

Assignment No. 2

Q.1A) Complete the following statements by choosing the correct alternative.

- 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 a commodity is falling
- 4) Point of Satiation means TU is maximum and MU is zero
- 5) When MU is falling, TU is rising

Q.2 Choose the correct option:

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) statement 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

→ b) MU is equal to Price

Q.3 Identify and explain the concept from the given illustration.

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

→ Concept is : Relative Concept

1) utility is related to the price in varies from time to time and place to place.

2) Nilesh purchased ornaments for his sister.

→ Concept is : Subjective Concept

1) It is a Psychological concept utility differ from person to person this is due to two difference.

2) In test reference like dislike nature habits profession.

3) Kavita consumed five units of orange one after the other.

-> Concept is: Total utility.

1) Total utility refers to the aggregate of utility derived by the consumer from all units.

2) Commodity consumed it is an aggregate of utilities from all successive units of a commodity consumed.

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

-> Concept is: Concept point of satiation

1) After reaching the point of satiation a rational consumer.

2) Should stop his consumption since the maximum limits of satisfaction is reached and there is no addition to total utility by any for the increase in the stock of commodity.

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

-> Concept: Concept utility

1) Utility is the capacity of a commodity to satisfy human wants.

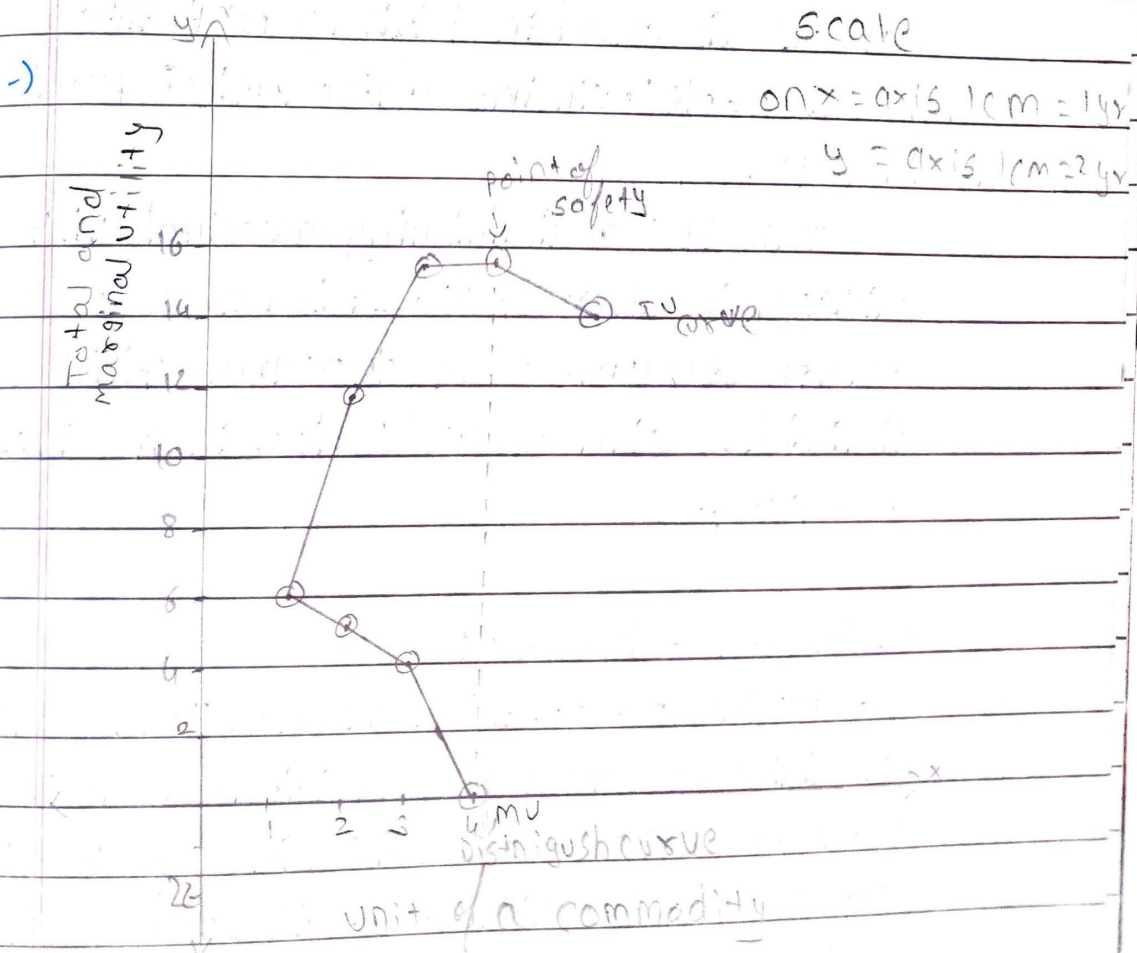
2) In other words utility is the want satisfying power of a good.

Q. u. Observe the given table and answer the question.

1) unit of a commodity

TU units	MU units
6	6
11	5
15	4
15	0
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.

-> 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 word, marginal utility that any consumer derives from successive units that any of a particular commodity goes on diminishing as his or her total consumption of that commodity increase. In short, the more of a thing you have the less you want to have more of it.

Exceptions to the law of Diminishing Marginal utility

- 1) Hobbies
- 2) miser
- 3) Addictions
- 4) Power
- 5) money.

1) Hobbies :

i) In certain hobbies like collection of various stamp and coins, rare paintings, music, reading etc.

ii) The law does not hold true because every additional increase in the stock gives more pleasure.

iii) This increases marginal utility. However, this violates the assumption of homogeneity and continuity.

2) miser :

i) In the case of miser, every additional rupee gives him more and more satisfaction.

ii) Marginal utility of money tend to increase with an increase in his stock of money.

iii) However, this situation ignore the assumption of rationality.

3) Addictions:

- i) It is observed in case of a drunkard that the level of intoxication increases with every additional unit of liquor consumed.
- ii) So mu received by drunkard may increase. Actually it is only an illusion.
- iii) This condition is similar at almost all addictions. However, this violates the assumption of rationality.

4) Power:

- i) This is an exception to the law because when a person acquires power, his lust for power increase.
- ii) He desire to have more and more of it. However, this again violates the rationality assumption.

5) money:

- i) It is said that the mu of money never becomes zero. It increases when the stock of money increases.
- ii) This is because money is a medium of exchange which is used to satisfy various want.