



Meaning of Utility

- The simple meaning of ‘utility’ is ‘usefulness’.
- In economics utility is the capacity of a commodity to satisfy human wants.
- Utility is the quality in goods to satisfy human wants.
- Thus, it is said that **“Wants satisfying capacity of goods or services is called Utility.”**



Definition of Utility



According to Prof. Waugh:

“Utility is the power of commodity to satisfy human wants.”

According to Fraser:

“On the whole in recent years the wider definition is preferred and utility is identified, with desireness rather than with satisfyingness.”



Characteristics of Utility



1- Utility has no Ethical or Moral Significance

A commodity which satisfies any type of want, whether moral or immoral, socially desirable or undesirable, has utility, i.e., a knife has utility as a household appliance to a housewife, but it has also a utility to a killer for stabbing some body.



2- Utility is Psychological



- Utility of a commodity depends on a consumer's mental attitude and assessment regarding its power to satisfy his particular want.
- Psychologically, every consumer has his likes and dislikes and everyone determines his own level of satisfaction.
- For Example, a consumer who is fond of apples may find a high utility in apples in comparison to the consumer who has no liking for apples. Similarly a strictly vegetarian person has no utility for mutton or chicken.

3- Utility is always Individual and Relative

- Utility of a commodity varies in different situations in relation to time and place.
- Even the same consumer may derive a higher or lower utility for the same commodity at different times and different places.
- For example—a person may find more utility in woolen clothes during the winter than in summer or at Kashmir than at Mumbai.



Utility is not Necessarily Equated with Usefulness



- Utility simply means the ability to satisfy a want.
- A commodity may have utility but it may not be useful to the consumer.
- For instance—A cigarette has utility to the smoker but it is injurious to his health.
- However, demand for a commodity depends on its utility rather than its usefulness.



5- Utility cannot be Measured Objectively



- Utility being a subjective phenomenon or feeling of a consumer cannot be expressed in numerical terms.
- So utility cannot be measured cardinally or numerically.
- It cannot be measured directly in a precise manner.
- Professor Marshall has however, unrealistically assumed cardinal measurement of utility in his analysis of demand.

6- Utility Depends on the Intensity of Want

- Utility is the function of intensity of want.
- A want which is unsatisfied and greatly intense will imply a high utility for the commodity concerned to a person.
- But when a man is satisfied in the process of consumption it tends to experience a lesser utility of the commodity than before.
- In other words, the more of a thing we have, the less we want it.

7/- Utility is Different from Pleasure

- A commodity may have utility but its consumption may not give any pleasure to the consumer, e.g., medicine or an injection.
- An injection or medicinal tablet gives no pleasure, but it is necessary for the patient.



8- Utility is also Distinct from Satisfaction



Utility and satisfaction, both are though inter-related but they have not been considered as the same in a strict sense.



Different Types of Utility w.r.t Production.

- In economics, production refers to the creation of utilities in several ways.
- Thus, there are following types of utility w.r.t production:

1. Form Utility.

2. Place Utility.

3. Time Utility.

4. Service Utility.



1. Form Utility



- This utility is created by changing the form or shape of the materials.
- For example—A cabinet turned out from steel furniture made of wood and so on.
- Basically, form utility is created by the manufacturing of goods.



2. Place Utility



- This utility is created by transporting goods from one place to another.
- Thus, in marketing goods from the factory to the market place, place utility is created.
- Similarly, when food-grains are shifted from farms to the city market by the grain merchants, place utility is created.
- Place utility of a commodity is always more in an area of scarcity than in an area of abundance.
- For Example, Kashmir apples are more popular and fetch higher prices in Pune than in Srinagar on account of such place utility.



3. Time Utility



- Storing, hoarding and preserving certain goods over a period of time may lead to the creation of time utility for such goods.
- For Example, by hoarding or storing food grains at the time of a bumper harvest and releasing their stocks for sale at the time of scarcity, traders derive the advantage of time utility and thereby fetch higher prices for food-grains.



4. Service Utility



This utility is created in rendering personal services to the customers by various professionals, such as lawyers, doctors, teachers, bankers, actors etc.



