

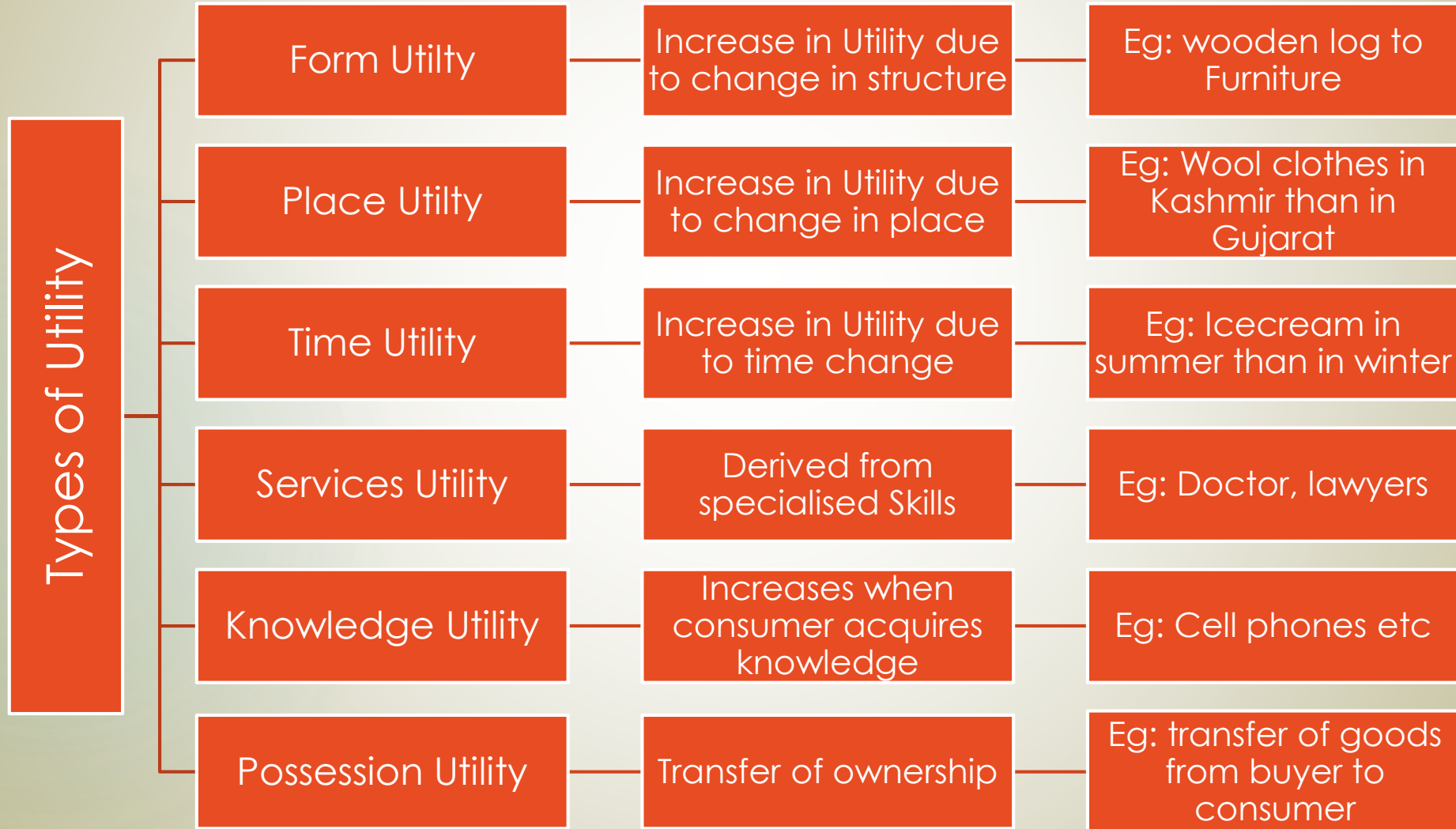
Last Day Revision of Economics:

