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NATURE of HUMAN WANTS :-

- (1) Unlimited wants.
- (2) Want is Satiabile
- (3) Intensity in differ (Urgent).
- (4) Nature.

CLASSIFICATION of WANTS :-

(1) Necessaries :-

- Those which are essential for living.
- (a) life → E.g - food, cloth..
- (b) Efficiency → E.g - Education, nutritious food.
- (c) Conventional → Habits or Social customs.

(2) Comforts :-

⇒ make life possible comforts make life comfortable & satisfying.

(3) Luxuries :-

- ⇒ Those wants which are Superfluous and Expensive. E.g - Cars, exp. cloth etc
- They are not essential for living.

UTILITY ?

- ⇒ want Satisfying power of a Commodity.
- ⇒ utility is measured in terms of "U.S."

Utility

① Total utility
(TU)

② Marginal utility
(MU)

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a. Total Utility → The Sum of utility derived from different units of a commodity consumed by a consumer.

$$TU = MU_1 + MU_2 + \dots + MU_n$$

b. Marginal Utility → Utility derived from one additional unit consumed by the individual.

$$MU = T_n - T_{n-1}$$

MEASUREMENT of UTILITY:

1. Alfred Marshall

Cardinal Approach

Something which can be measured in terms of "numbers".

2. Hicks & Allen

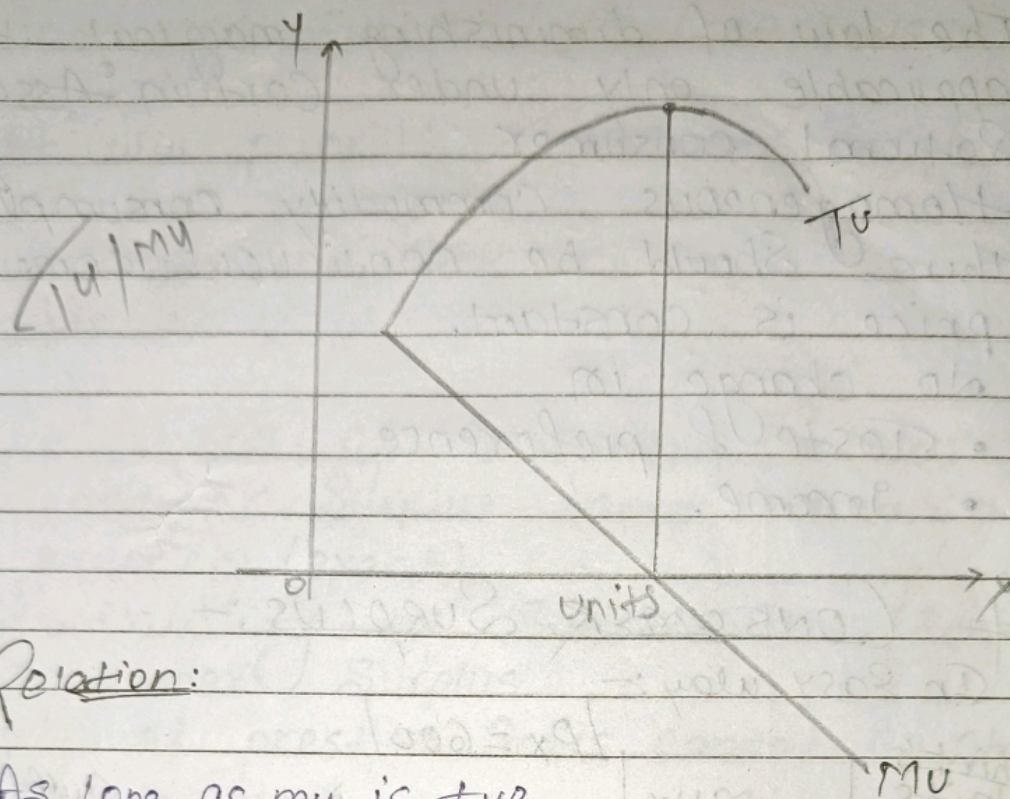
Ordinal Approach

We can't calculate in terms of numbers. However, we can "rank" them.

* RELATIONSHIP BETWEEN TU & MU.

TU & MU Schedule.

Units	Total Utility (TU)	Marginal Utility
0	0	-
1	10	10
2	18	8
3	23	5
4	25	2
5	25	0
6	23	-2



Relation:

- ① As long as mu is +ve Tu is increasing.
- ② When mu is zero, Tu is maximum.
- ③ When mu become negative Tu start falling.

