An Introduction to Microeconomics
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Lecture – 39
Understanding Utility

Now, we are ready to talk about preferences and utility.

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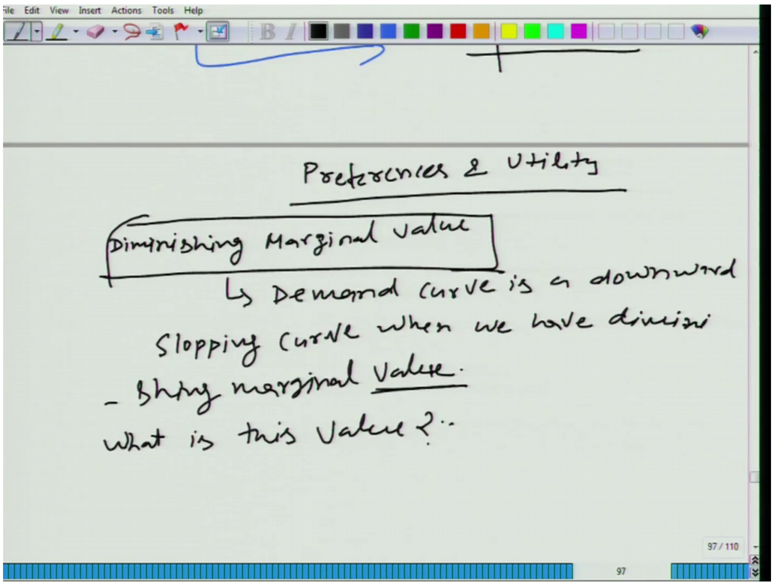

Remember earlier I talked about diminishing marginal utility, marginal value that is the term I used and I said that demand curve is the downward I had shown you. The demand curve is a downward sloping, downward sloping curve when we have diminishing marginal value.

The first question is what is the value, what do we mean by this value, how do we get this value that is the value, but that is not the marginal value. That is the value.

Student: Marginal.

Of the value is defined as the maximum that consumer is willing to pay for that good that what is the marginal value.

Student: One that a consumer wants to pay from one more good.

That is one way to put it. Let me talk about it from a different angle little bit different angle. Can I say this value is somehow related to pain or pleasure, or satisfaction faction or happiness that we receive from consuming a good.

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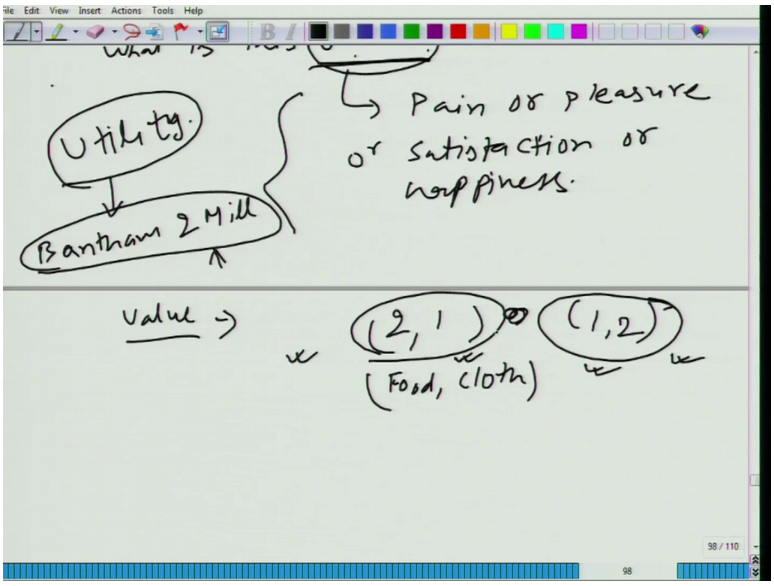

Can I say that, the value is coming from that? In economics let me put it on onset that there is a special term that we use and that is utility rather than value happiness I am going to define this term little later in more detail much more mathematical fashion.

But utility is term in economics that gives this talks about this value that satisfaction or that happiness. But whenever we talk about the value in this strict sense what we think is that one can measure this satisfaction level, one can measure this happiness, one can measure this pleasure that one gets from consumption of a good and that is what utility term let me talk about bantam Jeremy Bentham and John Stuart Mill, J S Mill they where proponent they gave this utilitarian concept they talked about utility ok.

So, when they talked about it what they thought that of course, happiness can be measured, pleasure can be measured, pain can be measured and he talked about that the measurement the unit would be is going to be utilities or in other words by consuming an apple you get 5 units of utils or by when you break your finger then you get certain pain. So, then it would be measured minus 10 units of pain and that is what they thought, but it can be measured it can be added that person a has if this someone is showing movie and 5 people are watching it then one is getting utils 5 utils second is getting 10 utils and soon and how much is the total happiness these can be a bantam and mill they thought that these can be added.

