

2. Utility Analysis

Q. 1. A) Complete the following statements by choosing the correct alternatives.

1) In the law of diminishing marginal utility, Alfred Marshall assumes that marginal utility

Ans. Remains constant

2) As per the law of diminishing marginal utility, measurement of utility is assumed to be

Ans. Cardinal

3) MU of the commodity becomes negative when TU of a commodity is

Ans. Falling

4) Point of Satiety means

Ans. Zero

5) When MU is falling, TU is

Ans. Falling

Q. 2. Choose the correct option:

A	B
1) Time utility	a) Transport
2) Place utility	b) Blood Bank
3) Service utility	c) Mobile phone
4) Knowledge utility	d) Doctor

Ans. i) 1-b, 2-a, 3-d, 4-c

2) Statements indicating consumer equilibrium:

Ans. b) MU is equal to price

Q. 3. Identify and explain the concepts from the given illustration:

(1) Salma purchased sweater for her father in the winter season.

Ans. (A) Identified concept: Time utility,

(B) Explanation of concept: Utility increased/ derived by changing the time of utilization of a commodity is called time utility,

(2) Nilesh purchased ornaments for his

Ans. (A) Identified concept: Possession utility.

(B) Explanation of concept: Utility increased/ obtained from the transfer of ownership rights of goods from one person to another, is called possession utility.

(4) Bhushan refused to eat fifth chapati after eating four chapatis.

Ans. (A) Identified concept: Point of satiety of a rational consumer.

(B) Explanation of concept: The various units of a commodity consumed in quick succession leads to decrease in intensity of want and increase in the satisfaction. At a particular point, consumers want gets fully satisfied. This point is called as a point of satiety. A rational consumer refuses to consume the next unit of consumption after the point of satiety.

(5) Lalita satisfied her want of writing an essay by using pen and notebook

Ans. (A) Identified concept: Utility.

(B) Explanation of concept: Utility refers to the capacity of a commodity to satisfy a human want.

Q. 4. Observe the given table and answer the questions:

1) Draw total utility curve and marginal utility curve.

Unit of commodity	TU Unit	MU Units
1	06	06
2	11	05
3	15	04
4	15	00
5	14	-01

(2) (a) When total utility is maximum marginal utility is

Ans. Zero

(b) When total utility falls, marginal utility becomes

Ans. Negative

Q.5 Answer the following questions in detail:

(1) State and explain the law of DMU.

Ans. The law of DMU can be explained with the help of the following points: (1) The law of DMU was first proposed by Mr. Gossen. However, this law was further explained by Dr. Alfred Marshall in his famous book, 'Principles of Economics' in 1890.

(2) Statement of Law: According to Dr. Alfred Marshall, "Other things being equal,

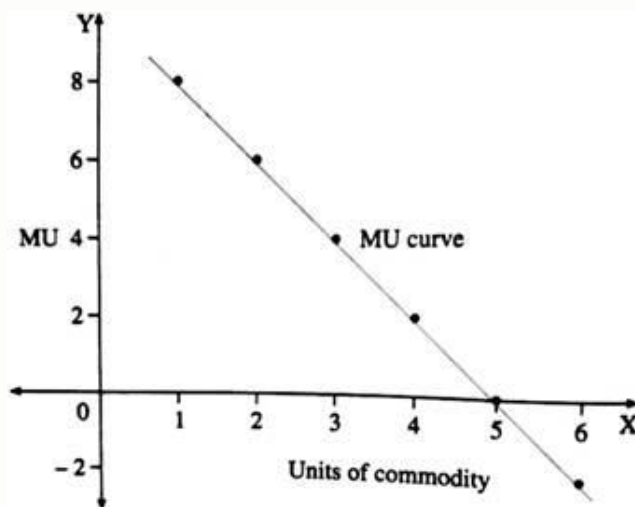
the additional benefit which a person derives from the increase in the stock of a thing diminishes with every increase in the stock that he already has."

(3) The law of DMU can be explained with the help of the following schedule:

Unit of the commodity	MU
1	08
2	06
3	04
4	02
5	00
6	-02

(4) From the schedule, it can be seen that as the stock of commodity increases from 1 marginal utility diminishes from 8 to -02.

(5) The law of DMU can be explained with the help of the following diagram:



(6) In the diagram, the Y-axis represents the marginal utility and the X-axis represents the units of consumption. It can be seen that, the consumer derives the maximum utility from the first unit of the consumption. As consumer keeps consuming the further units, the marginal utility keeps falling.

(7) On the consumption of the 5th unit, the marginal utility becomes zero. Therefore on the consumption of 5th unit, the marginal utility curve touches the X-axis. At this point the total utility is maximum. Therefore, this point is called the point of satiety.

(8) On the consumption of the 6th unit, the marginal utility becomes negative. As its

effect, the total utility also starts diminishing. From beginning to end, the marginal utility curve slopes downwards from the left to the right.