

GOODS

- Anything, commodity or service, which gives satisfaction to human beings on consumption is called good.
- Goods give satisfaction either directly, as bread is consumed to satisfy hunger or water to satisfy thirst or indirectly, as grinding machine is used to make flour from wheat, which is ultimately used to make bread and then consumed to satisfy hunger.
- Goods can be differentiated on the basis of various criteria.

❖ Free Goods

- Free goods do not bear a price because their supply is more than the demand ($S > D$).
- The customer does not exchange these goods for consumption. Example: Sunrays.
- Called as Non- Economic Goods.

❖ Economic Goods

- Economic goods are less in supply than the demand ($D > S$) and so, they are exchanged.
- Even intangible goods such as beauty of a model and technical skill of an engineer are economic goods.
- Some goods become economic or free depending on person, place or situation. Example: Child's care by mother v/s care by nanny, sand near river beach v/s construction site.

❖ Capital Goods

Those goods which help in the production of other goods. For example, machine and raw materials.

❖ Consumer Goods

Consumer goods are directly consumed by human beings. For example, bread and milk.

A particular good can become capital or consumer depending on the type of use.

- Perishable /Non- Perishable
- Durable / Non Durable
- Veblen Goods

❖ **Transferable Goods**

Land or building of an individual, which can be transferred to another person, are transferable goods.

❖ **Non-transferable Goods**

A person's qualities such as beauty of a model, knowledge of a teacher and technical skills of an engineer are non-transferable goods.

❖ **Complimentary Goods**

When two or more goods are required together to satisfy a single want, they are known as complementary goods.

For example, ink and ink pen. Both are required together to satisfy single want, writing.

❖ **Substitute Goods**

When two or more goods satisfy similar wants and they can be used in each other's place, they are known as substitute goods.

For example, tea and coffee or wheat and rice.

❖ **Material Goods**

All those goods like land, water, agricultural products, mining and fishing or goods like building, machinery and implements which are tangible and has physical existence are called material goods.

❖ **Non-material Goods**

Goods which are intangible as one's own qualities and abilities; are called non-material goods. Non-material goods may be internal such as muscular strength, business ability and professional skill, or external, such as beneficial relations with other people, goodwill and business connections of traders.

❖ **Normal Goods**

Demand for normal goods increases with the increase in income. For example, clothes, pens and pencils.

❖ **Inferior Goods**

Demand for inferior goods decreases with increase in income. For example, commodities used by poor households.

❖ **Giffen Goods**

Giffen good is one which people paradoxically consume more as the price rises, violating the law of demand. Example - bread is a giffen good for a poor person.

❖ **Public Goods**

A public good is both non-excludable and non-rivalrous as no individuals can be excluded from its use and use by one individual does not reduce its availability for others. Examples of public goods include air, road, river, etc. Many public goods may at times, be subject to excessive use resulting in negative externalities affecting all users; for example, air pollution and traffic congestion.

❖ **Private Goods**

A Private good is both excludable and rivalrous. It is owned by a person who gets its benefit and can prevent others from using or consuming it. It is rivalrous as consumption by one necessarily prevents others.

	Excludable	Non-excludable
Rivalrous	<i>Private goods:</i> Food, house, property	<i>Common goods:</i> timber, mineral
Non-rivalrous	<i>Club goods:</i> Library, theatre	<i>Public goods:</i> Air, road, river

WHY DOES A CONSUMER DEMAND A GOOD?

Human being needs all those goods, which satisfy his physical, mental, intellectual or spiritual need; in any way. In other words, goods have utility for the human being.

Utility may be defined as the power of a commodity or a service to satisfy human need.

Utility can be enhanced by adding value to the product in various ways.



