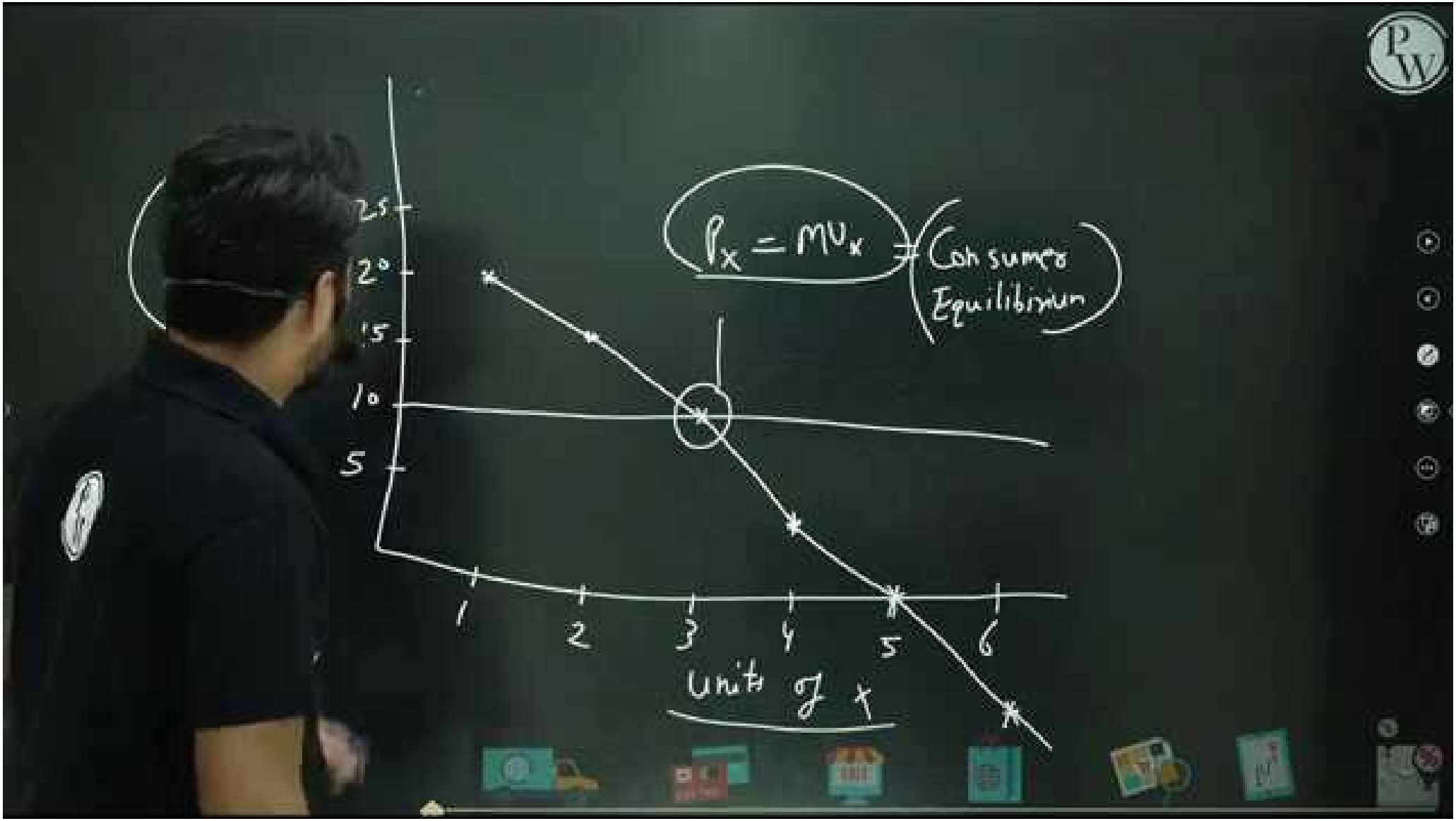
- Single Commodity
- Two Commodities

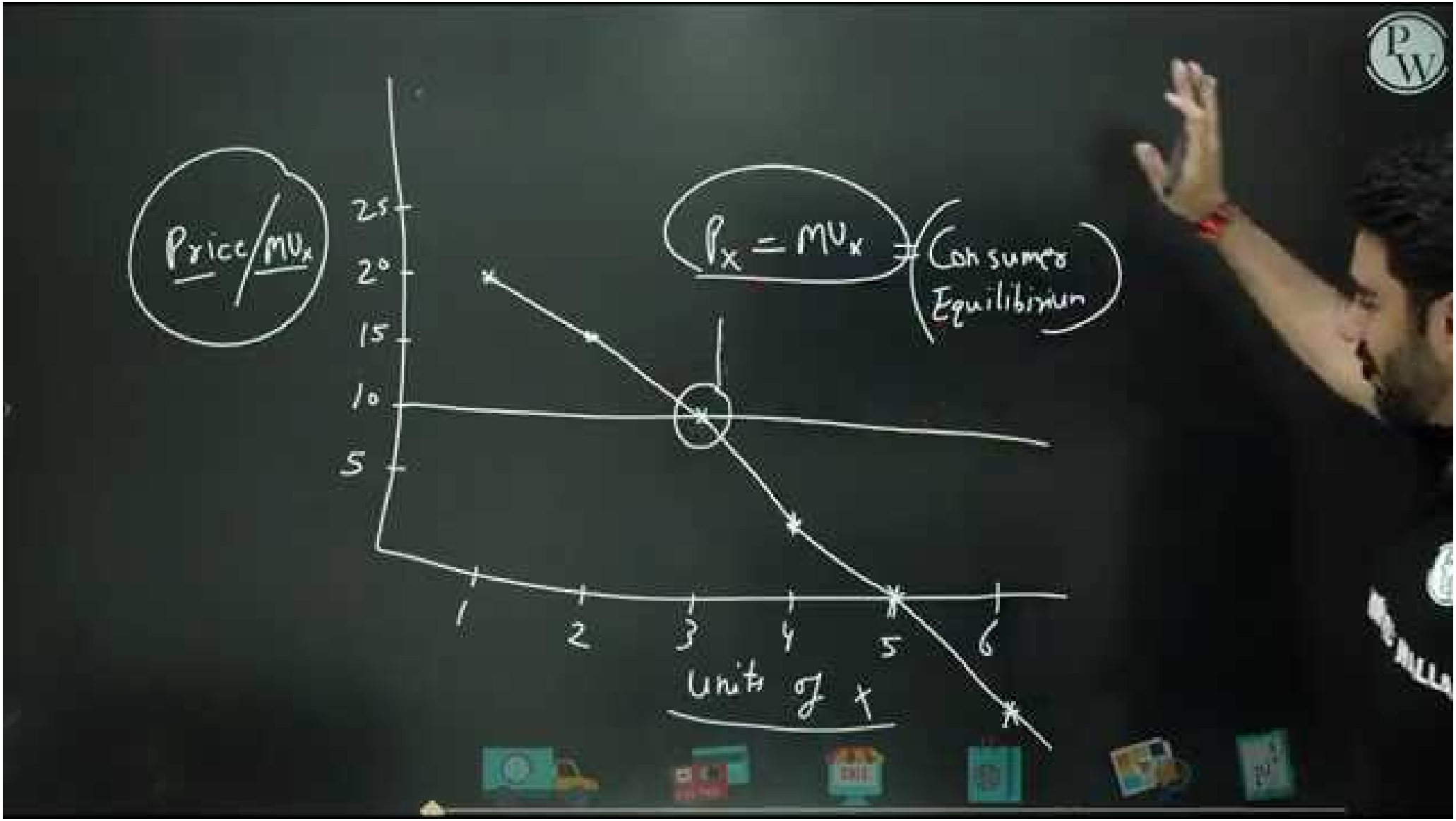

Single Commodity
Ideal Stage
$P_x = MU_x$
If $MU_x > P_x$ ⇒ will start consuming more commodities
$\uparrow x$ = Consumption ↑ = Satisfaction ↓
$MU \downarrow$

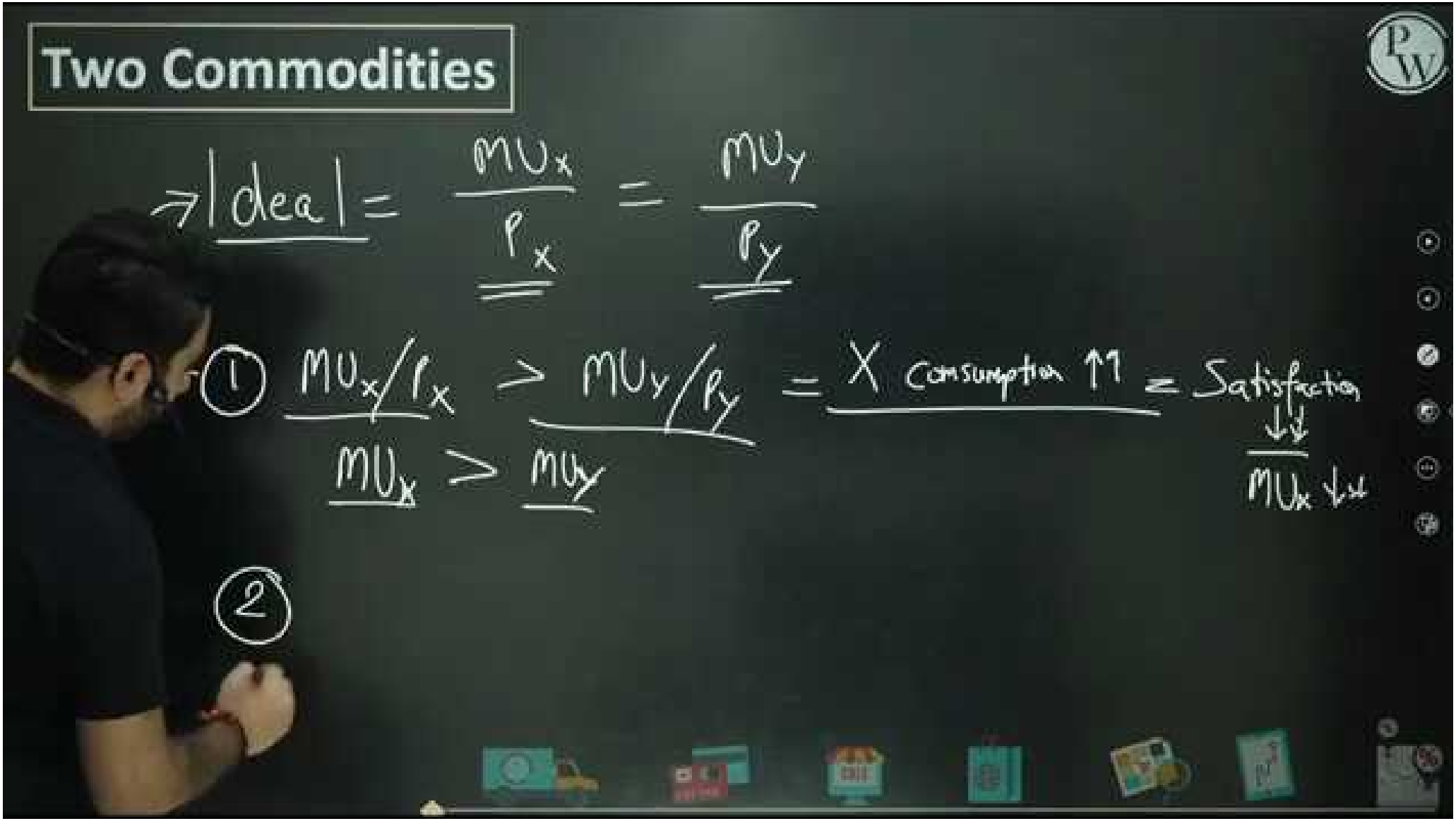

Single Commodity
Ideal Stage
$P_x = MU_x$
(1) $MU_x > P_x$ ⇒ will start consuming more commodities of X
= Consumption ↑ = Satisfaction ↓ MU ↓
(2) $MU_x < P_x$ ⇒ will start consuming less units of Commodity X
Consumption ↓
Satisfaction ↑ ↑ (MU)

