

What is Utility?

- i. Utility refers to the satisfaction or benefit that individuals or consumers derive from consuming a good or service.
- ii. “Utility is the power or capacity of a commodity to satisfy human wants.”
- iii. When a consumer consumes or buys a commodity, he expects to get some benefit in the form of satisfaction of certain wants.

Total Utility:-

- i. Total utility refers to the overall satisfaction derived from the consumption of all units of a particular good or service.
- ii. It refers to the sum of the total utility derived from all units of commodity consumed at a given period of time.
- iii. Total utility is the sum of all utilities derived by a consumer from all units of a commodity consumed by him.
- iv. Symbolically $TU = \sum mu$
 TU = Total Utility
 $\sum MU$ = sum total of marginal utilities

Marginal Utility:-

- i. Marginal utility is the additional satisfaction gained from consuming one extra unit of a good or service.
- ii. Marginal Utility is the utility derived from the consumption of an additional or extra unit of a commodity.
- iii. Symbolically $MU_n = TU_n - TU_{n-1}$
- iv. It starts diminishing at the beginning level and It is positive, zero, and negative

Q. Explain the Types of Utility

- i. **Form Utility:** - When utility increases due to the change in the shape or structure of existing material, it is called form utility. For example, wood is converted into chairs or furniture.
- ii. **Place Utility:** - When the utility of a commodity increase due to the change in the place of utilization. E.g. Goods produced in Mumbai can be transported to Goa for consumption. Thus, transport services can create place utility.

- iii. **Time Utility:** - When the Utility of a commodity increases with a change in the time of utilization it is called time utility. E.g. Umbrellas have greater utility during the rainy season.
- iv. **Services Utility:** - Services Utility is created by providing services to people. E.g. teachers can provide services utility to students, doctors to patients, etc.
- v. **Knowledge Utility:** - It's created by filling the knowledge gap. E.g. advertisements can create knowledge utility by providing information about the latest products in the market.
- vi. **Possession Utility:** It is created by transferring ownership of a commodity from one person to another person. For example, when we purchase a Flat after paying the full amount we get Possession utility.

Q. What are the Features of Utility/ Explain the characteristics of Utility.

1. **Relative concept:** - Utility is related to time and place. It differs from time to time and from place to place. For example, umbrellas have utility only in the rainy season. Similarly, woolen clothes have more utility in Kashmir than in Mumbai.
2. **Subjective concept:** The utility of a commodity cannot be the same for all individuals. It differs from person to person, because of the differences in tastes, preferences, etc. of the people. E.g. Meat has utility to non-vegetarians, but not to pure vegetarians.
3. **Utility is differ from usefulness-** Utility is the power or capacity of a commodity to satisfy human wants while usefulness is the benefit that a consumer gets. A commodity may have utility but not be useful. For example, A cigarette has utility for a smoker, but it does not have usefulness as it is injurious to health.
4. **Utility is differ from pleasure:** - Some goods have utility but consuming them is not enjoyable. For example, no one enjoys taking bitter medicine or an injection.
5. **Utility is differ from satisfaction:** - Utility and satisfaction are related but not the same. Utility is the power or capacity of a commodity to satisfy human wants. Satisfaction is the end result of utility.
6. **Utility depends on the intensity of wants:** - The utility of a commodity depends upon the intensity of the want. The more urgent or intense the want, the more will be the utility. For example, the Utility of food is higher for a hungry person, and utility declines with the satisfaction of hunger.
7. **Utility is multi-purpose:-** A commodity can satisfy the multiple wants of one person, for example, Electricity can be used for lighting, ironing, cooking, washing etc.

Q. Distinguish between:

Utility	Usefulness
It refers to the ability of a commodity to satisfy human wants.	It refers to the better result of consumption.
A commodity having utility may or may not be useful.	A commodity that has utility will also be useful.
e.g. alcohol has utility but is not useful	e.g. Milk has utility as well as usefulness
It is a broad concept	It is a narrow concept.

