

Class Notes

Utility refers to the satisfaction gained from consuming a good or service.

Total utility refers to the amount of satisfaction that a consumer derives from a specific product or service.

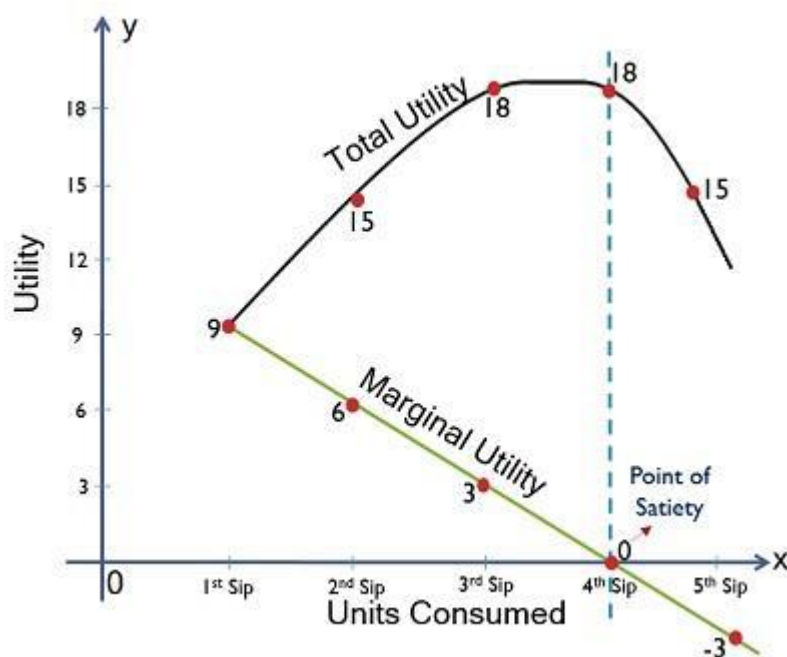
$$MU_n = TU_n - TU_{n-1}$$

Marginal Utility = Change in Total Utility – Change in the Number of units consumed.

Marginal utility is the added satisfaction that a consumer gets from having one more unit of a good or service.

Relation between TU and MU

- i) When TU rises at a decreasing rate, MU falls
- ii) When TU reaches its maximum point, MU is 0
- iii) When TU starts falling at an increasing rate, MU falls at an increasing rate and becomes negative.



Units	TU	MU
1	20	20
2	35	15
3	45	10
4	50	5
5	50	0
6	45	-5
7	35	-10

LAW OF DIMINISHING MARGINAL UTILITY

The law states that as a person consumes more units of a good, the marginal utility with the successive units of consumed good decreases while the total utility increases at a falling rate if other things remain the same.

When marginal utility is zero, total utility becomes highest and beyond that point, total utility starts falling and marginal utility becomes negative.

The law has the following implicit assumptions:

- (i) All units of the good are homogeneous.
- (ii) There is no change in taste during the consumption of goods.
- (iii) There is no time gap between the consumption of successive units of the good.