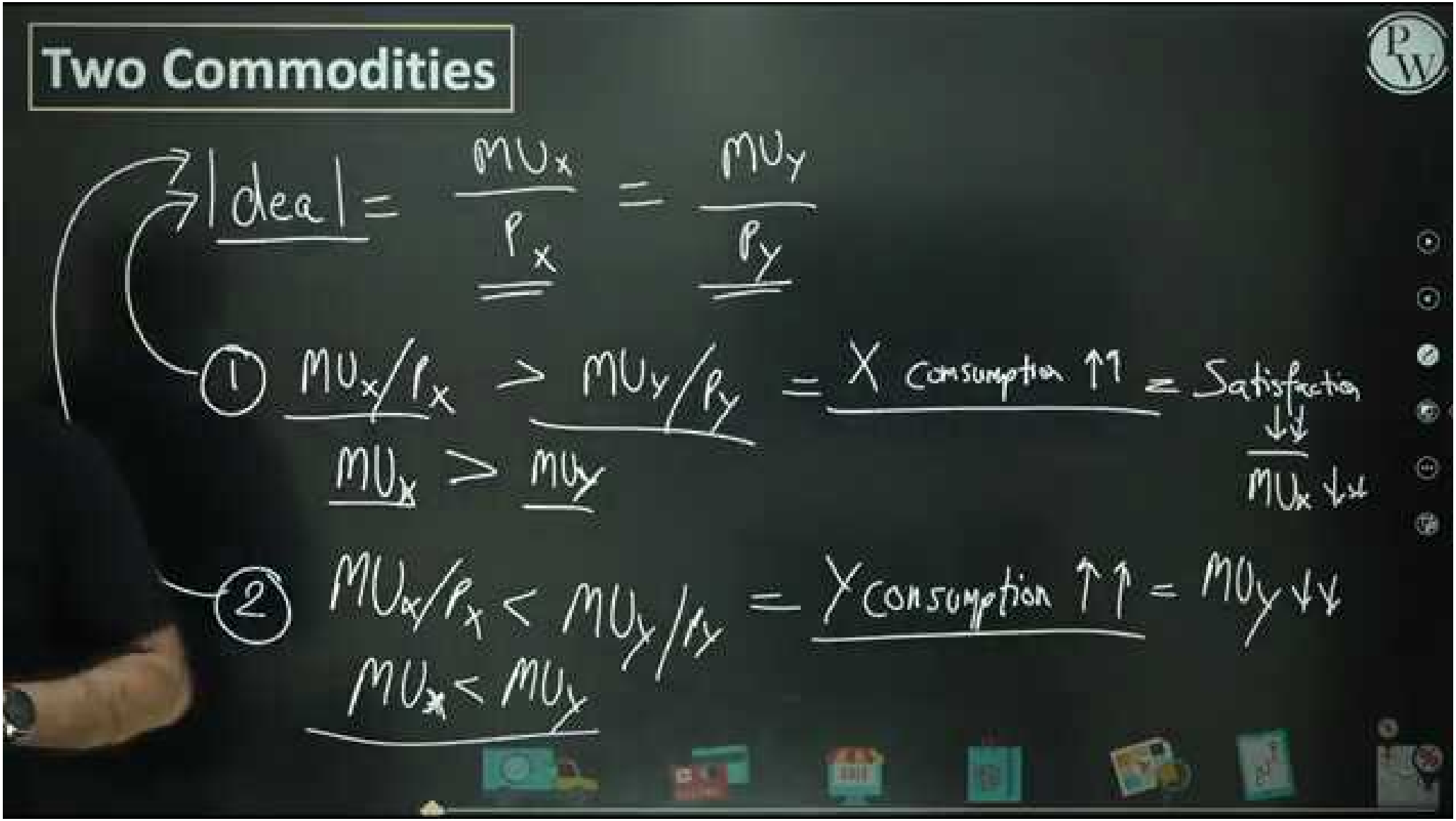

(1 Utils = 1 Rupee)
Units
Price
MUGood (Utils)
MUx in Rs
Condition
1 10 20 20
2 10 16 16
(MUx > Px)
3 10 10 10
MUx = Px
4 10 4 4
5 10 0 0
6 10 -6 -6
MUx < Px

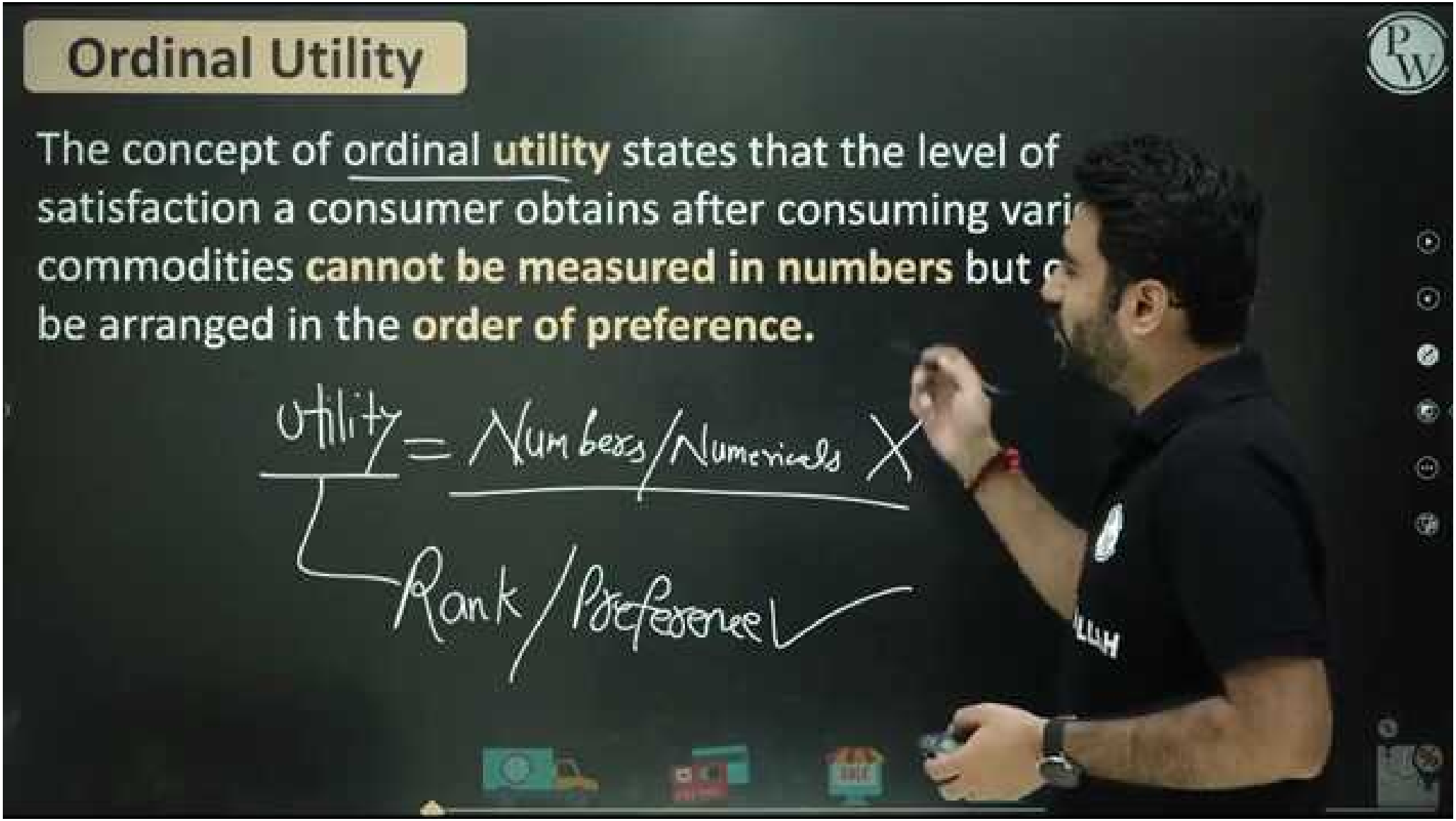

(1 Utils = 1 Rupee)
Units
Price
MUx (Utils)
MUx in Rs.
Conditions
1 10 20 20
2 10 16 16
3 10 10 10
4 10 4 4
5 10 0 0
6 10 -6 -6
(MUx > Px)
MUx = Px
MUx < Px


$P_x = MU_x$
Consumer Equilibrium
25
20
15
10
5
1
2
3
4
5
6
Units of X


Price/MUx
25
20
15
10
5
1
2
3
4
5
6
Units of x
Px = MUx ⇒ Consumer Equilibrium


Two Commodities
⇒ Ideal = MUx/Px = MUy/Py
① MUx/Px > MUy/Py = X consumption ↑↑ = Satisfaction ↓↓
MUx > MUy
MUx ↓↓
②


Two Commodities
Ideal = MUx/Px = MUy/Py
① MUx/Px > MUy/Py = X consumption ↑↑ = Satisfaction ↓↓
MUx > MUy
MUx ↓↓
② MUx/Px < MUy/Py = X consumption ↑↑ = MUy ↓↓
MUx < MUy

