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CORE CONCEPT OF

BUSINESS ECONOMICS & ENVIRONMENT

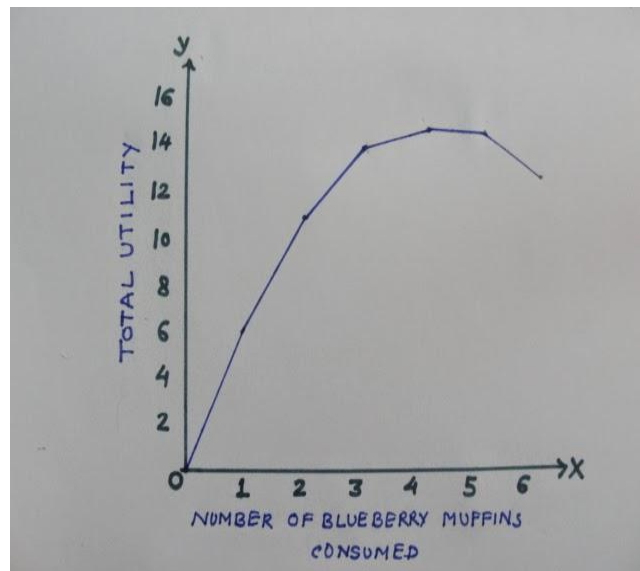
1. What is Concept of marginal utility?
2. Point out the average utility.
3. Illustrate the Total Utility?
4. What is Ordinal Utility?

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.

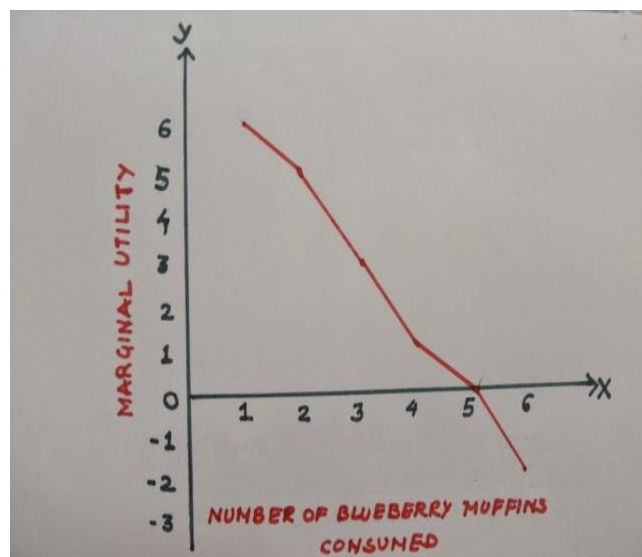


Total utility can also be stated as summation of the marginal utilities. For instance the total utility of the 4th unit of the blueberry muffin is 15. This is nothing but sum of the marginal utilities of the first four units of blueberry muffins which is (6+5+3+1)

Marginal Utility: Before we get into details of marginally utility, it is essential to note that the term marginal refers to extra unit which the consumer consumes. This is nothing but the added intake. So the utility derived from consuming this extra unit of a commodity is known as marginal utility. The table above shows us marginal utility also. For the first blueberry muffin consumed by the consumer the total utility and marginal utility are same. How did we arrive at the values of the marginal utilities for the quantities of blueberry muffins consumed? Look at the marginal utility for the 4th unit. This is computed as:

Total utility of 4th unit - Total utility of 3rd unit

Which we get as 15 - 14 = 1





A quick look at the marginal utilities in the table above will show us that with every additional intake the marginal utility goes on decreasing. The more the number of units consumed, the less will be marginal utility. In other words the marginal utility goes on diminishing with increase in the number of units consumed. When the total utility starts falling, then the marginal utility becomes negative and when total utility is maximum, then marginal utility is zero.

Average Utility: Average utility is yet another concept of utility. Average utility is nothing but utility derived by per unit of consumption. In the table above we have the values of the average utility. These are derived by simply dividing the total utility by the total units consumed. So if we have to state the formula for average utility we can state it as:

$$\text{Average Utility} = \frac{\text{Total Utility of the product}}{\text{Total Units of the product}}$$

Thus we have seen the important concepts of utility namely total utility, marginal utility and average utility.