BY: DR. SHAILESH KR. SINGH
ASSISTANT PROFESSOR (GUEST)

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B.COM. PART 1

CORE CONCEPT OF BUSINESS ECONOMICS

Total Utility: Total utility is the aggregate utility that a person derives from consuming a particular product. Total utility is the one which goes on increasing with increase in intake or through more consumption. But does this go on forever? Does the total utility keep on increasing and increasing? The answer is it doesn't. The total utility increases in the beginning but once certain number of units are consumed than the total utility becomes constant and beyond this it starts decreasing. So how do we comprehend this nature of total utility? It means that initially the consumer gets more and more satisfaction from consumption of a particular product but beyond a certain level this satisfaction reaches at the point where it does not rise but remains constant and thereafter starts falling. To put in other words that total utility that a consumer derives from consumption of a particular product increases with a diminishing rate.

For instance say you are very hungry. You eat one sandwich. You feel better. You eat another one. You feel satisfied. Now you have a third one. Your stomach is already full. The further intake of additional sandwiches will make you bored of eating sandwiches. This behaviour simply shows that how initially the satisfaction increases and the consumer tries to derive maximum satisfaction through consumption of the particular product but beyond this level the utility becomes constant after a particular point it starts diminishing.

Let's put down a table showing the utility schedule. The table below shows a hypothetical example of consumption of blueberry muffins by a consumer. The first column shows the quantity of blueberry muffins consumed. The second and the third columns show total utility and marginal utility respectively. The fourth column indicates the average utility.

Quantity of blueberry muffins consumed	Total Utility	Marginal Utility	Average Utility
0	0		
1	6	6	6

2	11	5	5.5
3	14	3	4.7
4	15	1	3.8
5	15	0	3
6	13	-2	2.2

If we observe the table above, then we can see that with each unit of the blueberry muffin consumed, the total utility goes on increasing. When the first muffin is consumed, the total utility derived is 6 and with each additional unit this utility is increasing. But does this go on till ever? By simply looking as the table above we can see that when the 4th blueberry muffin is consumed, then the total utility is 15 and with 5th muffin the totality remains as it is. What does this mean? It means that the consumer has reached the point of satiety. This point of satiety indicated the maximum satisfaction that the consumer has derived from the consumption of the blueberry muffins. Let's move ahead and see what happens with the consumption of 6th muffin. Here the total utility does not increase neither does it remain constant. On the contrary the total utility diminishes from 15 to 13. So what do we infer from the table above. The table shows that how with each additional unit consumed, the total utility rises, but with a decreasing rate and once the total utility reaches at its maximum, then thereafter it starts falling.

Total utility can also be stated as summation of the marginal utilities. For instance the total utility of the 4th unit of the blueberry muffin is 15. This is nothing but sum of the marginal utilities of the first four units of blueberry muffins which is (6+5+3+1)