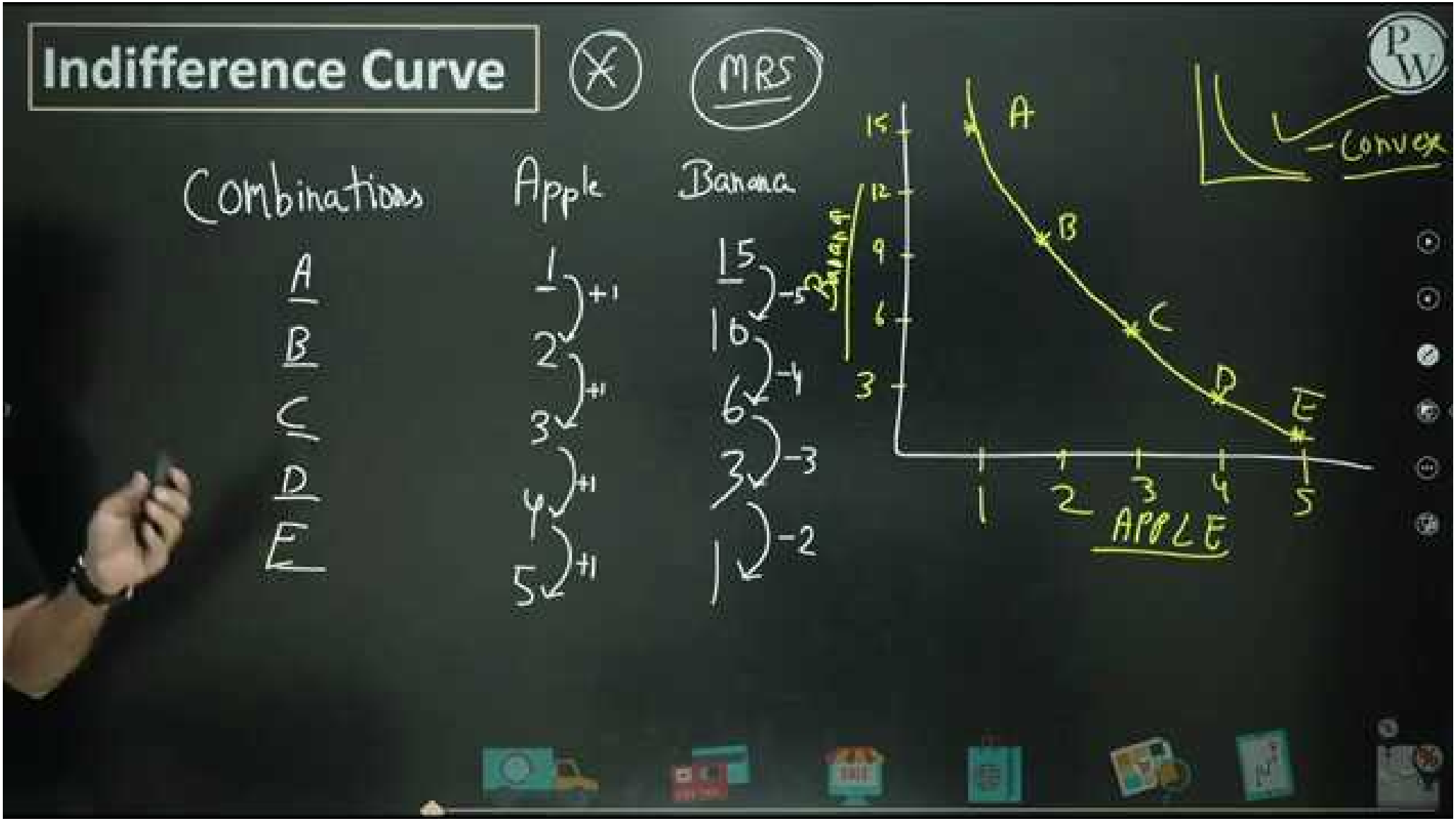

Ordinal Utility
The concept of ordinal utility states that the level of satisfaction a consumer obtains after consuming vari
commodities cannot be measured in numbers but
be arranged in the order of preference.
Utility = Numbers/Numericals
Rank/Preference

Ordinal Utility

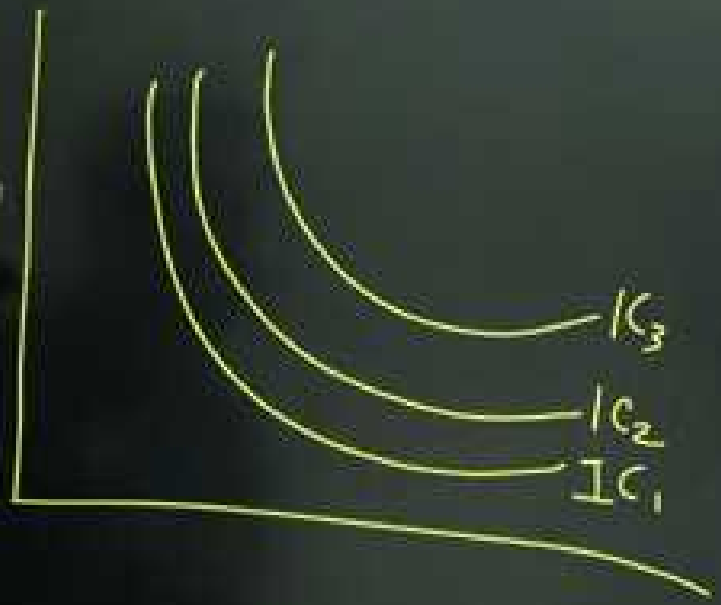
The concept of ordinal utility states that the level of satisfaction a consumer obtains after consuming various commodities **cannot be measured in numbers** but can be arranged in the **order of preference.**

Utility = Numbers/Numericals X

Rank/Preference


Indifference Curve
MRS
Combinations
Apple
Banana
A
B
C
D
E
1
2
3
4
5
+1
+1
+1
+1
15
10
6
3
1
-5
-4
-3
-2
Banana
15
12
9
6
3
A
B
C
D
E
1
2
3
4
5
APPLE
Convex

