

Utility Analysis

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Q.1 Complete the following statements by choosing the correct alternatives.

- 1) In the law of diminishing marginal utility, Alfred Marshall assumes that marginal utility of money remains constant.
- 2) As per the law of diminishing marginal utility, measurement of utility is assumed to be Cardinal.
- 3) MU of the commodity becomes negative when TU of commodity is falling.
- 4) Point of satiety means TU is maximum and MU is zero.
- 5) When MU is falling, TU is rising.

Q.2 choose the correct option :

- | 1) A | B |
|----------------------|-----------------|
| 1) Time utility | a) Transport |
| 2) Place utility | b) Blood Bank |
| 3) service utility | c) Mobile phone |
| 4) Knowledge utility | d) Doctor. |

→ ii) 1-b, 2-a, 3-d, 4-c

- 2) Statements indicating consumer equilibrium.
a) MU is greater than price

- b) MU is equal to price
 c) MU is less than price
 d) Price is less than one.

→ Only b

Q.3 Identify and explain the concepts from the given illustration:

- 1) Salma purchased sweater for her father in winter season.

→ Identification :- Relative concept

Explanation :- utility is related to the price it varies from time to time and place to place.

- 2) Nilesh purchased ornaments for his sister.

→ Identification :- Subjective concept

Explanation :- It is a psychological concept utility differ from person to person this is due to two differences in taste reference like dislike nature habits profession

- 3) Kavita consumed five units of oranges one after ~~eating~~ four the other.

→ Identification :- Total utility

Explanation :- Total utility refers to the aggregates of utility derived by the consumer from all unit of a commodity consume it is an aggregates of utilities from all success unit of a commodity consumed.

4) Bhushan refused to eat fifth chapati after eating four chapatis.

→ Identification :- Concept of point of satiety

Explanation :- after reaching the point of satiety a rational consumer should stop his ^{con}sumption since the maximum limit of satisfaction is reached and there is no addition to total utility by any further increase in the stock of commodity.

5) Lalita satisfied her event of writing an essay by using pen and notebook.

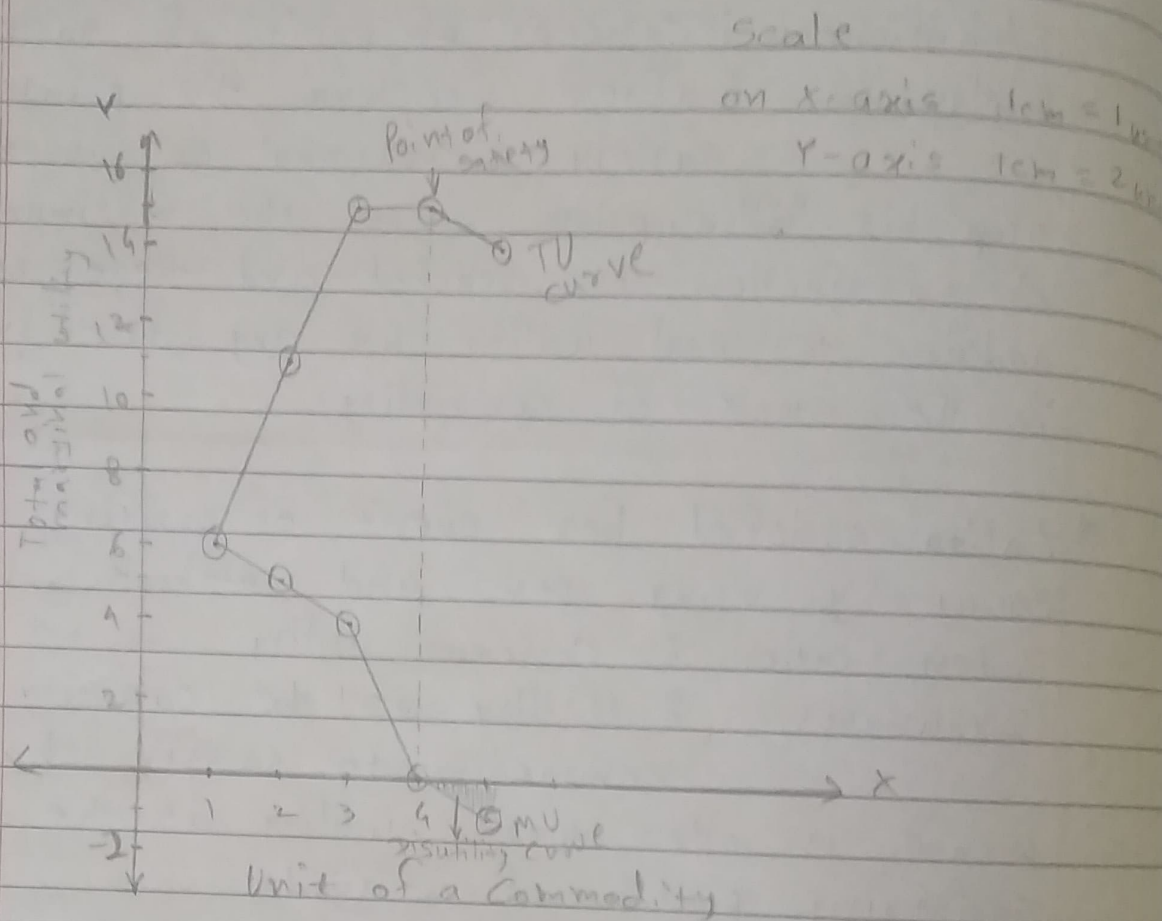
→ Identification :- Concept utility

Explanation :- Utility is the capacity of a commodity to satisfy human wants in other words utility is the want satisfying power of a goods.

Q.4 Observe the given table and answer the questions:

Unit of a commodity	TU units	MU units
1	6	6
2	11	5
3	15	4
4	15	0
5	14	-1

- 1) Draw total utility curve and marginal utility curve.



- 2) a) When total utility is maximum marginal utility is zero.

- b) When total utility falls, marginal utility becomes negative.

Q.5 Answer in detail :

- 1) State and explain the law of diminishing marginal utility with exceptions.

→ Law of Diminishing Marginal Utility:

Introduction :- This law was first proposed by

Prof. Gossen but was discussed in detail by Prof. Alfred Marshall in his book 'Principles of Economics' published in 1890.

The law of diminishing marginal utility is universal in character. It is based on the common consumer behaviour that utility derived diminishes with the reduction in the intensity of a want.

Statement of the 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."

In other words, marginal utility that any consumer derives from successive units of a particular commodity goes on diminishing as his or her total consumption of that commodity increases.

Exceptions to the law of Diminishing Marginal Utility :-

Exceptions to the law of diminishing Marginal Utility

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- 1) Hobbies
 - 2) Miser
 - 3) Addictions
 - 4) Power
 - 5) Money

1) Hobbies :- In certain hobbies like collection of various stamps and coins, rare paintings,

music, reading etc., the law does not hold true because every additional increase in the stock gives more pleasure.

2) Miser :- In the case of a miser, every additional rupee gives him more and more satisfaction. Marginal utility of money tends to increase with an increase in his stock of money.

3) Addictions :- It is observed in case of a drunkard that the level of intoxication increases with every additional unit of liquor consumed. So MU received by drunkard may increase.

4) Power :- This is an exception to the law because when a person acquires power, his lust for power increases. He desired 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 which is used to satisfy various wants.