

PRESIDENCY COLLEGE (Autonomous)





Reaccredited by NAAC with A+

Utility Analysis

Cardinal and Ordinal approach, Law of Diminishing Marginal Utility





PRESIDENCY COLLEGE

(AUTONOMOUS)

AFFILIATED TO BENGALURU CITY UNIVERSITY, APPROVED BY AICTE, DELHI & RECOGNISED BY THE GOVT. OF KARNATAKA

RE-ACCREDITED BY NAAC WITH 'A+' GRADE





Concept of Utility

Presidency Colleg (Autonomous)

Measure of satisfaction. Units- Utils.



A. A measured in numbers.

Economist: Alfred Marshall

Reaccredited by NAAC with A+

B. The measure of satisfaction can be through rating (ranks)

A choice of ranks between apples, oranges & pineapples as rank 3, 1, and 2.

Economist: J.R. Hicks







(Autonomous)

Cardinal & Ordinal Approach

Utility is the satisfying power of a



commodity.

A measure in terms of numbers - Cardinal

Reaccredited by NAAC with A+

A measure in terms of ranks [Order] - Ordinal







(Autonomous)

Total Utility

NAAC RE

 Total Utility = Total Satisfaction derived from consumption of a commodity.

Reaccredited by NAAC with A+

• First ice-cream 20 Utils, Second Ice-cream 16 utils, 3rd Ice-cream 10 utils.

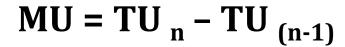






Marginal Utility

 Additional utility derived from consumption of one more unit of the commodity.





Reaccredited by NAAC with A+







Presidency College (Autonomous)



Reaccredited by NAAC with A+

Presidency Group



Utility Schedule:

Ice-creams Consumed	Total Utility	Marginal Utility
1	20	20
2	36	36-20 = 16
3	46	46-36 = 10
4	50	50-46 = 4
5	50	50-50 = 0
6	40	40-50 = -10

MU is Positive, TU Increasing.







Utility Graph:

Presidency College (Autonomous)



Reaccredited by NAAC with A+

Presidency Group







LDMU- Law of diminishing marginal Utility

- Decrease in utility as more & more units of a commodity is consumed.
- Gossen's First law of consumption.



Reaccredited by NAAC with A+

"As we consume more and more units of a commodity, the utility derived from each successive unit goes decreasing"







Assumptions:

- Cardinal measurement of utility (Economist - Alfred Marshall)
- Consumption of reasonable quantity
- Continuous consumption Time period
- Rational Consumer
- Price of substitutes and complements are kept constant.



Reaccredited by NAAC with A+







Consumer Equilibrium

Presidency College (Autonomous)

• Session 8



Reaccredited by NAAC with A+