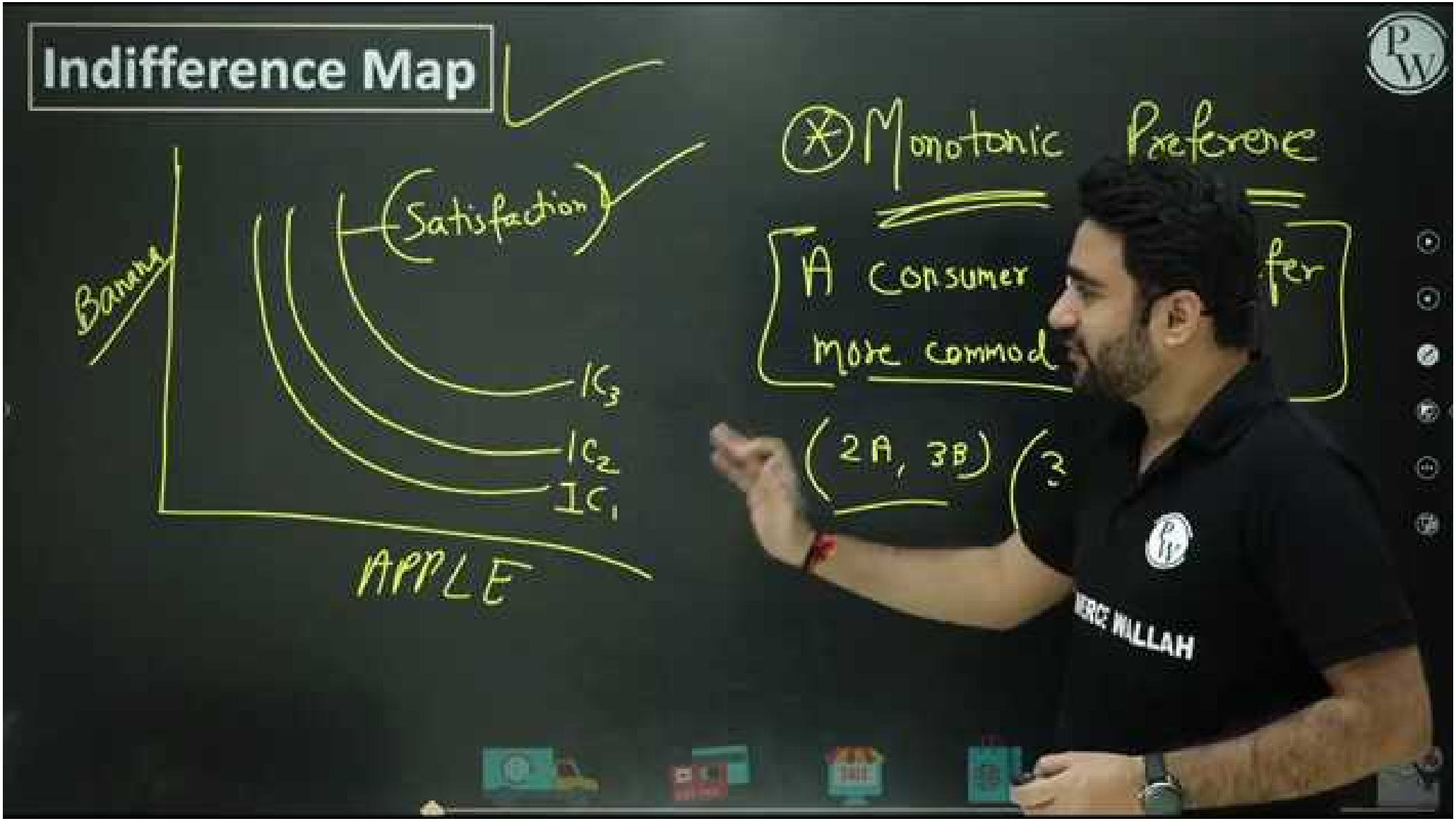
Indifference Map

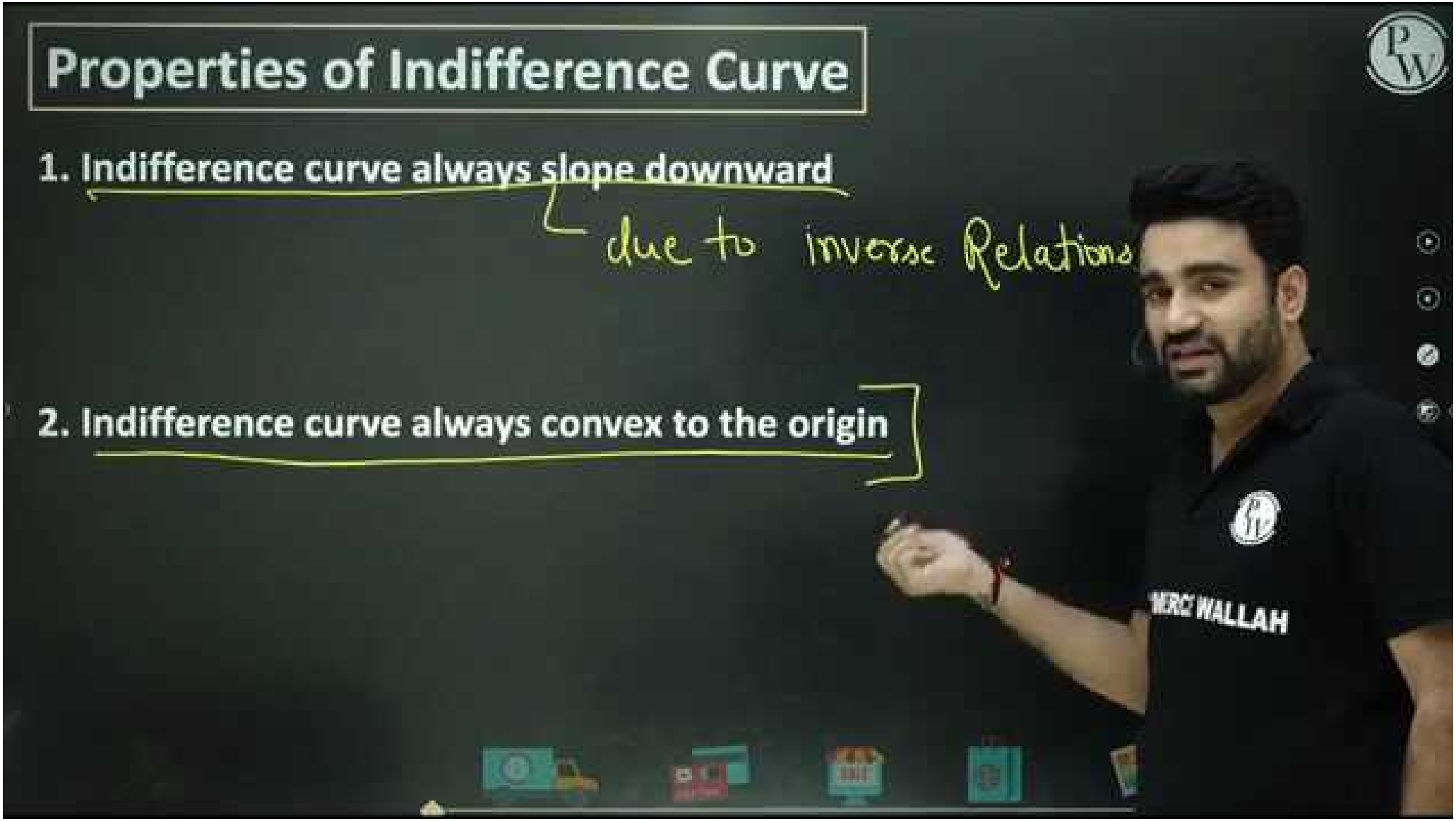


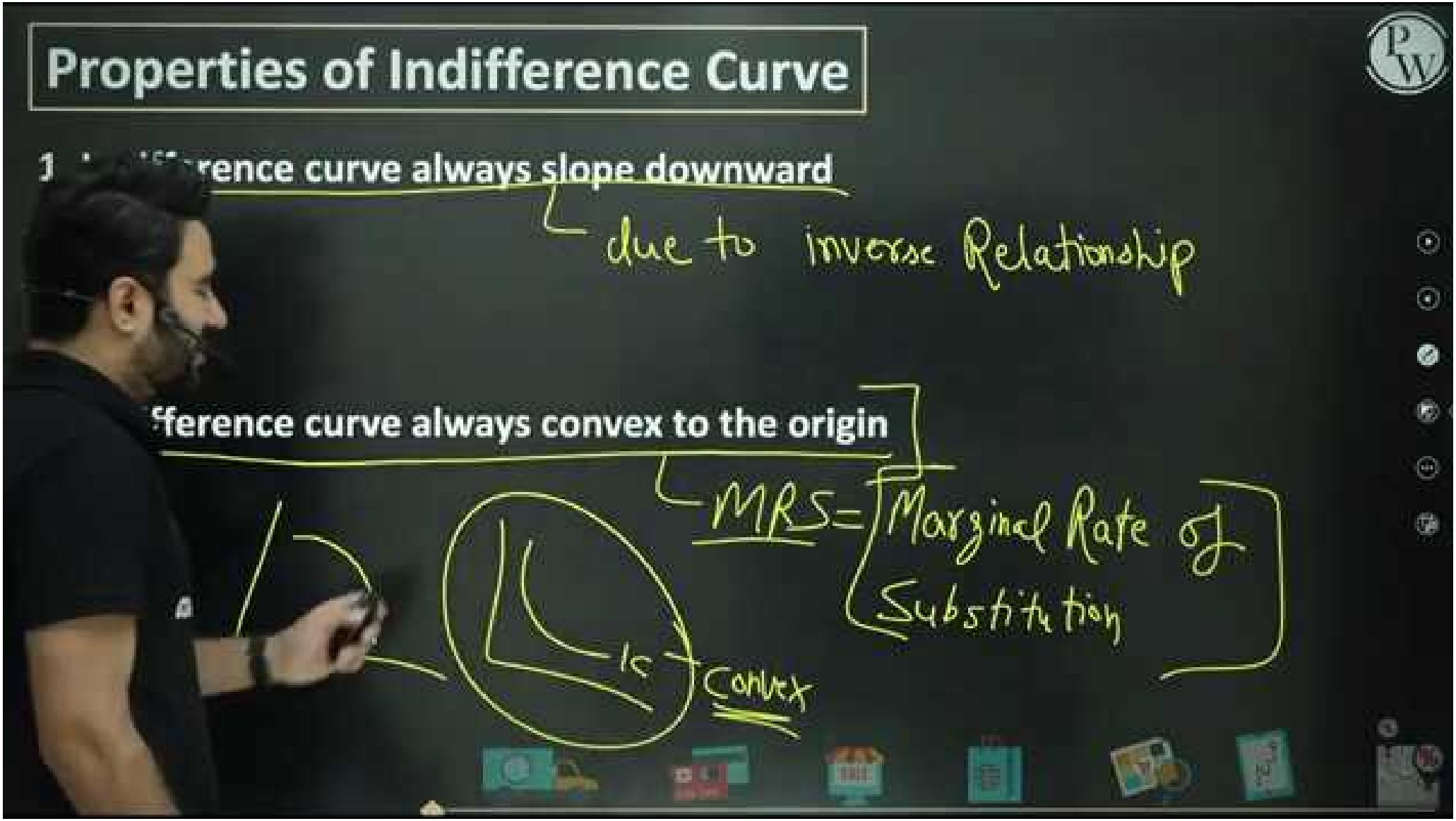
Monotonic Preference

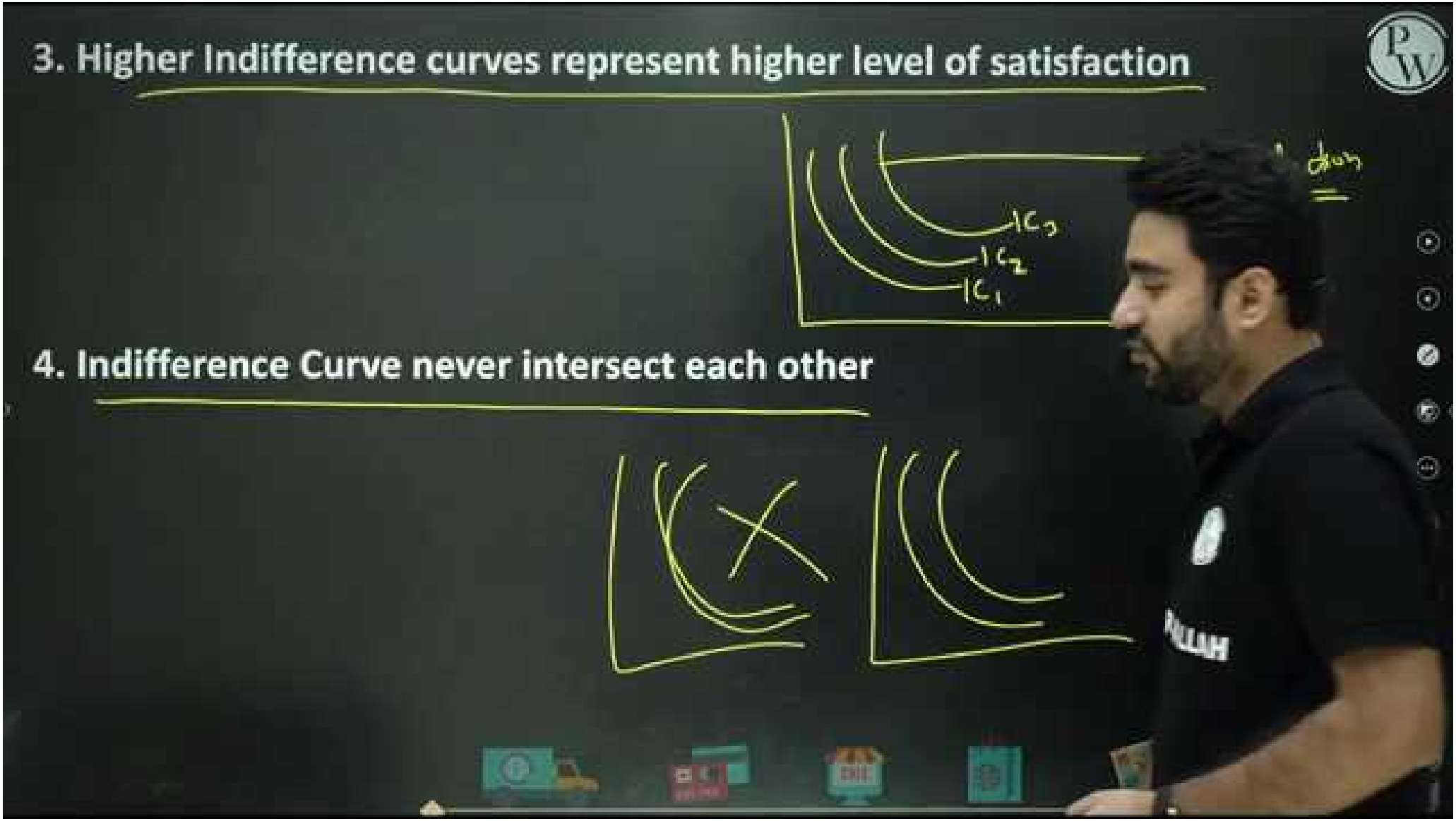
A consumer always prefer more commodity.

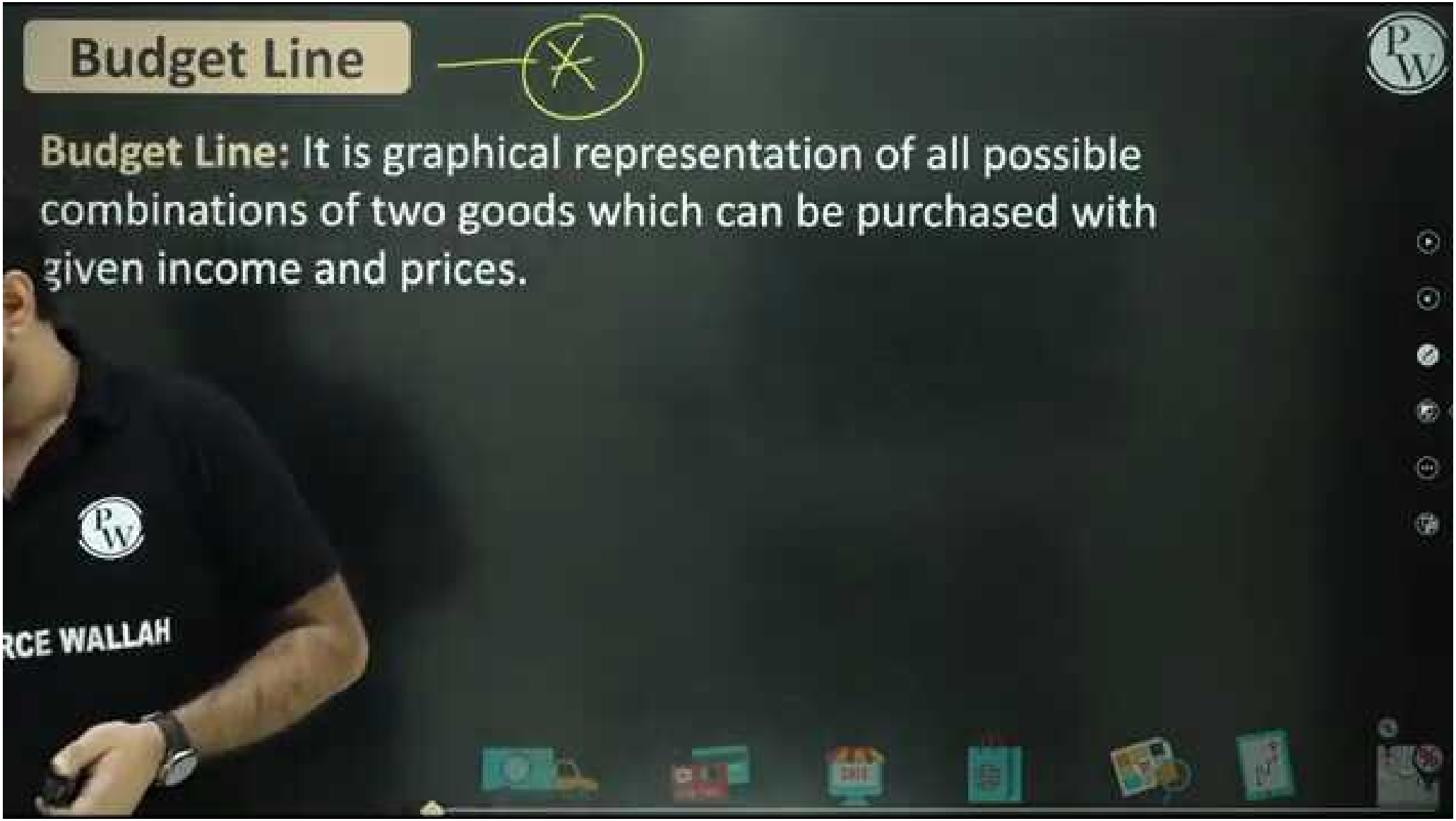
(2A, 3B) (3A, 3B) (4A, 4B)

