

Utility, Total Utility, Marginal Utility & its Law

1 Mark Questions

1. Define utility. (Compartment 2014, Foreign 2014, Ail India 2010, 2006)

Ans. The wants satisfying power of a good is called utility.

2. Define Marginal Utility (MU). (All India 2011)

Ans. Marginal Utility (MU) refers to additional utility on account of the consumption of an additional unit of a commodity.

$$MU = TU_n - TU_{n-1}$$

Where, MU = Marginal Utility, TU = Total Utility

3 Marks Questions

3. Explain the Law of Diminishing Marginal Utility with the help of a utility schedule. (Delhi 2013)

or

Explain the Law of Diminishing Marginal Utility with the help of a Total Utility schedule. (All India 2011; Delhi 2010)

Ans. It is the fundamental Law of Utility approach to consumer's equilibrium. This law states that as more and more standard units of a commodity are continuously consumed, the Marginal Utility obtained from each successive unit goes on diminishing. This law is also called as a 'Fundamental Law of Satisfaction' or 'Fundamental Psychological Law'.

Utility schedule

Units consumed	Total Utility (TU)	Marginal Utility (MU)
0	0	—
1	8	8 - 0 = 8
2	14	14 - 8 = 6
3	18	18 - 14 = 4
4	20	20 - 18 = 2
5	20	20 - 20 = 0
6	18	18 - 20 = -2

The above schedule shows that with the consumption of successive unit of a commodity, the level of satisfaction falls and becomes negative or in other words, MU tends to decline as consumption of the commodity increases.

Note The above law is based upon certain assumptions. It is assumed that the different unit consumed should be identical in all respects and consumption should be continuous.

4. Define Marginal Utility (MU). State the Law of Diminishing Marginal Utility.(All India 2006)

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5. Define utility. State the Law of Diminishing Marginal Utility. (Delhi 2006C)

Ans. The wants satisfying power of a good is called utility.

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6 Marks Question

6. Explain the difference between cardinal utility and ordinal utility. Give example. (All India 2012)

Ans. Difference between cardinal utility and ordinal utility

Basis	Cardinal utility	Ordinal utility
Meaning	It means satisfaction that can be measured in numbers such as 1, 2, 3, etc.	It refers to satisfaction that cannot be measured in numbers. e.g. A glass of milk must yield some satisfaction.
Used	This concept was used by Marshall.	This concept was used by JR Hicks.
Realistic	It is less realistic.	It is more realistic.
Measurement	Utility is measured in 'utils'.	Utility is ranked based on satisfaction.