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**B.A. ECONOMICS – Part 1**

**Paper 1 ( Micro Economics)**

**Topic – Consumer Demand Theory(Utility Analysis**)

Date - 30/06/2021

CONSUMER DEMAND THEORY

There are two basic approach to study Consumer Demand Theory, they are:

1. The Classical or Cardinal approach , which involves measurable marginal utility satisfaction.
2. Second, is Indifference Curve approach or Ordinal Utility Analysis.

Utility:

Utility refers to the want satisfying capacity of a commodity, in refers to satisfaction.

Cardinal Utility Analysis:-

It is the oldest theory of consumer demand, which provides explanation of consumer demand for a product and derives law of demand which establishes inverse relationship between Price and Quantity demanded.

The Cardinal Utility theory was given by Marshall , the theory is based on cardinal approach which means that utility is measurable and additive.

ASSUMPTIONS OF UTILITY ANALYSIS:

The Utility Analysis is based on set of following assumptions:

1. It is based on Cardinal Concept which assumes that Utility is measurable and additive , like weights and lengths of good.
2. Utility is measurable in terms of money.
3. The marginal utility of money is assumed to be constant.
4. The Consumer is rational who measures , calculates,chooses and compares the utilities of different units of various commodities.
5. The Consumer possesses perfect knowledge of the choice of commodities available to him, and his choices are certain.

TOTAL UTILITY AND MARGINAL UTILITY:

**Total Utility (TU) :-**

It refers to the entire amount of satisfaction obtained from consuming various quantities of a different commodity.

Example:- Suppose Ram eats 6 apples in a go,so aggregate of the utilities obtained from consuming these 6 apples will be called total utility(TU).

**Total Utility is function of Quantity of commodity consumed.**

**TUX = f(QX)**

Where:

TUx = Total utility of X

Qx = Quantity of Commodity X

**Marginal Utility(MU):-**

It’s concept was given by economist Jevons.

MU refers to the change that takes place in total utility by consumption of additional unit of a commodity.

Prof. Boulding described MU as ”The MU is the increase in TU Which results from a unit increase in consumption.”

**MUn = TUn – TUn-1**

where :

MUn= Maginal Utility of nth unit

TUn = Total utility on n units

TUn-1 = Total Utility of n-1 units.

Marginal Utility can be positive, negative or zero.