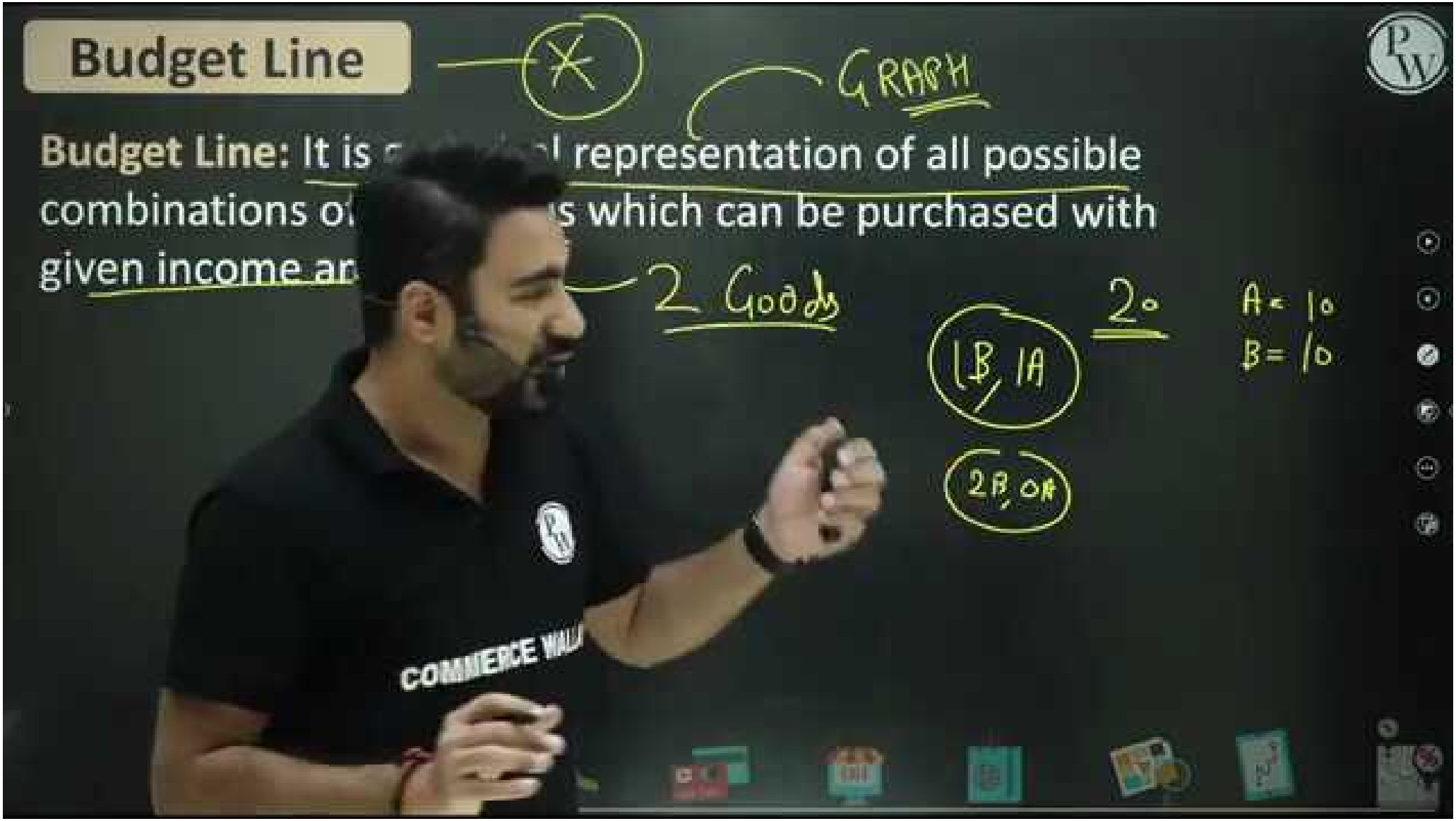

Indifference Map
Satisfaction
Bananas
IC3
IC2
IC1
APPLE
Monotonic Preference
A consumer
more commod
fer
(2A, 3B)
(3
ERE WALLAH

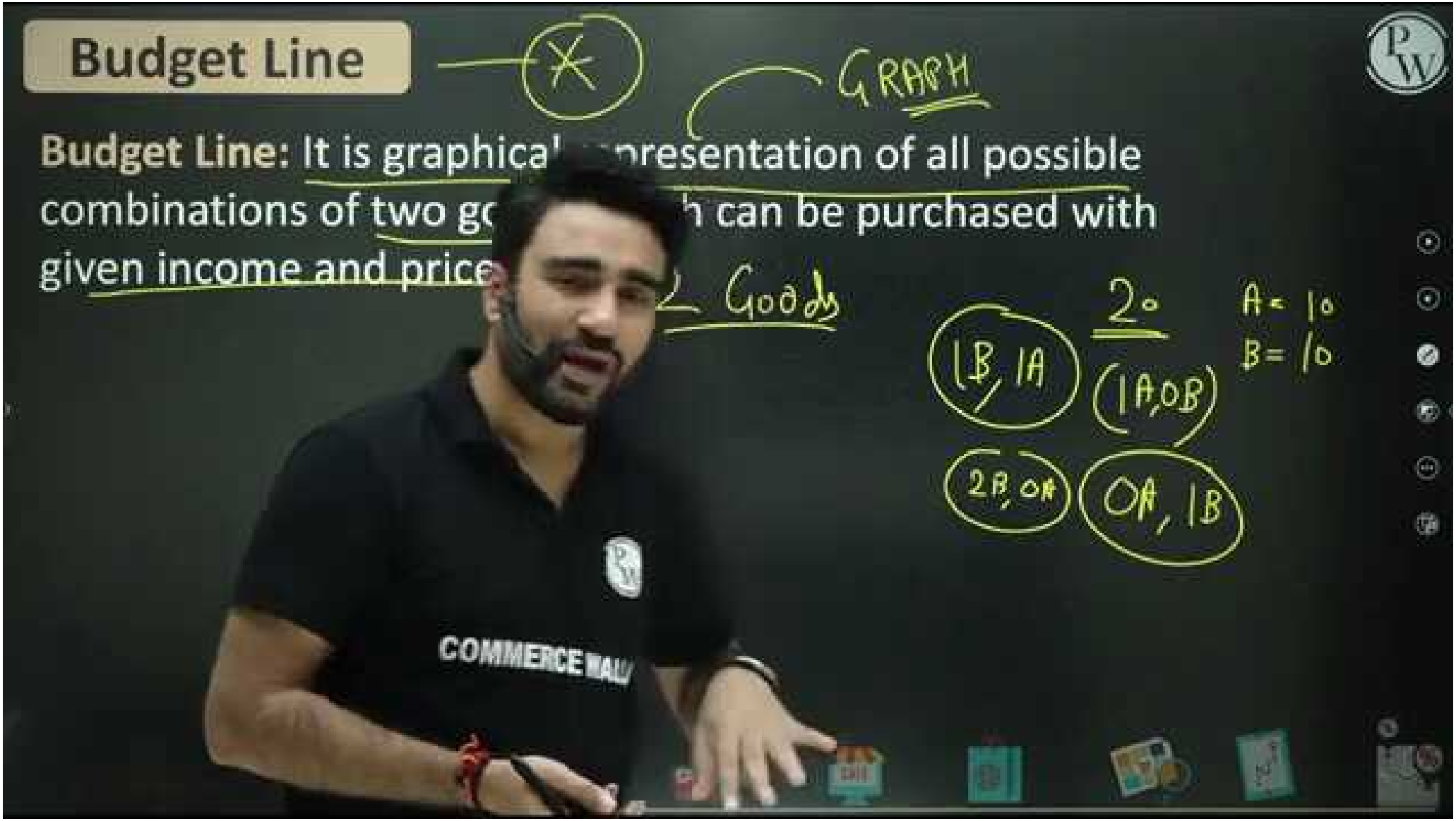

Properties of Indifference Curve
1. Indifference curve always slope downward
due to inverse Relations
2. Indifference curve always convex to the origin
WALLAH

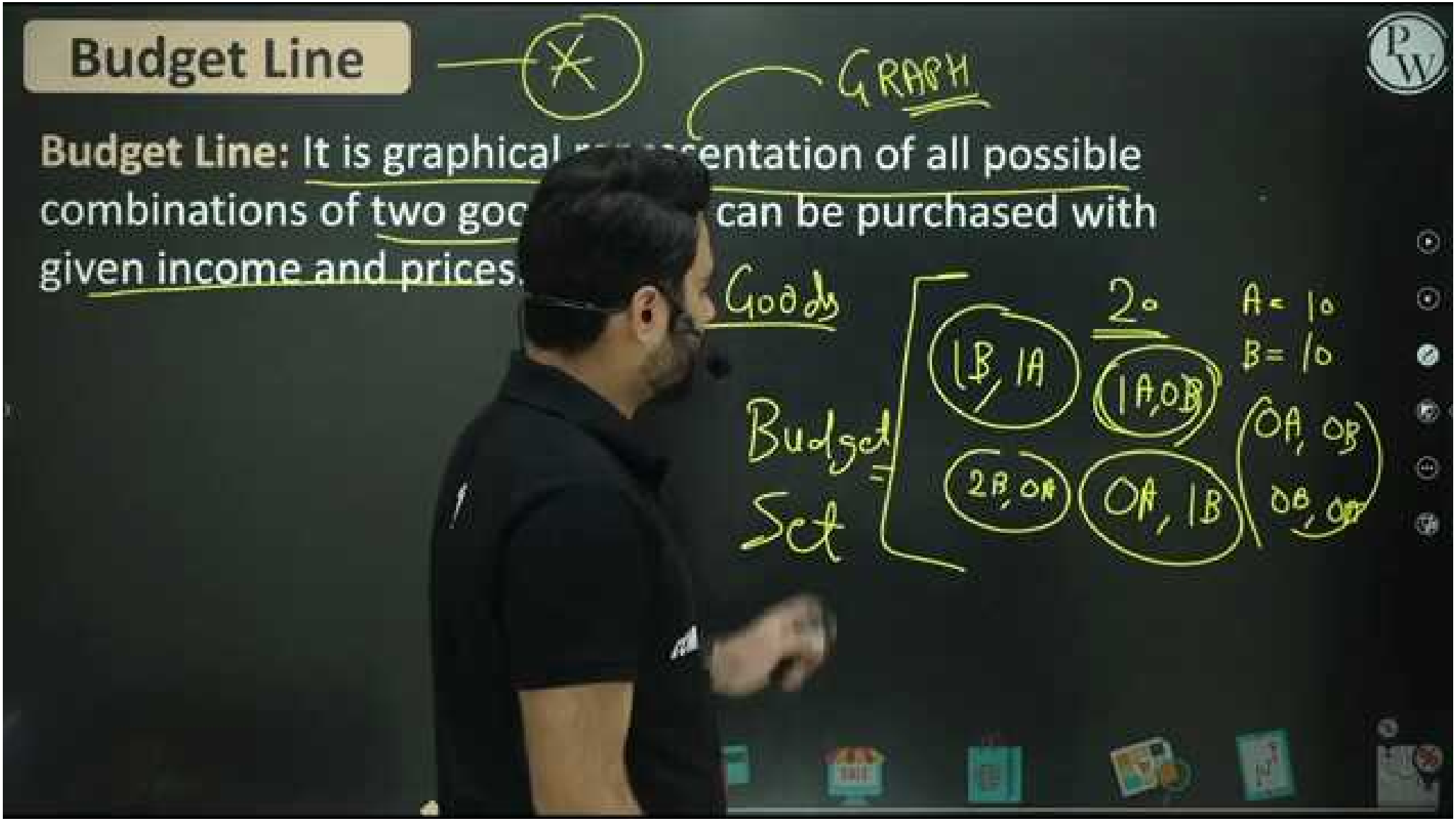

Properties of Indifference Curve
rence curve always slope downward
due to inverse Relationship
fference curve always convex to the origin
MRS = Marginal Rate of Substitution
IC
convex


