

CARDINAL UTILITY APPROACH

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Utility is the want-satisfying power of a commodity.

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Total Utility and Marginal Utility:

Relationship between Total Utility and Marginal Utility

Implications of Relationship between Total Utility and Marginal Utility

- i) Distinction between value -in-use and value-in exchange
- ii) Consumer Surplus

DERIVATION OF MU FUNCTION FROM THE TU FUNCTION

Assumption of Cardinal Utility Analysis

- i) Rationality of consumer
- ii) Cardinal measurement of utility
- iii) Constancy of marginal utility of money
- iv) Independence of utilities
- v) Single commodity purchase
- vi) Assumption of Continuity

CARDINAL UTILITY APPROACH

Law of Diminishing Marginal Utility

Does the law apply to money

Assumptions of the law

Limitations of the Law

- ▣ Small size of unit
- ▣ Abnormal character of consumers
- ▣ Goods for display
- ▣ Rate collections
- ▣ Change in other people's stock

IMPORTANCE OF THE LAW OF DIMINISHING UTILITY

- ▣ Basis of economic laws
- ▣ Importance in taxation
- ▣ Importance in price determination
- ▣ Argument for socialism
- ▣ Importance for consumers
- ▣ Variety in production
- ▣ Distinction between value-in-use and value-in-exchange

LAW OF EQUI-MARGINAL UTILITY

- ▣ Assumption of the law
- ▣ Limitations of the law
 - i) Difficulty in the measurement of utility
 - ii) Too much rationality
 - iii) Ignorance
 - iv) Carelessness
 - v) Non-Availability of substitutes
 - vi) Influence of habit, fashion and customs
 - vii) Change in price
 - viii) Change in income

IMPORTANCE OF THE LAW

- ▣ Importance in Consumption
- ▣ Importance in Production
- ▣ Importance in Exchange
- ▣ Importance in Public Finance
- ▣ Income allocation between saving and consumption
- ▣ Allocation allocation between saving and consumption
- ▣ Allocation of investment
- ▣ Choice of Assets

CARDINAL UTILITY APPROACH

- ▣ Consumer's Equilibrium

CRITICISM OF CARDINAL UTILITY ANALYSIS

- ▣ No exact measurement of utility
- ▣ No possibility of Cardinal measurement
- ▣ Change in MU of money
- ▣ Non-independence of commodities
- ▣ Indivisible goods
- ▣ Single Commodity purchase
- ▣ Too much rationality
- ▣ Neglect of Giffien's paradox
- ▣ No separation of 'income and substitution effects from price effects'
- ▣ Theoretically unsound
- ▣ Limited Practical Significance

THE END