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PRESIDENCY COLLEGE
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Microeconomics

Cardinal Utility

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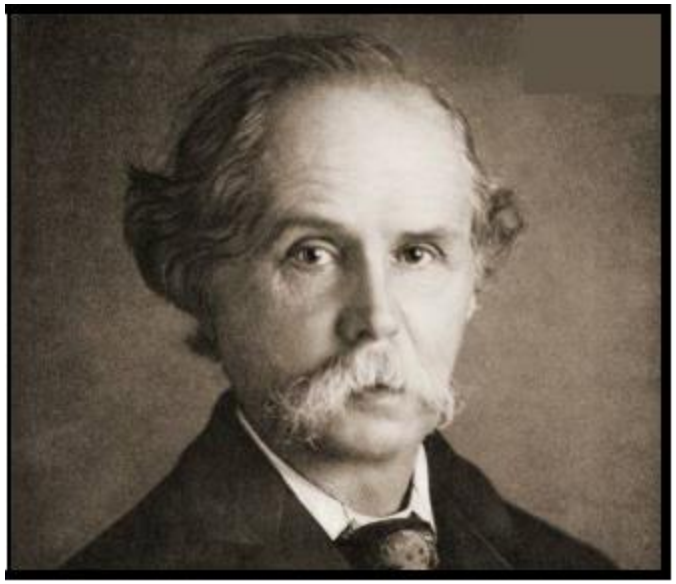
Sir Alfred Marshall

"Utility Measured in Numbers"



"The Most Valuable of all Capital is that invested in Human Beings"

CONSUMER'S EQUILIBRIUM

How does a consumer decide as to how much to buy of a good?

(a) The price he pays for each unit

(b) The utility he derives on consuming

$$MU_x = P_x$$

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If Price per Unit is Rs. 10, Derive Consumer Equilibrium.

Consumption	Total Utility
1	20
2	36
3	46
4	50
5	50
6	48

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Consumer's Equilibrium

Consumption (Units of X)	Price (₹) (P_X)	MU_X (Utils)
1	10	20
2	10	16
3	10	10
4	10	4
5	10	0
6	10	–2

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Decision to consume more!

- If $MU_x > P_x$, _____
- If $MU_x = P_x$, _____
- If $MU_x < P_x$, _____

Consumer's Equilibrium

Consumption (Units of X)	Price (₹) (P_X)	MU_X (Utils)	MU_X(₹) (1 Util = Re. 1)	Difference	Remarks
1	10	20	20/1 = 20	10	$MU_x > P_x$, consumer will increase the consumption
2	10	16	16/1 = 16	6	
3	10	10	10/1 = 10	0	$MU_x = P_x$, consumer's equilibrium
4	10	4	4/1 = 4	–6	$MU_x < P_x$, consumer will decrease the consumption
5	10	0	0/1 = 0	–10	
6	10	–2	–2/1 = –2	–12	

Two or More Commodities

$$MU_x / P_x = MU_y / P_y = MU_z / P_z$$

Conditions:

1. Marginal utility of the last rupee of expenditure on each good is the same.

2. Marginal utility of a good falls as more of it is consumed.

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Calculate Consumer Equilibrium.

Units	Total Utility (X)	Total Utility (Y)
1	20	24
2	38	45
3	54	63
4	68	78
5	80	90
6	90	99
Total Budget	Rs. 24	
Price/ Unit	Rs. 2	Rs. 3

Two Commodities Case:

Units	MU_X	MU_Y
1	20	24
2	18	21
3	16	18
4	14	15
5	12	12
6	10	9

- Price Per unit of X is Rs. 2
- Price Per unit of Y is Rs. 3
- Overall Budget is Rs. 24

Calculate the Equilibrium.