3. Higher Indifference curves represent higher level of satisfaction
IC3
IC2
IC1
4. Indifference Curve never intersect each other


Budget Line
Budget Line: It is graphical representation of all possible combinations of two goods which can be purchased with given income and prices.
RCE WALLAH


Budget Line
GRAPH
Budget Line: It is
representation of all possible
combinations of
s which can be purchased with
given income ar
2 Goods
2
LB, IA
2B, OA
A = 10
B = 10
COMMERCE WALL


Budget Line
GRAPH
Budget Line: It is graphical presentation of all possible
combinations of two go h can be purchased with
given income and price
2 Goods
2∘
A = 10
B = 10
(B, IA
(IA, OB
2B, OA
OA, IB
COMMERCE WALA


Budget Line
GRAPH
Budget Line: It is graphical ...entation of all possible
combinations of two goo... can be purchased with
given income and prices.
Goods
Budget Set
2o
A = 1o
B = 1o
1B, 1A
1A, oB
2B, oA
oA, 1B
oA, oB
oB, oA

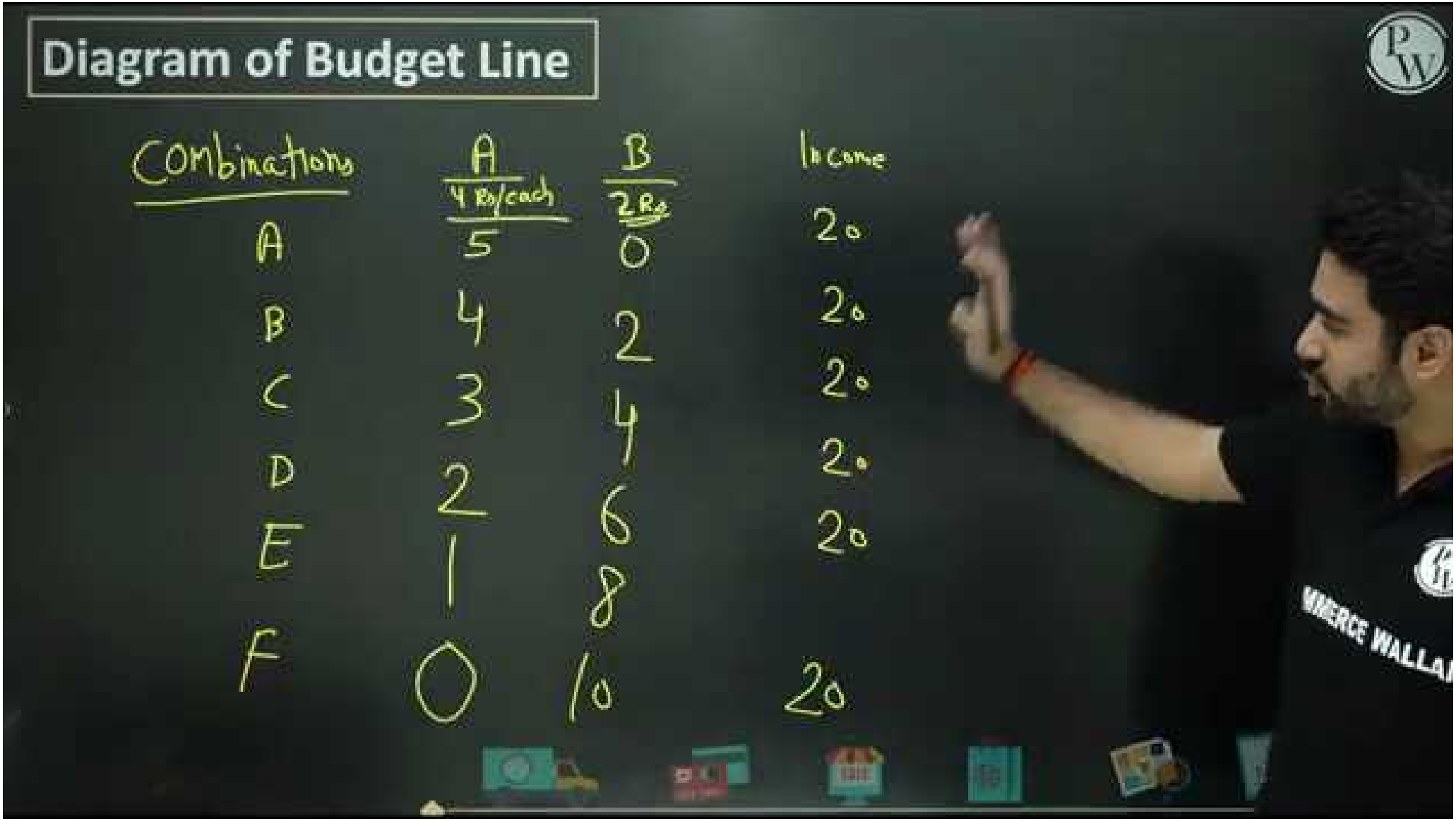


Diagram of Budget Line
Combinations
A
4 Rs/each
B
2 Rs
Income
A 5 0 20
B 4 2 20
C 3 4 20
D 2 6 20
E 1 8
F 0 10 20