Types of Utility w.r.t Unit of Consumption



This category has three following types:

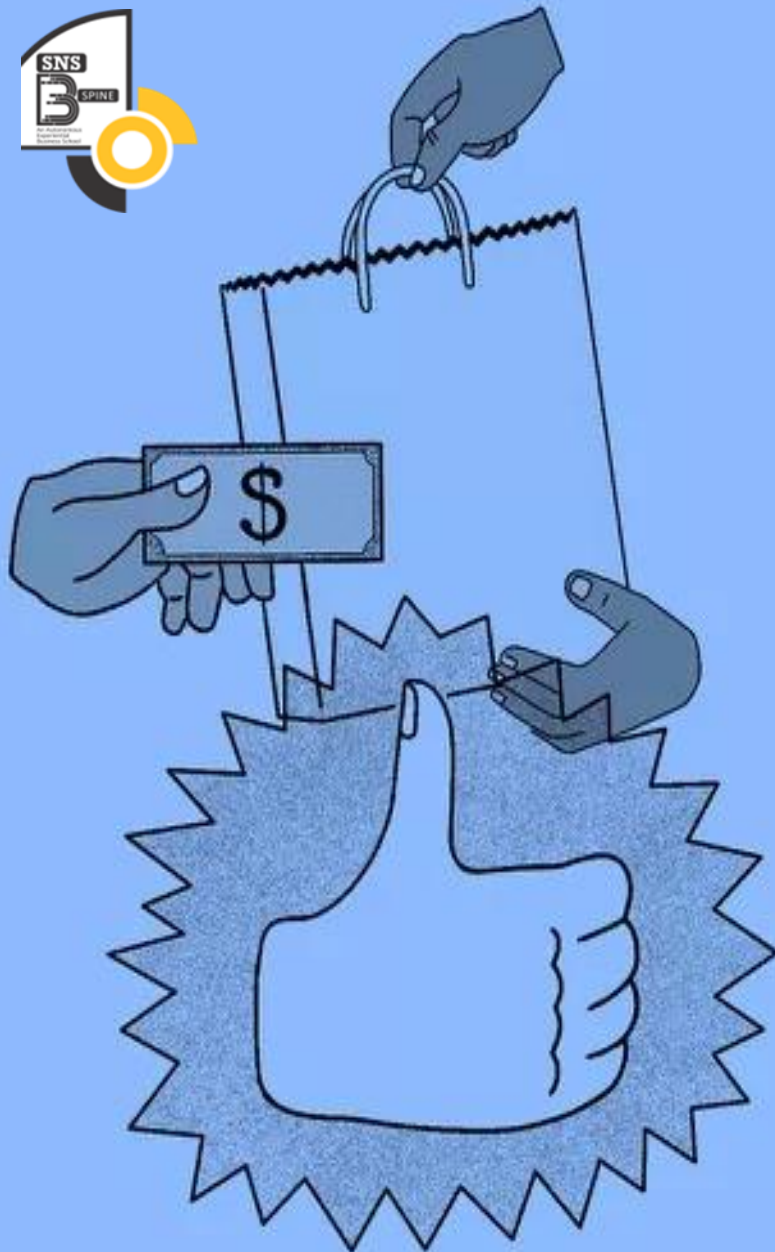
- (i) Marginal Utility.**
- (ii) Total Utility.**
- (iii) Average Utility.**



(i) Marginal Utility



- Marginal utility is the utility derived from the last or marginal unit of consumption.
- It has been said—as the last unit in the given total stock of a commodity.
- According to Prof. Boulding, "The marginal utility of any quantity of a commodity is the increase in total utility which results from a unit increase in its consumption."



Marginal Utility

[ˈmɑːrj-nəl yü-ˈti-lə-tē]

The added satisfaction that a consumer gets from having one more unit of a good or service.

- ▶ **Initial Utility**- Satisfaction Derived from very first unit consumed of any object.
- ▶ **Total Utility** – Total Satisfaction derived from the product.
- ▶ **Marginal Utility**- The word Marginal means “Border” or “Edge”.

It is the addition made to the total utility by consuming one more unit of a commodity.



Utility is of two types:



- ▶ Total Utility
- ▶ Marginal Utility

- ▶ The sum total of satisfaction which a consumer receives by consuming the various unity of the commodity.
- ▶ (The more unit of a commodity he consumes, the greater will be his total utility)