Topic: Consumer's Behaviour

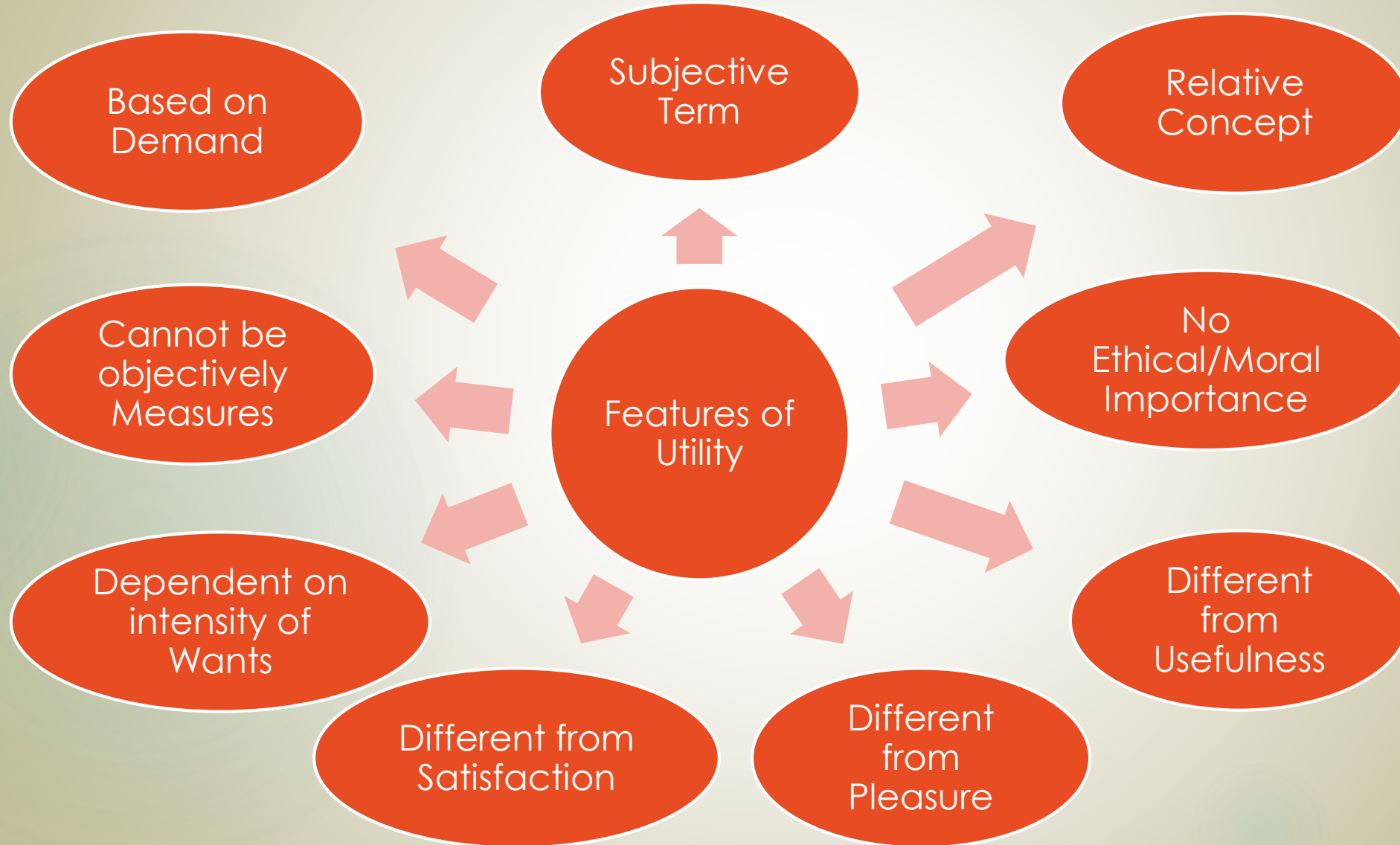
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Definition & Types of Utility:

► “Utility means want satisfying power or capacity of Commodity”



Features of Utility:



Total Utility(TU) & Marginal Utility (MU):

Total Utility (TU)

- Sum of all utilities derived from consumption of all Units
- $TU \Sigma MU$
- increases at diminishing rate.
- At point of satiety= TU is maximum
- After point of satiety= TU diminishes
- TU is maximum = MU is 0
- Numerical value= is always Positive
- Value in use

Marginal Utility (MU)