LAW OF DIMINISHING MARGINAL UTILITY

⇨ H. H. GOSSEN.

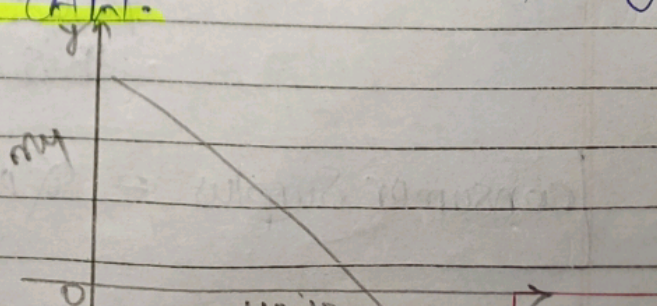
In simple words,

It says that as a consumer takes more units of a good, the extra satisfaction that he derives from an extra unit of a good goes on falling.

→ GOSSEN'S FIRST LAW.

Eg

units	mu
1	10
2	8
3	5
4	2
5	0



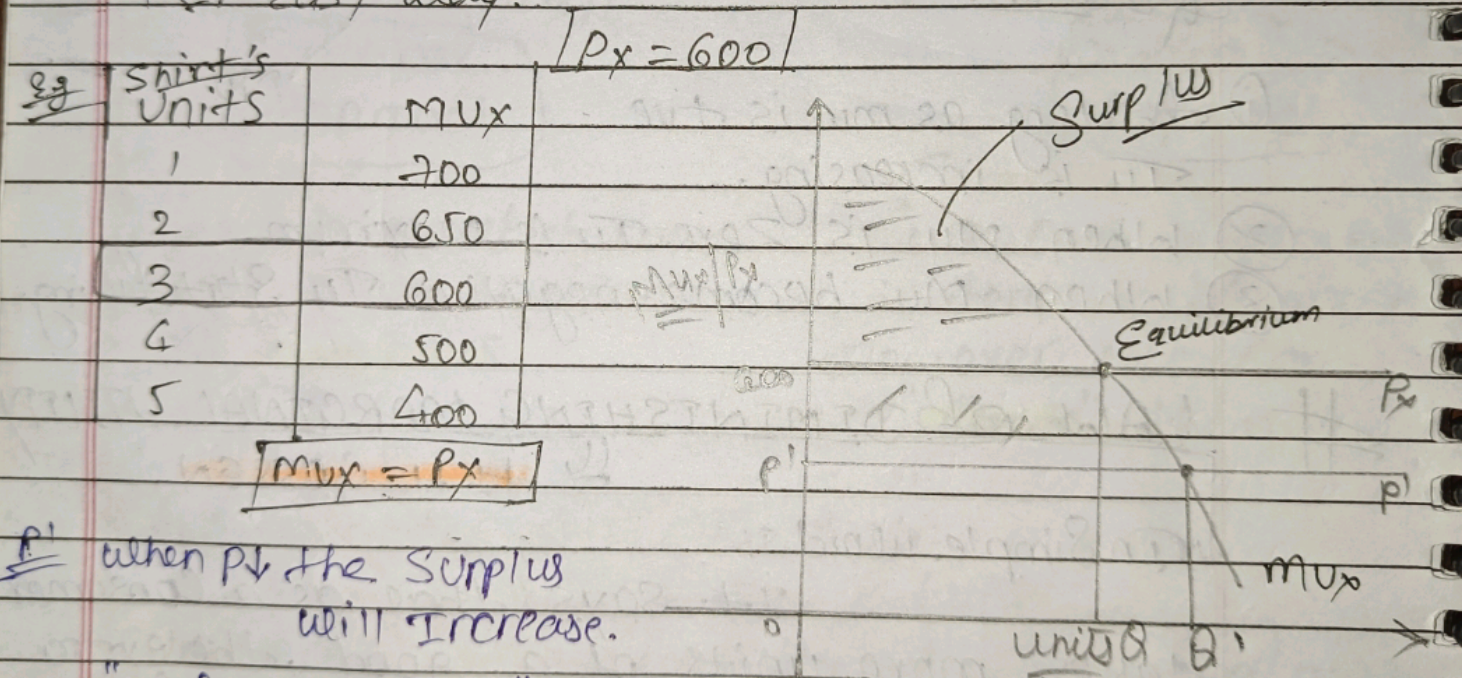


⇒ The law of diminishing marginal utility is applicable only under certain assumptions:

- ① Rational consumer.
- ② Homogeneous commodity consumption.
- ③ There should be continuous consumption.
- ④ price is constant.
- ⑤ No change in
 - Taste & preference
 - Income.

