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INTRODUCTORY MICROECONOMICS
CARDINAL UTILITY

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GETTING STARTED

- What does a consumer want? Maximise satisfaction.
- Income has to be spent on different goods- Choice problem.
- Choices comes from preferences.
- Choices and budget constraint determines.
- Simple two good case to start with- Bananas and Mangoes.
- Consumption bundle.

Utility

- Utility of a commodity is its want-satisfying capacity.
- The more the need of a commodity or the stronger the desire to have it, the greater is the utility derived from the commodity.
- Demand comes from utility.
- Utility is subjective. Different individuals will have different utility from same good.
- For example, utility from the use of a room heater will depend upon whether the individual is in Ladakh or Chennai (place) or whether it is summer or winter (time).

- Cardinal Utility Analysis
- Ordinal Utility Analysis

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Cardinal utility

- Cardinal utility analysis assumes that level of utility can be expressed in numbers.
- Measures of Utility
- Total Utility: Total utility of a fixed quantity of a commodity (TU) is the total satisfaction derived from consuming the given amount of some commodity x.
- Marginal Utility: Marginal utility (MU) is the change in total utility due to consumption of one additional unit of a commodity.
- Usually, it is seen that the marginal utility diminishes with increase in consumption of the commodity.

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Units	Total Utility	Marginal Utility
1	12	12
2	18	6
3	22	4
4	24	2
5	24	0
6	22	-2

Law of Diminishing Marginal Utility states that marginal utility from consuming each additional unit of a commodity declines as its consumption increases, while keeping consumption of other commodities constant.

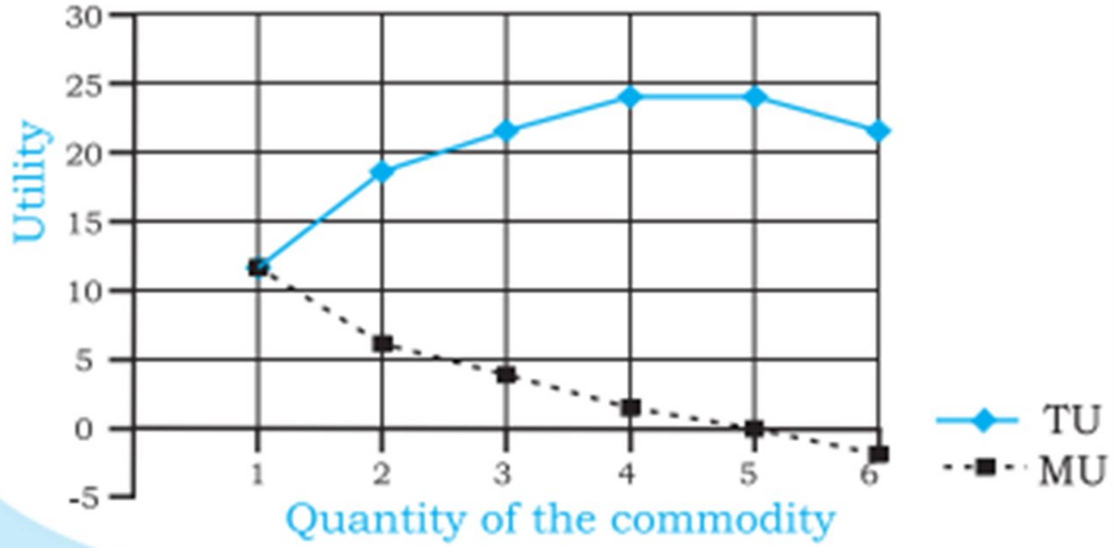

Fig. 2.1

The values of marginal and total utility derived from consumption of various amounts of a commodity. *The marginal utility diminishes with increase in consumption of the commodity.*

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Underlying assumptions

1. Consumer is rational: The consumer's objective is to maximise her utility by choosing one of the commodity bundle from all other available commodity bundles at given prices of commodities and money income
2. If the taste and preferences are given, the total utility of the consumer depends on the quantity of consumption
3. Goods are good : Marginal utility is positive

4. Marginal utility of ‘x’ is diminishing: Therefore, MUx curve is downward sloping

5. Utility is measured cardinally or numerically in terms of money. Since it is measured numerically consumer not only knows which commodity bundle is preferred but also by how much amount.

6. Marginal utility of money is constant.

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THANK YOU