And what I can I guess not I guess what they have in mind that at that time that they thought that they thought that I have present they do not have access to any such machine which would measure the level of happiness. But in future people would have access to such machines. So, utility the happiness can be measured. But unfortunately a long time after they came up with this concept still there is no machine available in the market that will measure your level of happiness and compare it with his level of happiness it cannot be compared. So, what people realized that it is not important to have such a strict and such strict definition of the utility and happiness and more importantly people realize although I told you because that was the beginning chapter that we get downward sloping demand curve because of diminishing marginal value.

We will see later on that diminishing marginal value is neither sufficient nor necessary for a downward sloping demand function. But we still talk about it because it relates to downward sloping demand function in a very understandable manner, but we will come to that and we will say that how we were wrong fine. So, what then, after this realization that utility cannot be measured and compared people thought that what is important for making choice demand is of course, about making choice we are talking about consumer theory. In fact, when we finish towards the end of this chapter we will again start talking about demand function.

So, when people are making choice we do not need to make such a strong assumption that your level of happiness can be measured. What is more important is that you as an individual should be able to compare two different bundles. You should be able to say let us say if we have bundle 2 comma 1 and 1 comma 2 you can have 2 comma 1 as food comma cloth or it can be guava comma mango does not matter. Let us take food comma cloth if you have these two options available 2 units of food and 1 unit of cloth versus the other bundle which has 1 unit of food and 2 units of cloth, it is not important that someone or you should be able to measure your level of happiness if you consume this and your level of happiness if you consume this and see the difference. What is important for you is that you should be able to compare your level of happiness from this bundle with your level of happiness from the other bundle.

The important term is comparison rather than the exact value, the exact level of happiness that you derive. If you figure out for yourself forget about others. Remember there you cannot even for yourself you cannot figure out the level of the exact level of happiness, but you can of course, compare you should be able to compare that for some it is possible that they would prefer this some other they would prefer this does not matter. What is important that one should be able to compare all the bundles available to oneself is it clear.

So, what we are doing you will see that we are moving from exact valuation to comparison. So, over the period economists have developed the consumer theory using these comparing, take comparing philosophy rather than the exact valuation philosophy. And what they realize what they thought that theory should be based on as little assumption as possible. Of course, when you know the exact valuation, let us say it gives you exact 10 value and it gives you exactly 5 value then of course, you can compare it with this that 10 is more than 5. So, you like this more.

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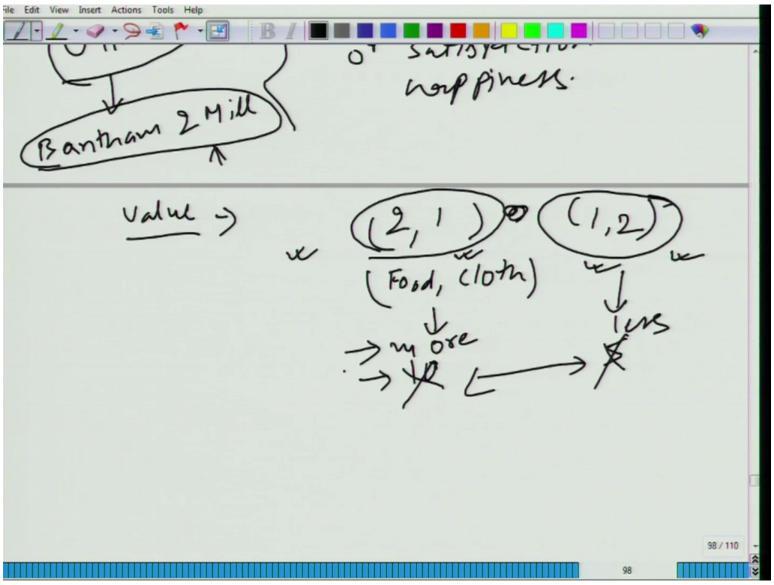

But even when you are not able to figure out 10 and 5 you are able to figure out here it is more and here less in comparison to the first one that is good enough for comparison.

So, this is a much more stronger assumption than the comparison the assumption required for comparing and theorists in economics they thought that there assumption should be as weak as possible because when you make assumption you limit yourself.

So, theory should be general enough. So, over the period they have developed consumer theory using these weak assumptions. And some of the building assumptions here are given as axioms and what are the axioms, the axioms are kind of a starting point beginning point you take those axioms as given you do not and no of course, if someone makes a wrong if someone starts with a wrong axioms he or she would end up at the wrong place because the axiom the first step is wrong fine. But the idea is if we broadly agree that these axioms look fine then we can develop a theory using these axioms.

So, we are going to develop, we are going to talk about some axioms and using those axioms we will develop, we will learn to talk about preferences and then we will develop our consumer theory. So, these axioms they put some regularity.