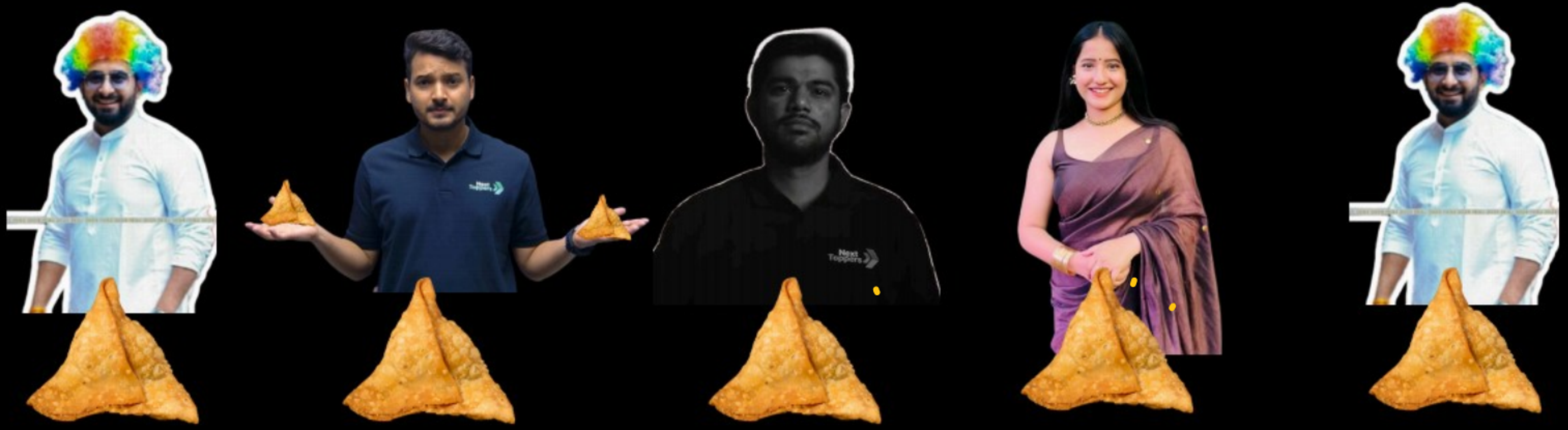
Class 11th | Economics

प्रारंभ BATCH

CONSUMER EQUILIBRIUM

LECTURE - 3



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↓ M.U.

LAW OF DIMINISHING MARGINAL UTILITY

Law of diminishing marginal utility (DMU) states that as we consume more and more units of a commodity, the utility → satisfaction. derived from each successive unit goes on decreasing.

In making choices, most people spread their incomes over different kinds of goods. People prefer a variety of goods because consuming more and more of any one good reduces the marginal satisfaction derived from further consumption of the same good. This law expresses an important relationship between utility and the quantity consumed of a commodity.

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LAW OF DIMINISHING MARGINAL UTILITY

Let us understand this law with the help of an example:

Suppose your father has just come from work and you offer him a glass of juice. The first glass of juice will give him great satisfaction. The satisfaction with the second glass of juice will be relatively lesser. With further consumption, a stage will come, when he would not need any more glass of juice, i.e. when the marginal utility drops to zero. After that point, if he is forced to consume even one more glass of juice, it will lead to disutility. Such a decrease in satisfaction with consumption of successive units occurs due to 'Law of diminishing marginal utility.

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LAW OF DIMINISHING MARGINAL UTILITY

Law of DMU has universal applicability and applies to all goods and services (This law was first given by a German Economist H.H. Gossen. That is why, it is also known as 'Gossen's first law of consumption'.

LAW OF DIMINISHING MARGINAL UTILITY

Assumptions of Law of Diminishing Marginal Utility

The law of DMU operates under certain specific conditions. Economists call them the "assumptions' of this law. These are as follows:

- **Cardinal measurement of utility:** It is assumed that utility can be measured and a consumer can express his satisfaction in quantitative terms such as 1, 2, 3, etc).
- **Monetary measurement of utility:** It is assumed that utility is measurable in monetary terms.

LAW OF DIMINISHING MARGINAL UTILITY

- **Consumption of reasonable quantity:** It is assumed that a reasonable quantity of the commodity is consumed? For example, we should compare MU of a glassful of water and not of spoonful of water. If a thirsty person is given water in a spoon, then every additional spoon will yield him more utility. So, to hold the law true, suitable and proper quantity of the commodity should be consumed.
- **Continuous consumption:** It is assumed that consumption is a continuous process. For example, if one ice-cream is consumed in the morning and another in the evening, then the second ice-cream may provide equal or higher satisfaction as compared to the first one.