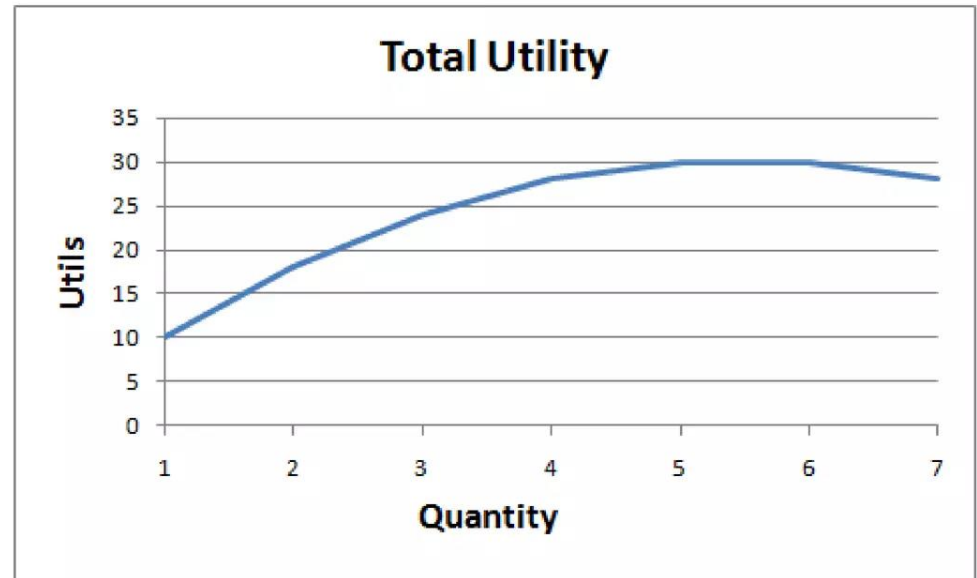


Total Utility



- ▶ The total satisfaction of wants & needs obtained from the consumption of goods & services
- ▶ Based on the presumption that the amount of utility generated from the consumption of a good can be explicitly measures
- ▶ Hypothetical measure is util

Quantity	Total Utility
1	10
2	18
3	24
4	28
5	30
6	30
7	28





MARGINAL



- ▶ **The term marginal refers to the effects of a small change in consumption.**

'Marginal considerations are considerations which concern a slight increase or reduction of the stock of anything which we possess.'



Marginal



- ▶ Marginal utility can be defined as a measure of relative satisfaction gained or lost from an increase or decrease in the consumption of that good or service.

Examples:

- ▶ A motor vehicle or A haircut



MARGINAL UTILITY (MU)



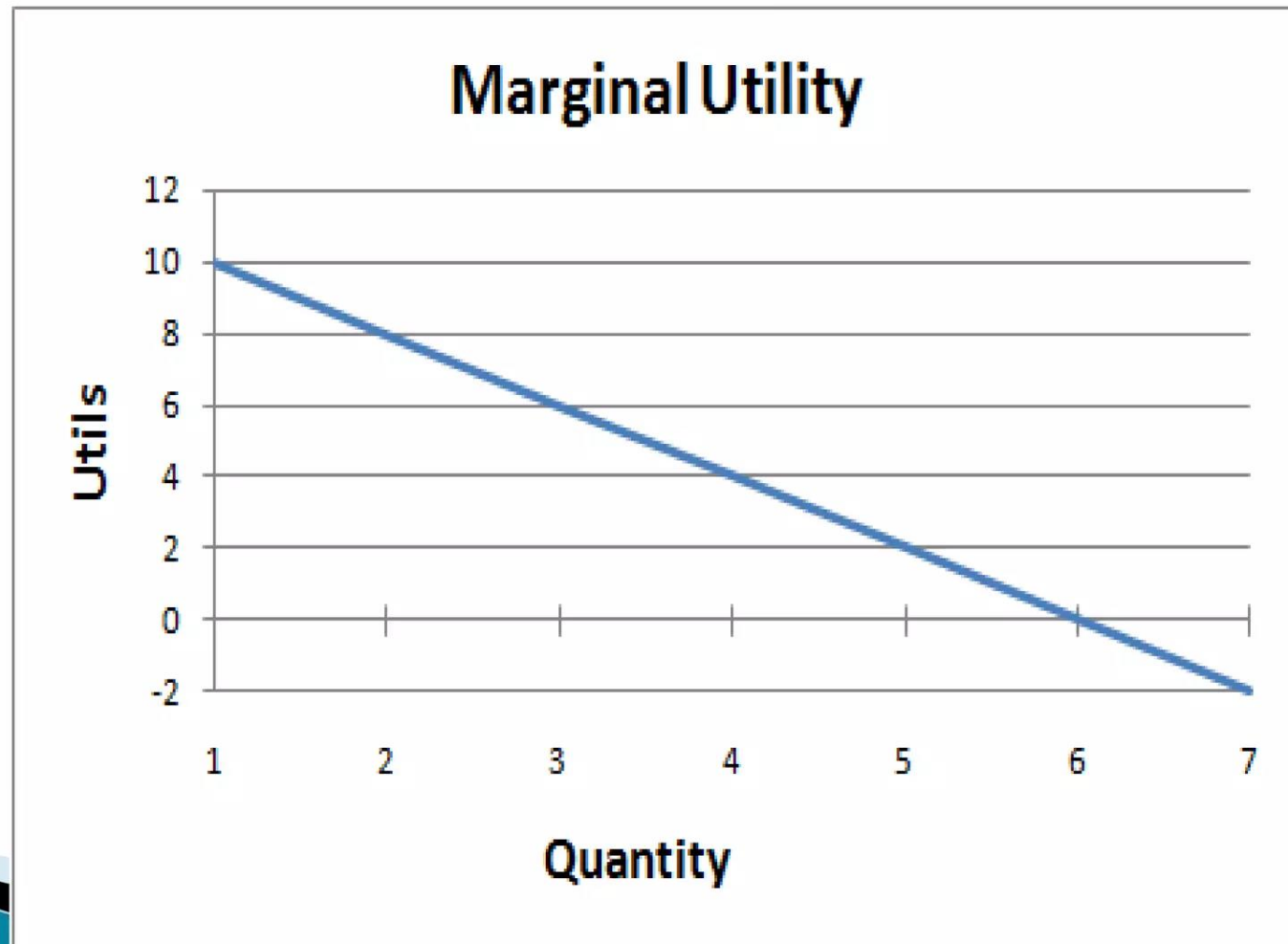
The additional to total utility as a result of consuming one more units of the same good or services.

