



SNS COLLEGE OF TECHNOLOGY

An Autonomous Institution

Coimbatore-35



Accredited by NBA – AICTE and Accredited by NAAC – UGC with ‘A+’ Grade
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai

Department of Automobile Engineering

III YEAR/ VI SEMESTER

19MEE301 / Engineering Economics and cost Analysis

UNIT-1

Law of diminishing marginal utility

Utility refers to the amount of satisfaction a person gets from consumption of a certain item. and marginal utility refers to the addition made to total utility, we get after consuming one more unit.

An individual's wants are unlimited in number yet each individual's want is satiable. Because of this, the more we have a commodity, the less we want to have more of it. This law states that as the amount consumed of a commodity increases, the utility derived by the consumer from the additional units, i.e. marginal utility goes on decreasing.

The law of diminishing marginal utility explains the downward

sloping demand curve Definition

According to Marshall, “The additional benefit a person derives from a given increase of his stock of a thing diminishes with every increase in the stock that he already has”

Assumptions:

All the units of a commodity must be

same in all respects. The unit of the

good must be standard.

There should be no change in taste during the

process of consumption. There must be continuity in consumption.

There should be no change in the price of the substitute goods.

Explanation:

As more and more quantity of a commodity is consumed, the intensity of desire decreases and also the utility derived from the additional unit.

Suppose a person eats Bread and 1st unit of bread gives him maximum satisfaction. When he will eat 2nd bread his total satisfaction would increase. But the utility added by 2nd bread is less than the 1st bread. His total utility and marginal utility can be put in the form of a following schedule.

Slices of Bread	Total utility	Marginal utility
0	0	-
1	70	70
2	110	40
3	130	20
4	140	10
5	145	5
6	140	-5