LAW OF DIMINISHING MARGINAL UTILITY

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- **No change in Quality:** Quality of the commodity consumed is assumed to be uniform. A second cup of ice-cream with nuts and toppings may give more satisfaction than the first one, if the first ice-cream was without nuts or toppings.

- **Rational consumer:** The consumer is assumed to be rational who measures, calculates and compares the utilities of different commodities and aims at maximising total satisfaction.

agar zindagi tumhe nimbu de, toh fhek ke maro

LAW OF DIMINISHING MARGINAL UTILITY

- **Independent utilities:** It is assumed that all the commodities consumed by a consumer are independent. It means, MU of one commodity has no relation with MU of another commodity. Further, it is also assumed that one person's utility is not affected by the utility of any other person.
- **MU of money remains constant:** As a consumer spends money on the commodity, he is left with lesser money to spend on other commodities. In this process, the remaining money becomes dearer to the consumer and it increases MU of money for the consumer.

LAW OF DIMINISHING MARGINAL UTILITY

But, such an increase in MU of money is ignored. As MU of a commodity has to be measured in monetary terms, it is assumed that MU of money remains constant.

- **Fixed Income and prices:** It is assumed that income of the consumer and prices of the goods which the consumer wishes to purchase remain constant.

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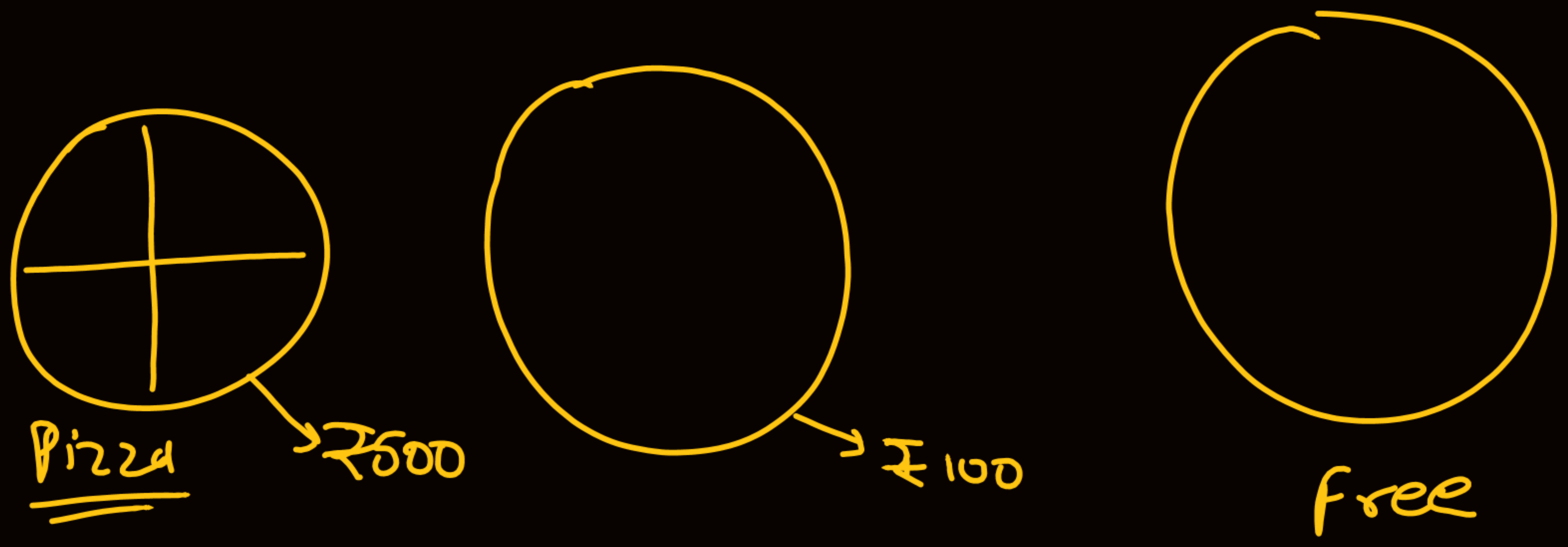
Pizza
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