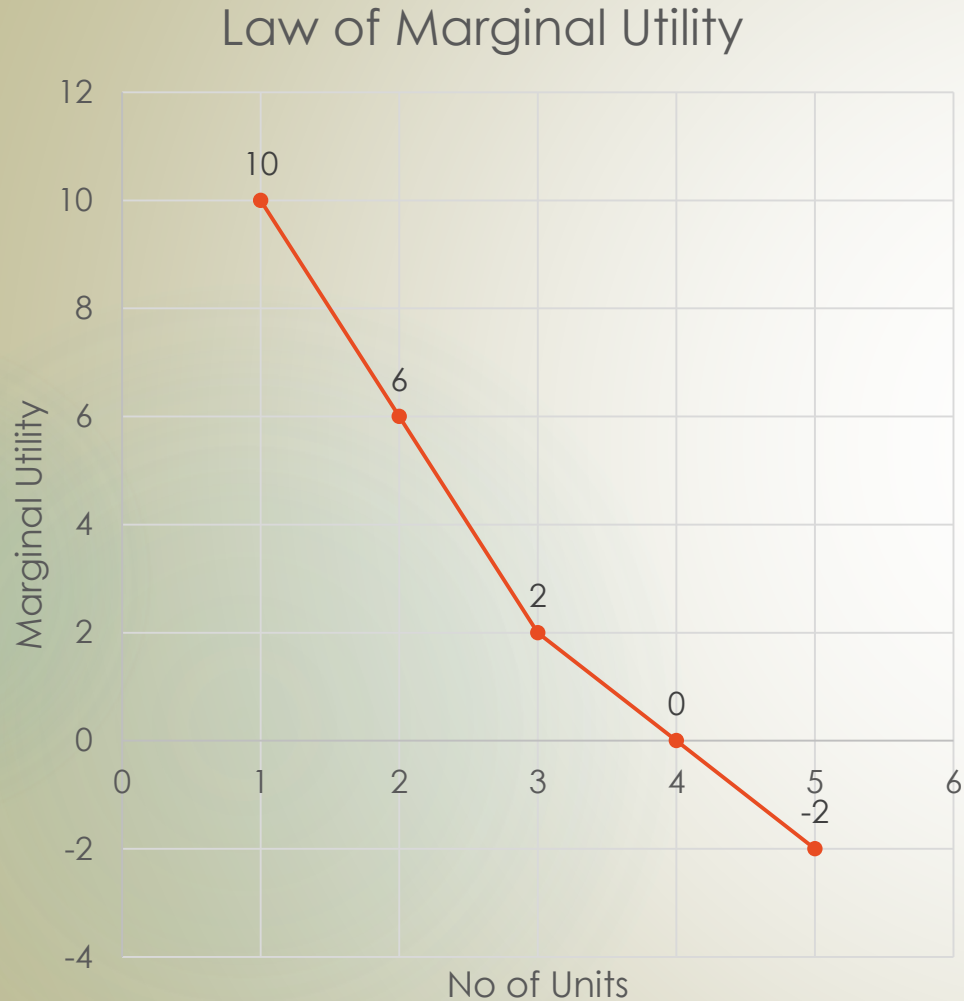
- Additional utility derived from consumption of additional unit
- $MU_n = TU_n - TU_{n-1}$
- Continuously diminishing
- At point of satiety= MU is 0
- After point of satiety= MU is negative
- MU is maximum = TU is minimum
- Numerical value = can be +ve/ -ve / 0
- Value in Exchange

Law of Diminishing Marginal Utility (DMU):

- ▶ According to Alfred Marshall **“The additional benefit which a person derives from a given increases of his stock of a thing diminishes with every increase in the stock that he already has”**.
- ▶ **“When other things being equal with consumption of every unit marginal utility goes on diminishing.”**

No of Units Consumed	Marginal Utility (MU)
1	10
2	6
3	2
4	0
5	-2

Graph of Law of DMU :



► Points to Remember:

- Slopes Downward
- More units consumed → MU diminishes
- When $MU = 0$ → we get full satisfaction.
- Still more consumed then MU becomes -ve → we get dissatisfaction.

Assumptions of Law of DMU :

1. Continuity
 - No time interval between consumption of unit
2. Homogeneity
 - Identical units
3. Constancy
 - No change in Price, habit, taste ,preference etc
4. Reasonability
 - Normal size unit
5. Rationality
 - Consumer to be rational
6. Measurability
 - Commodity should satisfy only single want.
7. Single Use
 - Commodity is divisible
8. Condition of Divisibility
 - MU of money left = MU of Total money
9. Constant MU of money Income

Exception of Law of DMU:

Exceptions → MU Increases with more units → Assumption violated

- | | | |
|--------------------|--|-------------------------------|
| 1. Hobbies | ➤ Eg: Collection of Stamp | ➤ Homogeneity |
| 2. Drunkard | ➤ Intoxication increases | ➤ Rationality |
| 3. Miser | ➤ Satisfaction increases with more money | ➤ Rationality |
| 4. Money | ➤ MU to rich is less than MU to poor | ➤ Constant MU of Money Income |
| 5. Reading | ➤ More Knowledge & satisfaction to scholar | ➤ Homogeneity |
| 6. Music | ➤ Music Lover gets more satisfaction | ➤ Homogeneity & continuity |
| 7. Power | ➤ Lust increases as you acquire power | ➤ Rationality |

Criticism of Law of DMU:

1. Cardinal Measurement
 - In reality , Utility is subjective & cannot be measured
2. Unrealistic Assumptions
 - Like Homogeneity, constancy, continuity, reasonability, rationality
3. Money Value cannot be constant
 - In reality money value cannot be constant
4. Not applicable in Indivisible goods
 - Like Tv, scooter, house etc
5. No Explanation of Income & Substitution effect
 - Does not explain fall in demand due to income effect & fall in demand due to substitution effect
6. Too many assumptions
 - Not realistic approach
7. Single commodity theory
 - Practically, consumer buys more than 1 goods.

Importance of Law of DMU

Theoretical Significance:

- Consumer Equilibrium
- Universal Truth
- Basic of Law of demand
- Paradox of value

Practical Significance:

- In business
- In Public Finance
- In Welfare Policy

Law of Equi-Marginal Utility:

- Consumer will distribute his money income in such a way that the utility derived from rupee is same.
- Also known as “**Law of maximum satisfaction**” & “**Principle of Substitution**”
- Proportionality Rule:

$$\frac{\text{MU}_x}{\text{Price}_x} = \frac{\text{MU}_y}{\text{Price}_y} = \frac{\text{MU}_z}{\text{Price}_z} = \mathbf{K}$$

THANK YOU

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