Theory of Consumer Behaviour

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Human wants ----- Resources

↓ unlimited ↓ limited

∴ Not all Human wants are satisfied

↓

He only Buys those goods or services which has got want satisfying power

↓

"Utility" → Anticipated satisfaction

- ≠ satisfaction
- ≠ pleasure
- ≠ useful

(concept of utility is ethically neutral)

Theories

Marginal utility Analysis
↓
- Alfred marshall
- Cardinal Approach

Indifference curve Analysis
↓
- Hicks and Allen
- Ordinal Approach

Marginal utility Analysis

Assumptions

a) Rational : Always try to maximise his satisfaction
b) utility can be measured
c) Money is used as measuring Rod of utility.
d) constancy of Marginal utility of money.
e) independent Hypothesis of utility

Concept of Total utility & Marginal utility.

Qty	Total utility	Marginal utility.
1	50	50
2	90	40
3	110	20
4	120	10
5	120	-
6	110	-10
7	90	-20

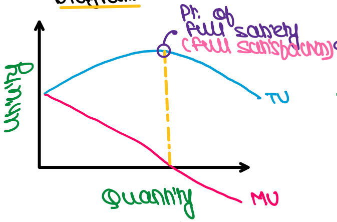
} Law of Diminishing Marginal utility

Total utility = ΣMU

Marginal utility = $TU_n - TU_{n-1}$

(Extra satisfaction from consumption of one extra unit)

→ **Diagram**



→ **Relationship between TU & MU**

a) TU is Rising
MU is falling

b) TU is maximum
MU is zero

c) TU is falling
MU is negative

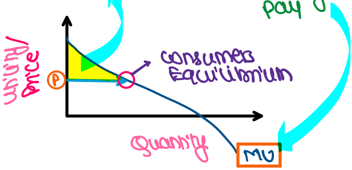
→ **Assumptions of law of DMU**

a) Homogenous : Identical
b) Continuous consumption
c) Reasonable size
d) No change is taste / preferences

→ **Exceptions to law of DMU**

a) Padhai : Education
b) Paisa : Money
c) Daru : Drunkard
d) H : Hobbies
e) M : Music
f) M : Miser
g) Prestigeous goods

→ **Consumers surplus** : consumer is willing to pay (−) consumer actually pays



→ **Consumers Equilibrium** → Market Price = Marginal utility

(Maximum satisfaction)

Qty	MU	MP₁	MP₂	MP₃
①	50	30	50	20
2	40	30	50	20
③	30	30	50	20
④	20	30	50	20

MP ↑ Q ↓
MP ↓ Q ↑

∴ law of DMU is the Basis for law of demand.

@ consumers equilibrium, consumers surplus = zero

→ **Limitations of consumers Surplus**

a) cannot be measured precisely as MU cannot be accurately measured.

b) In case of Neccessities CS will always be infinite

c) Affected due to availability of substitutes

	Tea	Coffee
MP	₹10	₹15
MU	20	20
CS	10	5

d) No scale to measure utility of goods having prestige value

eg:

e) Consumers surplus cannot be measured in terms of money.

Indifference Curve Analysis

water	lemonade	coconut water
III	II	I

∴ This concept is Based on consumer preference & hence called as "ordinal Approach"

Assumptions

a) Consumer has full information & knowledge about market condition

b) Capable of Ranking all possible combination of 2 Goods

Combination	Food	Clothing
A	1	12
B	2	6
C	3	4
D	4	3

c) Combination which has higher No. of Goods will be preferred as it gives higher satisfaction

d) Consistent consumption Pattern

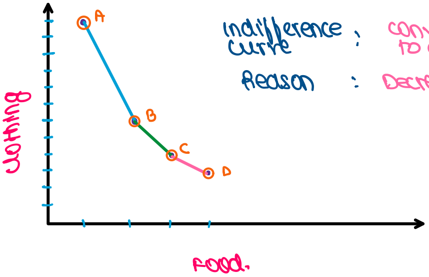
A < B   B < C

A < C

Concept:
i. is a curve
ii. shows combination of 2 Goods
iii. That Gives the same level of satisfaction

"Marginal Rate of Subs."

Combination	Food	Clothing	MRS
A	1	12	
B	2	6	6
C	3	4	2
D	4	3	1

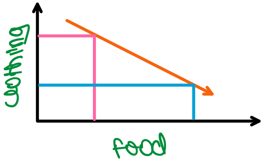


Indifference curve : convex to origin

Reason : Decreasing MRS

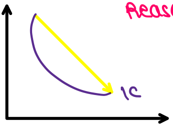
☞ Properties of Indifference curve

a) Indifference curve slopes downward from left to Right



b) Curve of Indifference curve is convex to origin

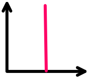
Reason: Decreasing MRS



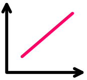
Q: what if, MRS is constant? IC would be a straight line

a)

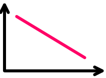
b)



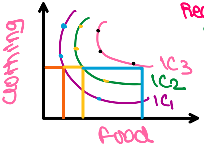
c)



d)

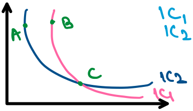


c) Higher the IC Higher the level of satisfaction



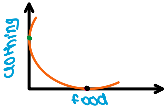
Reason: Combination which more No. of Goods will be preferred as it Results in Higher level of satisfaction

d) Two Indifference will Never intersect each other



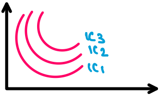
IC1 B = C
IC2 A = C } ∴ A ≠ B

e) Indifference will Never Touch either of axes



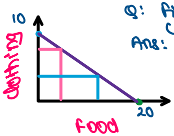
Indifference curve Map

collection of indifference curves is called as IC map



Budget Line / Price Line ₹1000*

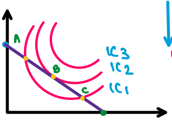
* consumer spends entire income



Q: Find prices of food & clothing?

Ans: food : 1000/20 = ₹50
clothing : 1000/10 = ₹100

Consumers Equilibrium



consumers Eq. @ combⁿ B

when IC meet Budget line at Tangency

→ Law of Equi Marginal utility.

	sandwich	vadapav	Burger	Pizza
MU	20	40	100	150
MP	20	20	50	100

$$\frac{MU_B}{MP_B} = \frac{MU_V}{MP_V}$$

$$\boxed{\frac{100}{50} = \frac{40}{20}}$$