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CONCEPT OF UTILITY

Utility is the basis of consumer demand. The consumers demand a commodity because they desire or expect to derive utility from that commodity. As discussed above, the concept of market, interaction between consumer and producer has evolved in present times. Today, a consumer is more informed about the choices available to him and someone somewhere is trying to produce a good/service in order to provide utility to the customer. New businesses, like an app to book a cab, maid, grocery, medicine, beauty service etc. which have evolved in present time are successful because they provide high utility to their customers.

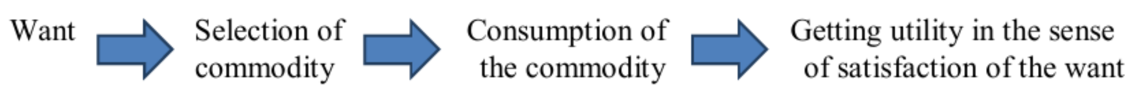
Utility is a psychological phenomenon. It is a feeling of satisfaction, pleasure or well-being experienced by the consumer from the consumption or possession of the commodity or availing of a service. In this sense, it is a subjective or relative concept i.e. level of utility derived from a product differs from person to person. For example, meat has no utility for vegetarians.

Utility of a product can be 'absolute' in the sense that the want satisfying power is ingrained or embeded in it. For example, pen has its own utility whether a person can write or not. However, utility is considered as 'subjective' in consumer analysis because a consumer will demand a good only if that good holds utility for her. Utility not only varies from person to person but also from time to time, at different level of consumption and at different moods of a consumer. The most basic example to understand this concept is food. If a person is not hungry, even her favourite food will not have any utility for her at that point of time.

Based on this understanding, marketing concepts have also evolved over the time. Advertisers target now consumers on the basis of their past purchases, interests, likes/dislikes, sites they visit. Customers are often offered customised coupons for the product/service that might hold 'utility' for them.

Relationship between Want, Utility, Consumption and Satisfaction

Want of the consumer is the basis of understanding her behaviour. A consumer selects a commodity based on its want satisfying power. Consumption of the commodity leads to satisfaction of wants. Thus want, utility, consumption and satisfaction are related in following manner:



Following points can be noted about utility:

a) Utility is a want satisfying power of a commodity

b) Utility varies from person to person

c) It varies from time to time, at different level of consumption and at different moods of a consumer.

There are three concepts related to utility:

Initial Utility- The utility derived from the first unit of a commodity is called initial utility. For example: utility obtained from consumption of first roti is called initial utility.
Total Utility- The utility derived by a person from the total number of units of a commodity consumed by her is called total utility

i.e. TUn= U1+ U2=U3=….Un

Marginal Utility- It means addition made to total utility by consuming an additional unit.

It can be measured with the help of following formula:

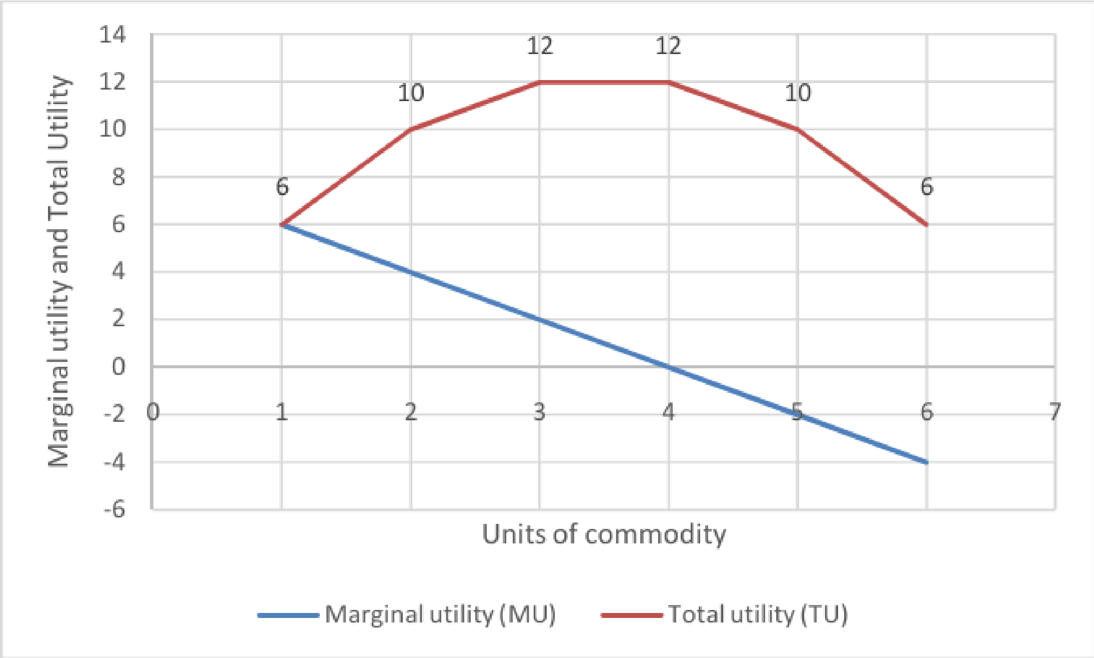
MUn= TUn –TUn-1

Where: MUn = Marginal utility of nth unit

TUn = Total utility of n units

TUn-1 = Total utility of n – 1 units or one unit less than the total no. of units

Units of a Good Consumed	Total Utility (TU)	Marginal Utility (MU)
1	6	6
2	10	4
3	12	2
4	12	0
5	10	-2
6	6	-4



Relationship between Total utility (TU) and Marginal utility (MU)

In fig, units of commodity are measured along x axis and utility is measured along y axis. Upto 3rd unit the total utility is increasing but marginal utility is diminishing but is positive. When a consumer consumes 4th roti, the total utility is maximum and the marginal utility is zero. Consumer is getting maximum satisfaction at this point. If a consumer consumes more than 4 units, total utility will diminish and the marginal utility will be negative. This is also called Law of diminishing Marginal Utility.

Measurement of Utility

The concept of measurement of utility has evolved over the time. The classical economists viz Jeremy Bentham, Menger, Walras etc. and neoclassical economists like Marshall believed that utility is cardinally or quantitatively measurable like height, weight etc. The belief resulted in Cardinal Utility Approach. The exponents of cardinal utility analysis regard utility to be a cardinal concept. According to them, a person can express utility or satisfaction he derives from the goods in the quantitative cardinal terms. Jeremy Bentham (1748–1832), the founder of Utilitarian school of ethics coined a psychological unit of measurement called 'utils'. Thus, a person can say that he derives utility equal to 10 utils from the consumption of a unit of good A, and 20 utils from the consumption of a unit of good B. Moreover, the cardinal measurement of utility implies that a person can compare utilities derived from goods in respect of size, that is, how much one level of utility is greater than another. According to Marshall, marginal utility is actually measurable in terms of money and money is the measuring rod of utility.The modern economists like J.R Hicks, Allen are of view that utility is not quantitatively measurable but can be compared or ranked. This is known as Ordinal concept of utility. Modern Economists hold that utility being a psychological phenomenon, cannot be measured quantitatively, theoretically and conceptually. However, a person can introspectively express whether a good or service provides more, less or equal satisfaction when compared to one another. In this way, the measurement of utility is ordinal, i.e. qualitative, based on the ranking of preferences for commodities. For example, Suppose a person prefers tea to coffee and coffee to milk. Hence, he or she can tell subjectively, his/her preferences, i.e. tea > coffee > milk.

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