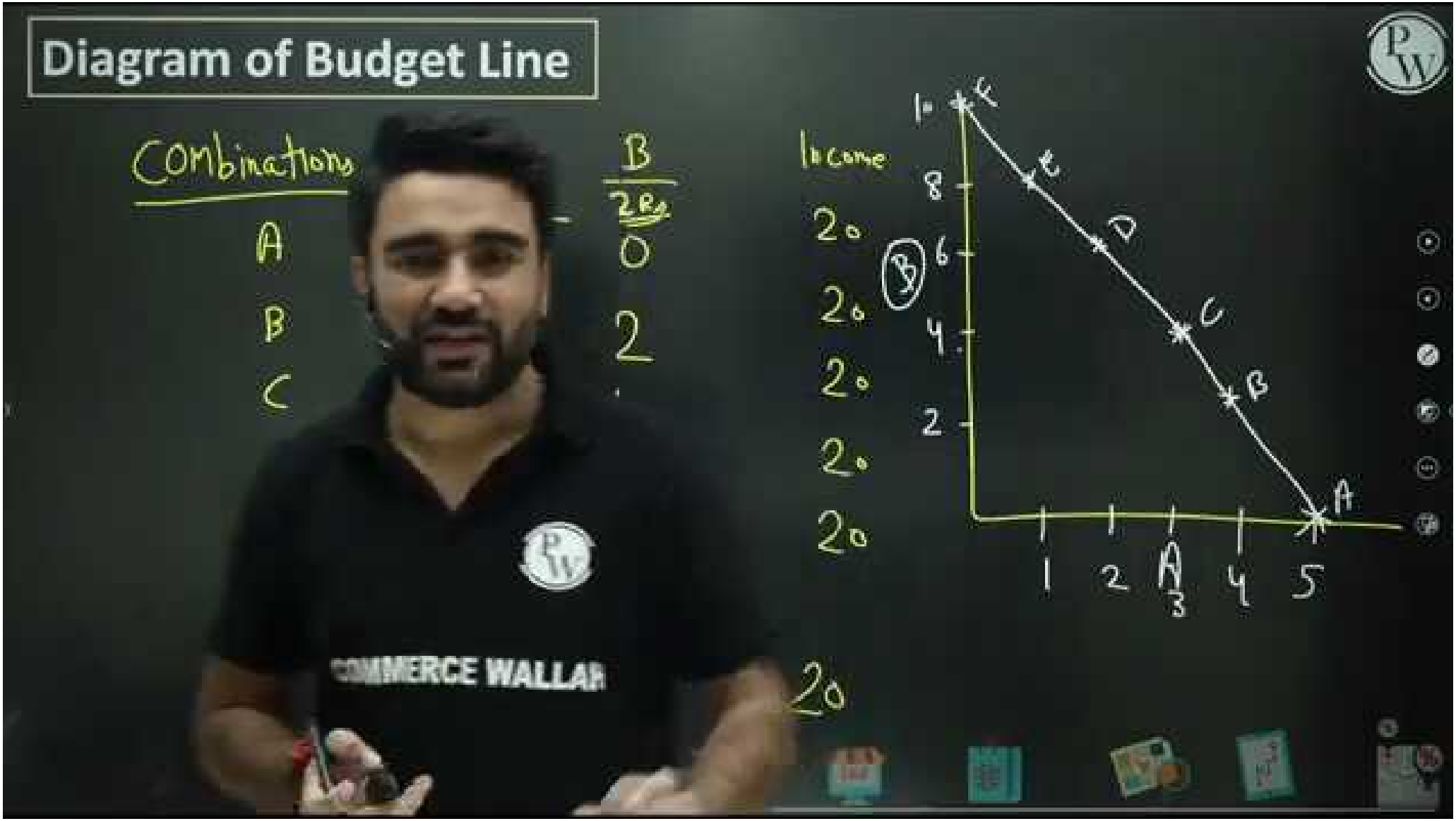
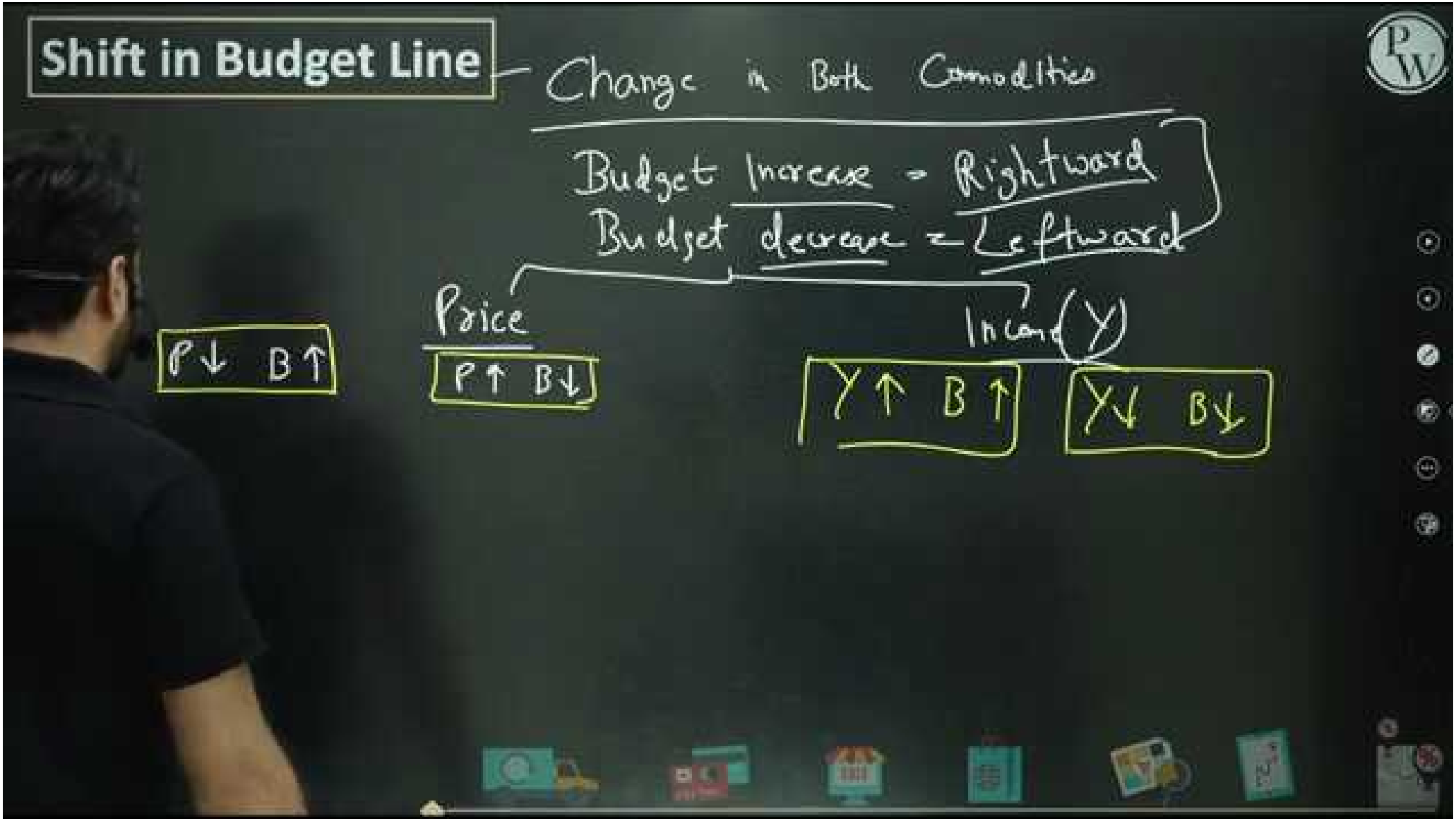
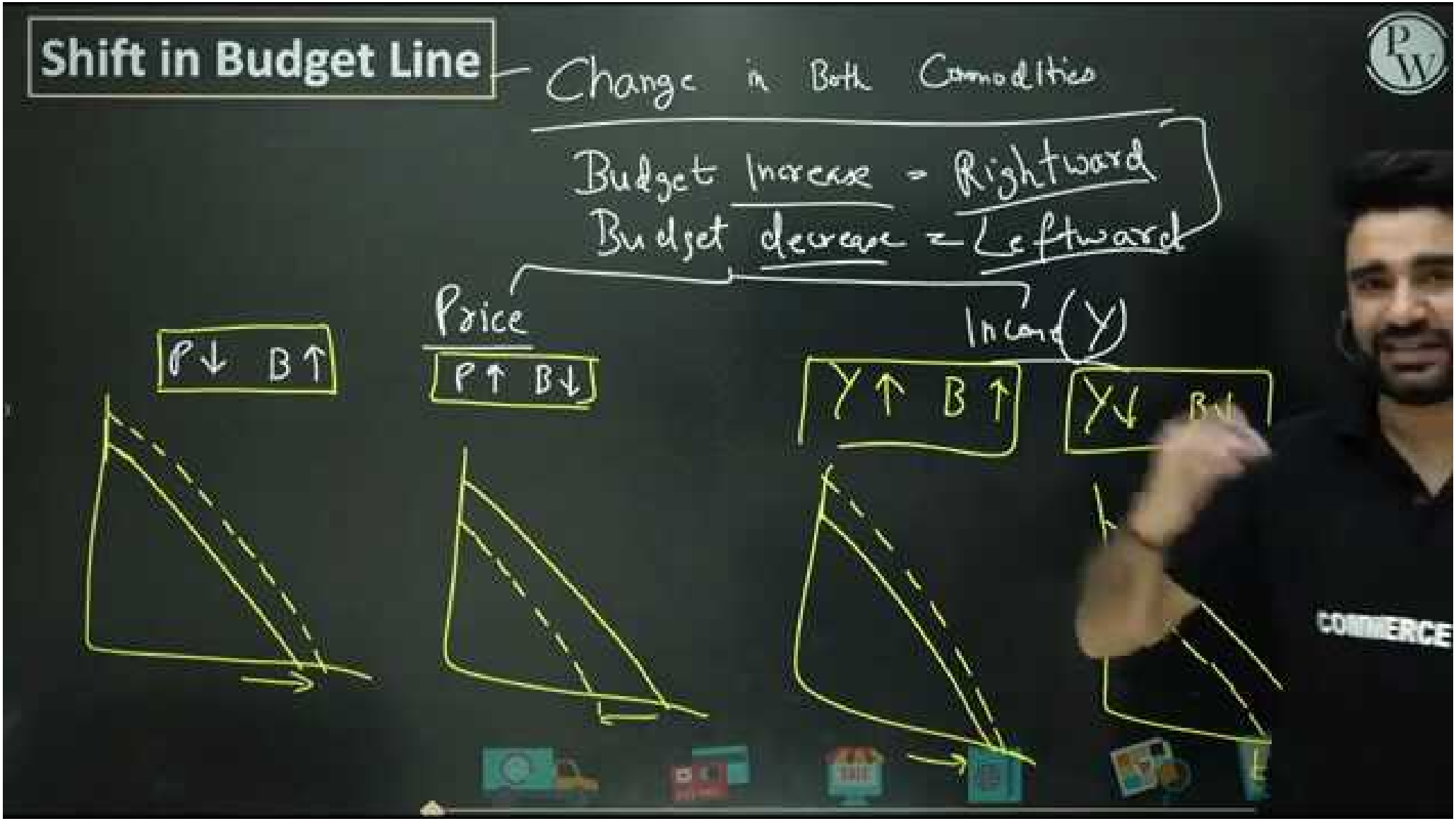


Diagram of Budget Line
Combinations
A
B
C
B
2Rs
0
2
20
Income
20
20
20
20
20
(B)
10
8
6
4
2
E
D
C
B
A
1
2
3
4
5


Shift in Budget Line
Change in Both Commodities
Budget Increase = Rightward
Budget decrease = Leftward
Price
P↓ B↑
P↑ B↓
Income (Y)
Y↑ B↑
Y↓ B↓


Shift in Budget Line
Change in Both Commodities
Budget Increase = Rightward
Budget decrease = Leftward
Price
P↓ B↑
P↑ B↓
Income (Y)
Y↑ B↑
Y↓ B↓
COMMERCE