CONSUMER SURPLUS:-

In easy way:-



⇒ "Alfred Marshall,"

→ "Consumer is willing to pay more for consuming this particular commodities."

Consumer Surplus = Ready to pay - what's Actual pay.



CONSUMER SURPLUS APPLICATIONS:-

- ① It will prioritise customer Satisfaction.
- ② pricing Decisions.
- ③ Investment Decision.
- ④ Tax Decisions.

Limitations of Consumer Surplus:-

- ① consumer Surplus cannot be measured precisely (exact).
- ② Availability of Substitutes affect consumer Surplus.
- ③ MU of prestige Goods cannot be obtained.
Eg - Diamond.

INDIFFERENCE CURVE ANALYSIS:-

Form by Hicks & Allen.

It also known as ISO Utility or Equal Utility IC Schedule.

Combination	X	Y	MRS
(A)	1	20	-
(B)	2	12	8:1
(C)	3	8	4:1
(D)	4	6	2:1

Loss
Coin

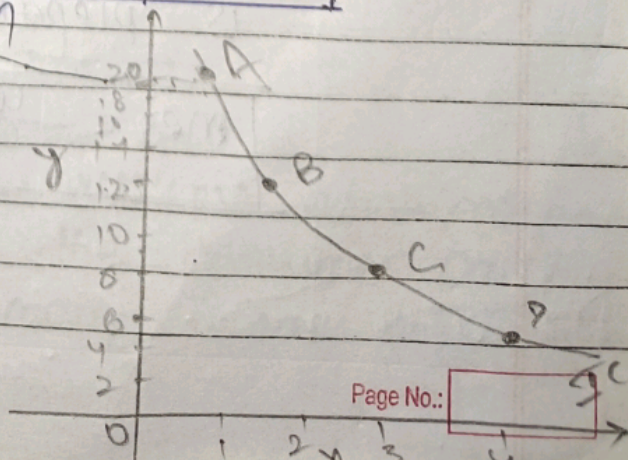
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IC $\Rightarrow$ Same level of Satisfaction after loss.

MRS

marginal rate of Substitution $\Rightarrow$ It is a rate at which one goods substitute with another.

$$\text{Slope of IC} = \frac{\Delta Y}{\Delta X}$$

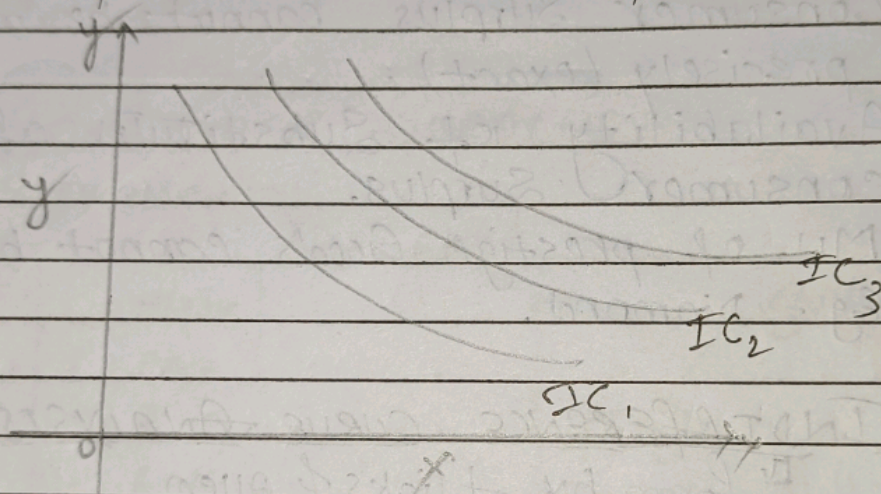


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* ASSUMPTION Underlying Indifference Curve Approach

- ① more is Better.
- ② consumer known his own Taste & preference
- ③ consumer is Rational - (Dimag ka thik thak hona chahiye)
- ④ utility can be expressed ordinally.

Indifference Curve Map :-



→ "A Set of indifference Curve drawn on a single diagram and each difference curve represent difference level of Satisfaction" which is known as indifference map.