SATISFIES WANT



SATISFACTION - POST CONSUMPTION

UTILITY - PRE CONSUMPTION



NOT USEFULNESS

UTILITY



NOT SATISFACTION

UTILITY IS
"WANT SATISFYING CAPACITY"



BUT HAS UTILITY

NOT USEFUL



Form Utility

Utility may be enhanced by changing form of the product. A person is said to create form utility when he changes the form of the matter in order to make it more serviceable. For example, students can sit on wooden log in the class- room but it would be more comfortable and convenient, if wooden bench and desk are made out of wooden log.

Place Utility

Utility of a good can be enhanced by transporting it from a place where it is in surplus to a place where is in short supply. For example, bringing agricultural crops from rural areas to the urban areas.

Time Utility

Utility of a good may be enhanced by storing a product when it is surplus for the time it will be needed and valued more. For example, vegetables and fruits are stored in cold storage when they are in surplus and are sold when they are in demand during the lean season.

Possession Utility

Utility can also be enhanced by transferring or changing ownership of a good from a person who has little use for it to a person who has more use for the same. For example, selling a table by a carpenter to a person working in an office. Carpenter has little use for the table.

But when it is transferred to a person working in an office, its utility increases.

Service Utility

Abilities of doctors and teachers is more for patients and students respectively than any body else. They provide services to their respective clients.

Cardinal Utility

VS

Ordinal Utility

Pizza gives me more satisfaction as i get 60 Utils after eating it in comparison to burger which gives me 40 Utils

**Util – Util is the imaginary unit by which we measue utility.*



60 Utils



40 Utils

My First preference is Pizza which gives me more satisfaction then burger thus my second preference is burger.



First preference



Second preference

Diffzi

Marginal Utility

Marginal utility is the utility derived from the last unit consumed. It is **the added satisfaction a consumer gets from having one more unit of a good or service.**

$$MU = \frac{\text{change in total utility}}{\text{change in quantity consumed}} = \frac{\Delta U}{\Delta Q}$$

or

$$MU = \frac{d(TU)}{dx}$$

(Differentiation of total utility with respect to number of units consumed)

where TU = total utility

x = number of unit consumed

A person likes to consume all those goods which yield him utility. However, intensity of utility of a good decreases as he consumes successive units of the product.

Even at same point of time, intensity of utility for various goods for a consumer differs from each other. A rational consumer will like to consume the good whose intensity is more than the good whose intensity is less. The concept of marginal utility is used to discuss Law of Utility for successive units consumed by him.

What is 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 same.

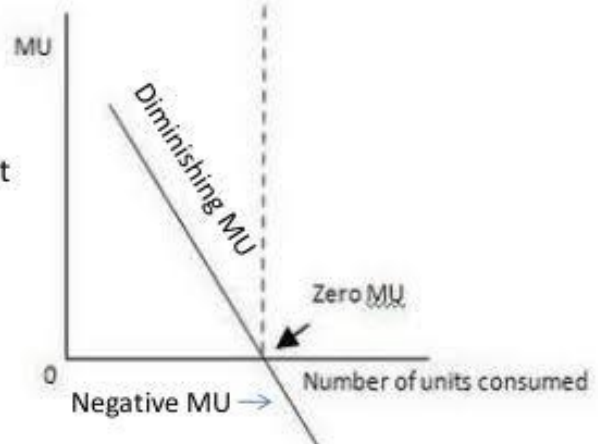
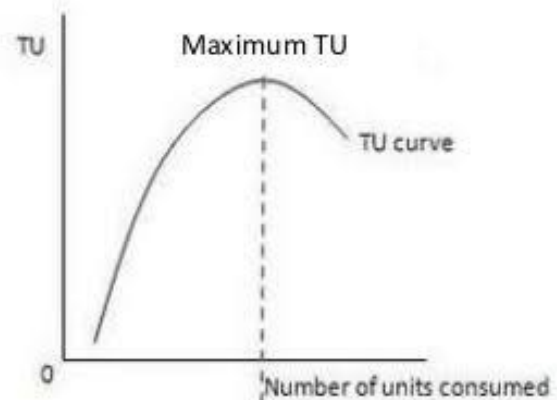
When marginal utility is zero, total utility becomes highest and beyond that point, total utility starts falling and marginal utility becomes negative.