Shift in Budget Line

Change in Both Commodities

Budget Increase = Rightward

Budget decrease = Leftward

Price

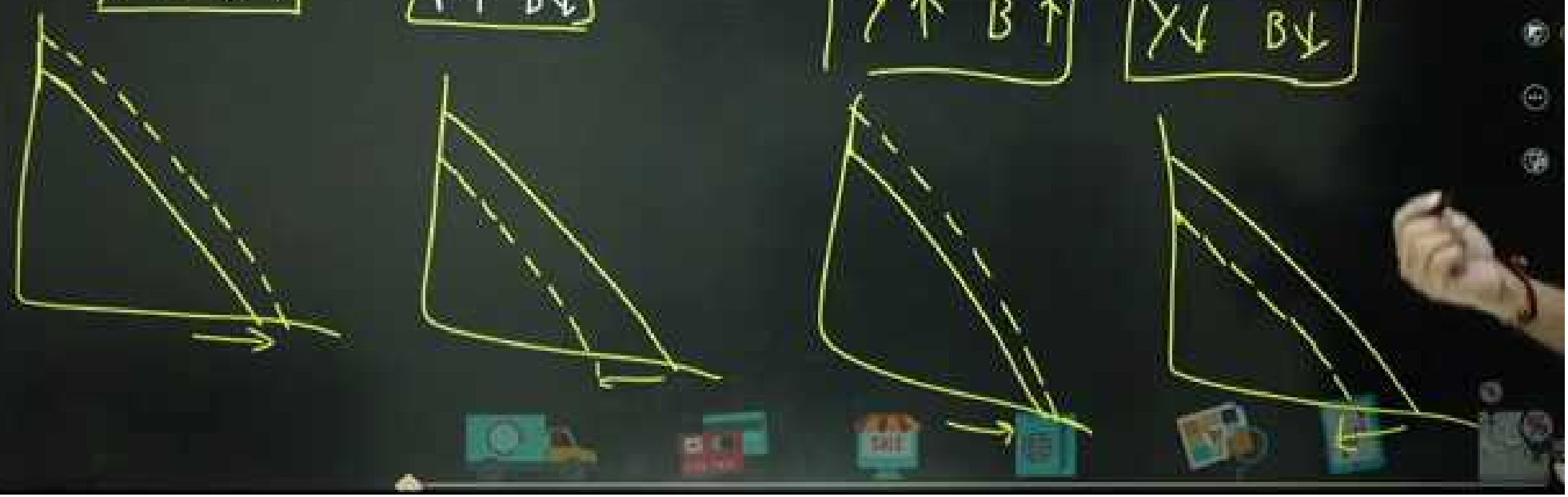
P↓ B↑

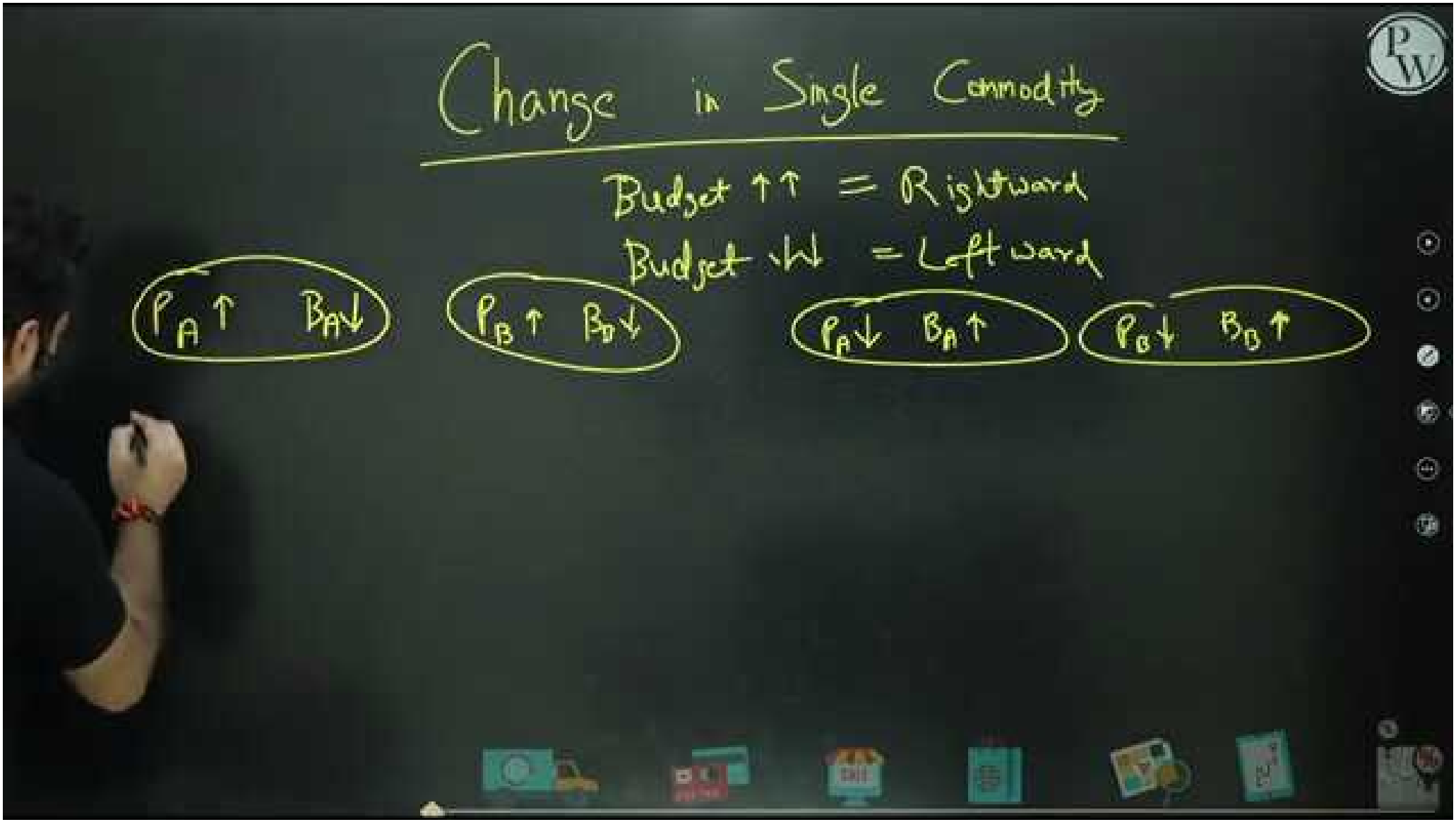
P↑ B↓

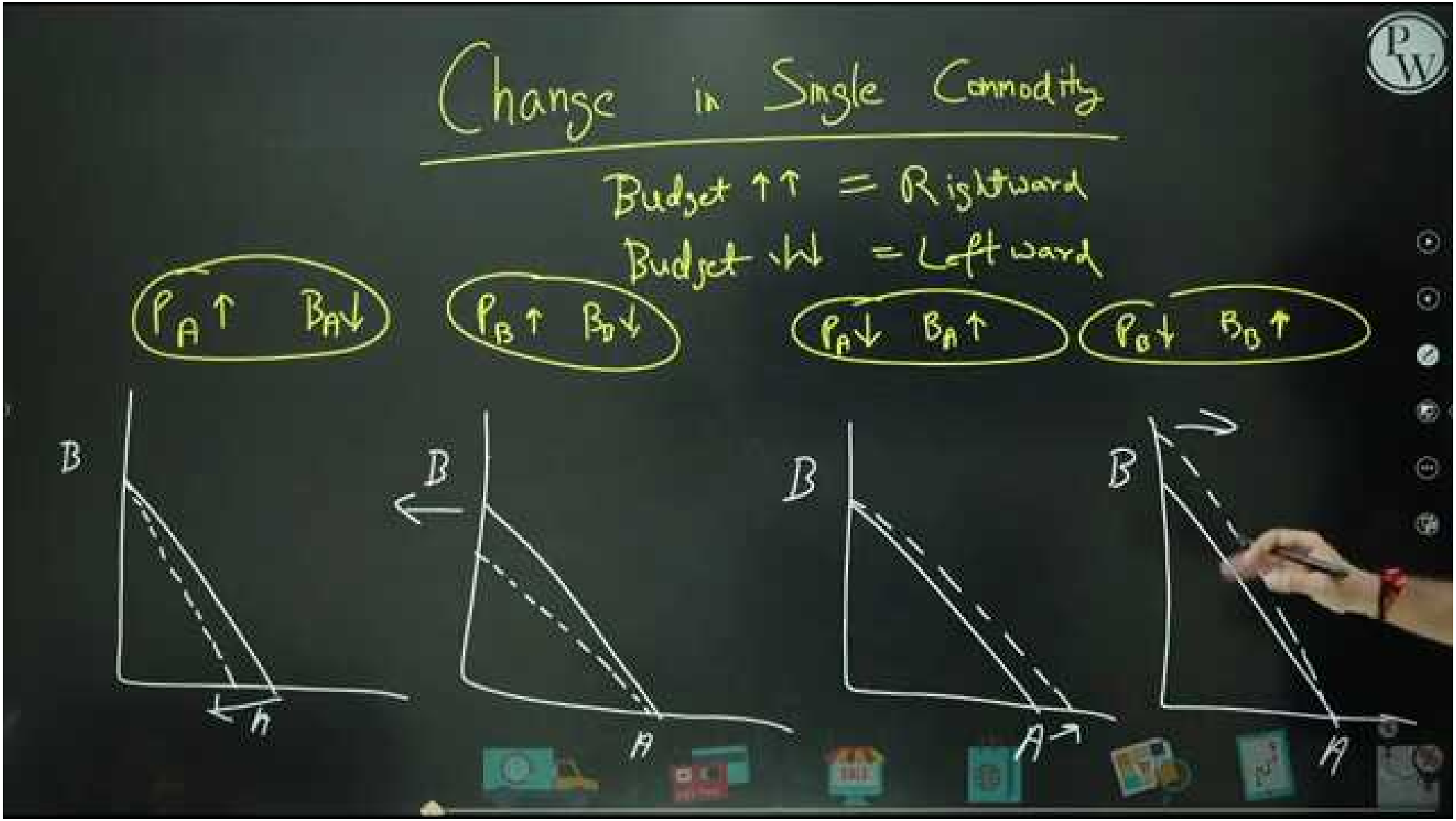
Income (Y)

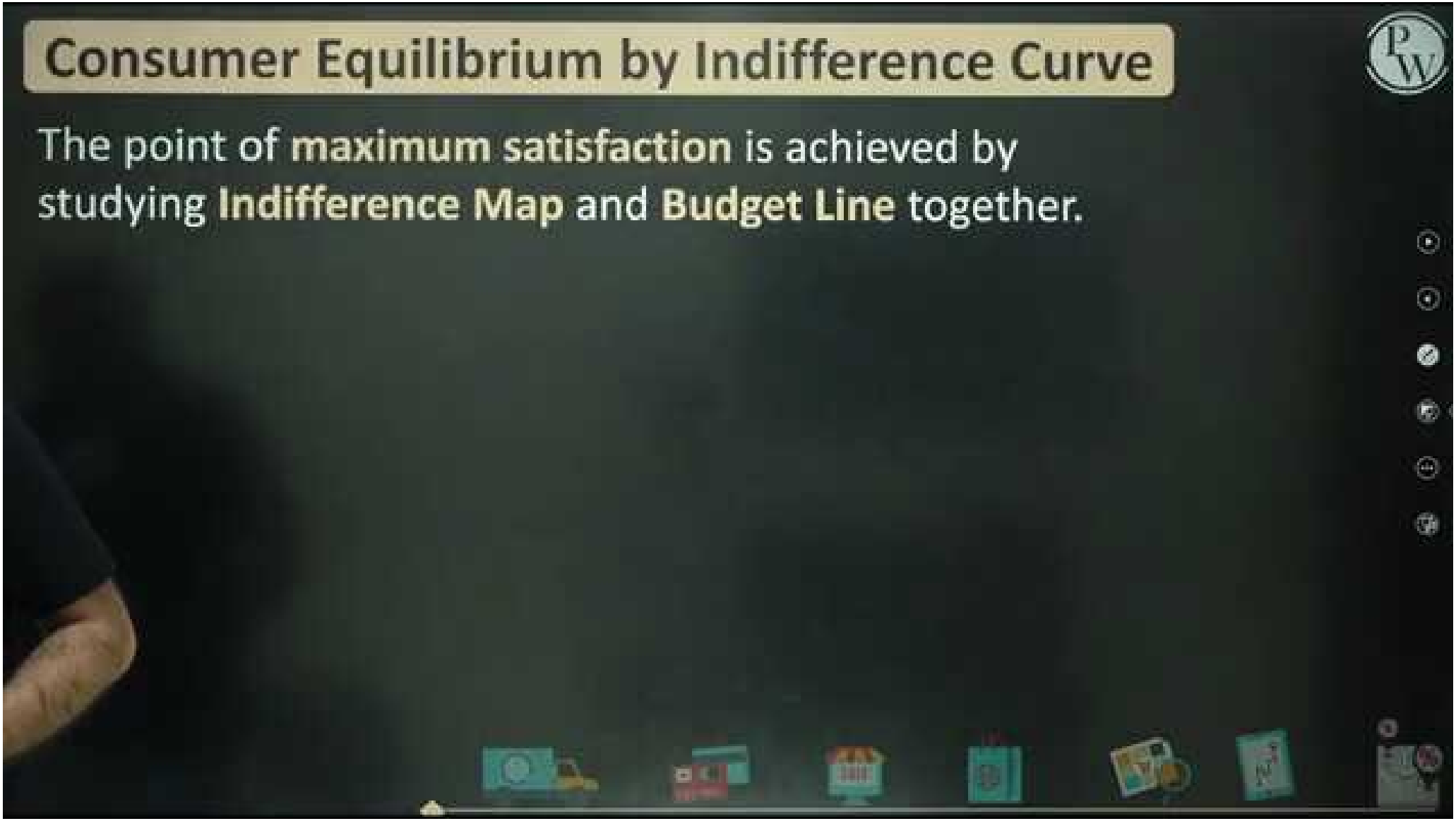
Y↑ B↑

Y↓ B↓




Change in Single Commodity
Budget ↑↑ = Rightward
Budget ↓↓ = Leftward
P_A↑ B_A↓
P_B↑ B_B↓
P_A↓ B_A↑
P_B↓ B_B↑


Change in Single Commodity
Budget ↑↑ = Rightward
Budget ↓↓ = Leftward
P_A↑ B_A↓
P_B↑ B_B↓
P_A↓ B_A↑
P_B↓ B_B↑
B
A
B
A
B
A
B
A


Consumer Equilibrium by Indifference Curve
The point of maximum satisfaction is achieved by studying Indifference Map and Budget Line together.

Consumer Equilibrium by Indifference Curve

The point of **maximum satisfaction** is achieved by studying **In** **.e Map** and **Budget Line** together.

Idea Condition

$$MRS_{XY} = \frac{P_X}{P_Y}$$

① $MRS_{XY} > \frac{P_X}{P_Y}$ (Consumers are ready to pay more for X)

② $MRS_{XY} < \frac{P_X}{P_Y}$ (Consumers are ready to pay more for X)