$$\text{Marginal Utility (MU)} = \frac{\text{Change in Total Utility}}{\text{Change in Total Quantity}}$$

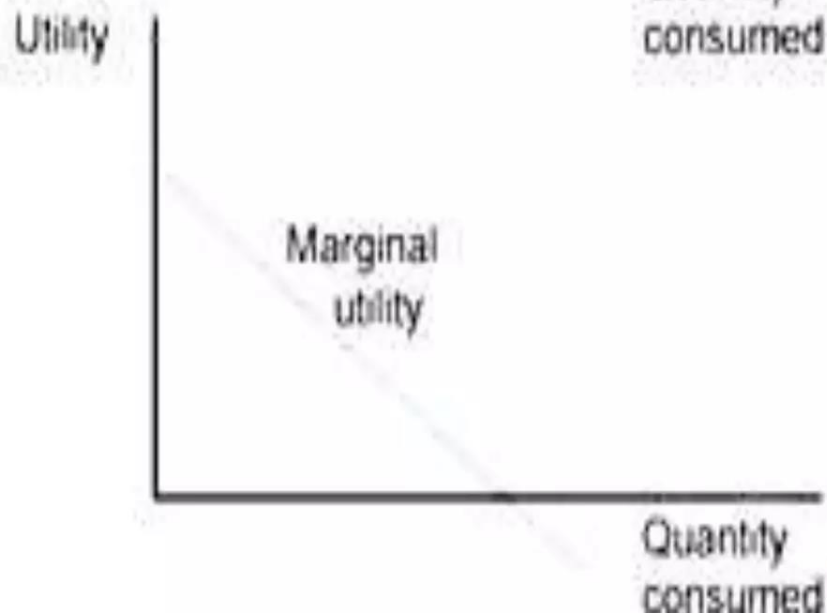
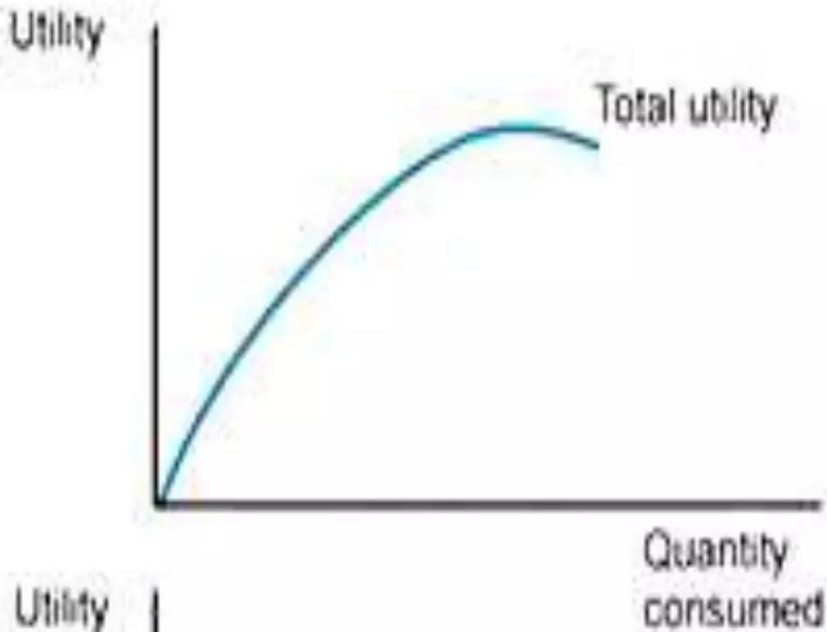
$$\text{MU} = \Delta \text{ TU} / \Delta \text{ Q}$$

Curve of Marginal Utility

Quantity	Marginal Utility
1	10
2	8
3	6
4	4
5	2
6	0
7	-2



Relation between TU & MU



Quantity	TU	MU	Description
0	0	--	
1	8	8	Initial
2	14	6	
3	18	4	Positive
4	20	2	
5	20	0	Zero
6	18	-2	Negative