Units	MU_X	MU_X/P_x (A Rupee worth) of MU	MU_Y	MU_Y/P_Y (A Rupee worth) of MU
1	20	20/2 = 10	24	24/3 = 8
2	18	18/2=9	21	21/3=7
3	16	16/2 = 8	18	18/3=6
4	14	14/2 = 7	15	15/3 = 5
5	12	12/2 = 6	12	12/3 = 4
6	10	10/2=5	9	9/3=3

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Ordinal Utility
Indifference Curve

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Sir John Richard Hicks

" The best of all monopoly profits is a quiet life"

Indifference Curve: (Preference)

Combinations	Good X (Units)	Good Y (Units)
A	1	8
B	2	4
C	3	2
D	4	1

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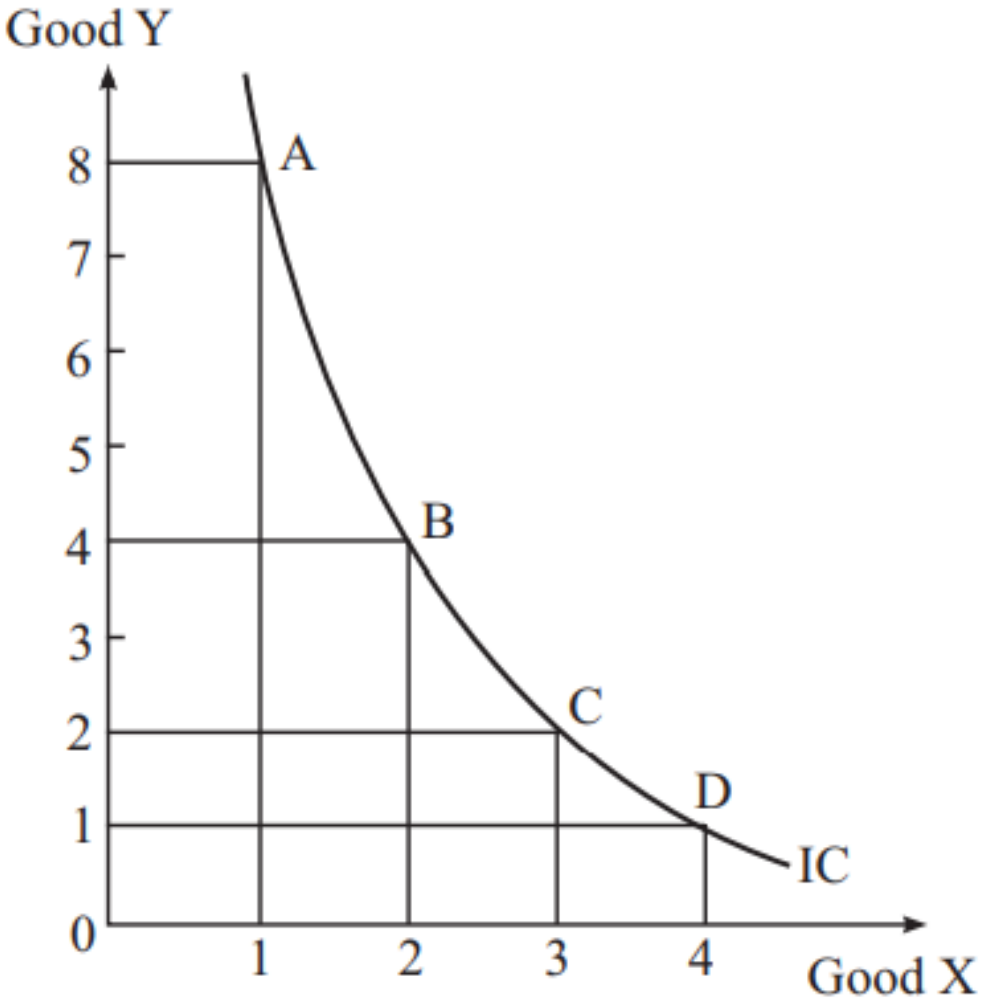
Marginal Rate of Substitution



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