The law has the following implicit assumptions:

- (i) All units of the good are homogeneous.**
- (ii) There is no change in taste during consumption of good.**
- (iii) There is no time gap between consumption of successive units of the good.**
- (iv) Consumer is rational and he will not do anything, which will reduce total utility.**

Relationship between Marginal Utility and Total Utility

Units	Total Utility	Marginal Utility
1	10	10
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	-2



- TU is increasing, but it increases by smaller and smaller amount for each additional unit. In other words, TU is increasing at decreasing rate.
- MU curve is downward sloping because of the fact that consumption of successive units gives less satisfaction.
- Increasing TU → Diminishing MU
- Maximum TU → Zero MU
- Decreasing TU → Negative MU

LAW OF EQUI- MARGINAL UTILITY (CONSUMER'S EQUILIBRIUM)

- **This law is based on the principle of obtaining maximum satisfaction from a limited income. It explains the behavior of a consumer when he consumes more than one commodity.**

The law is based on the following assumptions:

- (i) Consumer is rational as he wants to maximize his total utility.**
- (ii) Utility is cardinally measured as one, two, three and so on.**
- (iii) Marginal utility of money is constant.**
- (iv) As more and more units of a commodity are consumed, the utility from each additional unit falls.**

HOW MUCH QUANTITIES OF EACH PRODUCT WILL A PERSON BUY?



₹ 16



₹ 12



₹ 8



THE LAW OF EQUI-MARGINAL UTILITY



Maximum Satisfaction

$$\frac{\text{MU}_{\text{chocolate}}}{\text{PRICE}} = \frac{\text{MU}_{\text{pen}}}{\text{PRICE}} = \frac{\text{MU}_{\text{bill}}}{\text{PRICE}}$$

QUANTITY	MU 	RATIO	MU 	RATIO	MU 	RATIO
1	128	8	120	10	96	12
2	96	6	96	08	80	10
3	64	4	64	06	64	08
4	32	2	48	04	48	06
5	00	0	06	02	32	04

QUANTITY	MU 🍌	RATIO	MU 🍌	RATIO	MU 🍌	RATIO
1	128	8	120	10	96	12
2	96	6	96	8	80	10
3	64	4	64	6	64	8
4	32	2	48	4	48	6
5	00	0	06	2	32	4

🍌 1X ₹16 = 16

🍌 2X ₹12 = 24

🍌 3X ₹8 = 24

TOTAL ₹64 < 100



QUANTITY	MU 🍌	RATIO	MU 🍌	RATIO	MU 🍌	RATIO
1	128	8	120	10	96	12
2	96	6	96	08	80	10
3	64	4	64	06	64	08
4	32	2	48	04	48	06
5	00	0	06	02	32	04

🍌 $2 \times ₹16 = 32$

🍌 $3 \times ₹12 = 36$

🍌 $4 \times ₹8 = 32$

TOTAL ₹100



Conditions for consumer's equilibrium:

A rational human being spends his total income over a broad spectrum of goods in such a way that marginal utility derived from the last unit of each good is equal. It can be expressed mathematically as,

$$\frac{MU_L}{P_L} = \frac{MU_M}{P_M} = \frac{MU_N}{P_N} = MU \text{ per unit of money}$$

Subject to the constraint that

$$P_L Q_L + P_M Q_M + \dots = Y \text{ (individual's income)}$$

where MU_L = Marginal utility derived from the product L

P_L = Price of L

Q_L = Quantity of commodity L and so on.

Marginal utility diminishes as the consumer uses successive units of a good. A consumer transfers resources from the product where marginal unit is less to the product where marginal utility is more till marginal utility per rupee spent on all the goods becomes same.