* Marginal Rate of Substitution :-

→ It is the rate at which consumer is prepared to exchange goods x & y.

$$\boxed{MRS = -\frac{\text{Loss}}{\text{Gain}}}$$

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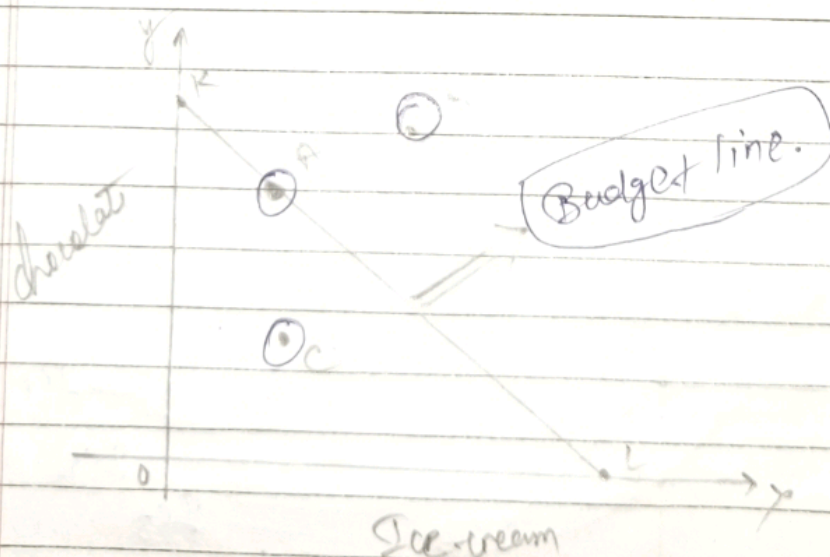
properties of IC :- ↓ V.I

- ① IC Slopes downward to Right.
- ② IC is convex to origin.
- ③ IC never touch x or y axis.
- ④ IC can never intersect each other.
- ⑤ Higher the IC, higher the Satisfaction.

The Budget Line :-

consumption possibilities.

	Ice cream	chocolate
A	0	10
B	1	8
C	2	6
D	3	4
E	4	2
F	5	0



⇒ A budget line show all those combination of two goods which the consumer can buy spending his given money income on the two goods at their prices.

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Consumer Equilibrium :-

means:-

A consumer is set to be on equilibrium when he attain equal satisfaction out of his spending.

IC Analysis through

→ Condition.

①

$$MRS_{xy} = \frac{P_x}{P_y}$$

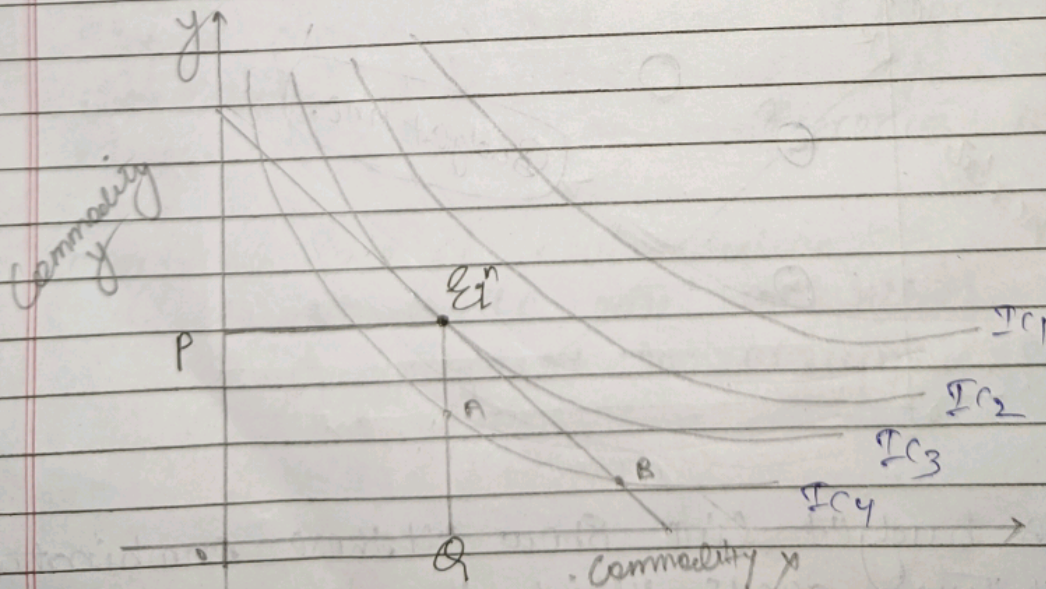
②

IC is convex at the point of origin (Equilibrium).

where,

MRS_{xy} = Slope of IC

$\frac{P_x}{P_y}$ = Slope of Budget line.



Note

A & B are not E_q^n because, IC_3 has more satisfaction as compare to IC_4 . So it has not E_q^n .

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