Utility	Satisfaction
Utility refers to the capacity of a commodity to satisfy human wants.	Satisfaction is the result of consumption.
Utility is the ability to satisfy human wants	It is an act of consumption or use of a commodity.
Utility increases with change in place	It increases with change in time
For e.g. there is utility in the water	For e.g. when we use water we get satisfaction

Total Utility	Marginal utility
Total utility is the sum of all utilities derived by a consumer from all units of a commodity consumed by him.	Marginal Utility is the utility derived from the consumption of an additional or extra unit of a commodity.
TU = $\sum \text{mu}$ TU= Total Utility $\sum \text{MU}$ = sum total of marginal utilities	Symbolically $\text{MU}_n = \text{TU}_n - \text{TU}_{n-1}$
It is positive, zero, and negative	It is always positive
It starts diminishing at beginning	It starts diminishing when marginal utility becomes zero

Q. Define the Law of Diminishing Marginal Utility (DMU) and explain its assumption and exception.

Introduction:

The Law of DMU was first proposed by Prof. Gossen but Prof. Alfred Marshall discussed it in detail in his book 'Principles of Economics' published in 1890.

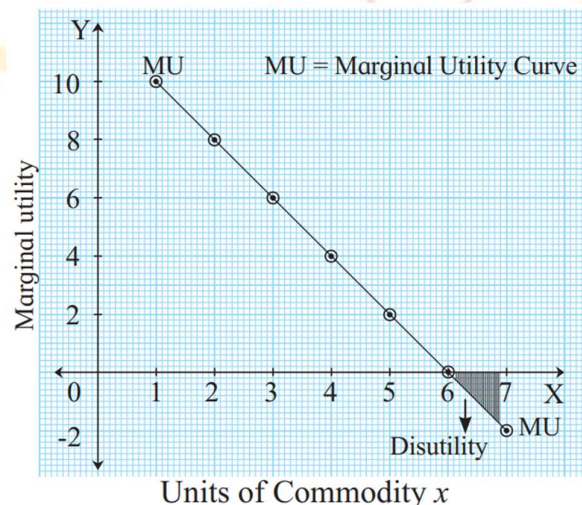
It is based on the common consumer behaviour that utility diminishes with every additional unit consumer consumes.

Statement of Law:-

According to Prof. Alfred Marshall, "Other things remaining constant, the additional benefit which a person derives from a given increase in his stock of a thing, diminishes with every increase in the stock that he already has."

The law explains the economic behaviour of a rational consumer. It states that as a consumer consumes more and more his Marginal Utility (MU) will decrease. This means after consuming more and more unit of a commodity decrease the satisfaction level of the consumer.

Units of x (Mango)	Marginal Utility (MU)
1	10
2	8
3	6
4	4
5	2
6	0
7	-2



Explanation of Diagram:-

- a) In the above diagram, the X-axis shows units of commodity and the Y-axis shows TU and MU.
- b) MU curve slopes downwards from left to right.
- c) It shows that the consumer consumes more units of mangoes, and marginal utility goes on diminishing.
- d) When a consumer consumes the 6th unit, MU becomes zero. So MU curve touches the X-axis. It shows a full satisfaction level.
- e) And when a consumer consumes 6th units of mangoes the MU curve becomes negative.

Assumption of the law of DMU:

1. **Rationality:** - It assumes that the consumer behaviour is rational or normal. And his aim should be to get maximum satisfaction.
2. **Cardinal Measurement:** - It assumes that a consumer can measure utility in terms of numbers i.e. 1, 2, 3, etc.
3. **Homogeneity:** - The law is applicable only if all units of goods consumed must be uniform i.e. all the units must be the same in respect of size, colour, taste, quality, etc.
4. **Continuity:** - There should be no time gap or interval during the consumption process.
5. **Reasonability:** - All the units of a commodity consumed are of reasonable size, neither too big nor too small. For example, a cup of tea, a glass of water, etc.
6. **Constancy:** - The law assumes that there should be no change in taste, habits, preference, and income of the consumers during the process of consumption.

Exception of the law of DMU:**The law does not apply in the following cases:**

1. **Hobbies:** - In the case of hobbies like painting as you paint more pictures every additional painting gives you more and more satisfaction because it is better than the previous painting. Hence marginal utility increases instead of diminishing.
2. **Misers:** - In the case of a miser, every additional rupee gives him more and more satisfaction because he is not a normal person. So his MU tends to increase with an increase in the stock of money.
3. **Drunkards:** - This law does not apply to drunkards because they like to consume more with every additional unit offered to them.

4. **Power:** This does not apply to the law because when a person acquires power, his desire for power increases. He desires to have more and more of it.
5. **Money:** - It is said that the MU of money never becomes zero. It increases when the stock of money increases. This is because money is a medium of exchange that is used to satisfy various wants. It is assumed that an individual gets more satisfaction with more money and he wants to have more of it.

