Theory of Consumer's Behavior

- The theory of consumer's behavior seeks to explain the determination of consumer's equilibrium. Consumer's equilibrium refers to a situation when a consumer gets maximum satisfaction out of his given resources. A consumer spends his money income on different goods and services in such a manner as to derive maximum satisfaction. Once a consumer attains equilibrium position, he would not like to deviate from it.

  Economic theory has approached the problem of determination of consumer's equilibrium in two different ways:

  (1) Cardinal Utility Analysis and (2) Ordinal Utility Analysis Accordingly, we shall examine these two approaches to the study of consumer's equilibrium.

Theory of Consumer's Behavior

- The theory of consumer's behavior seeks to explain the determination

  of consumer's equilibrium. Consumer's equilibrium refers to a situation when a consumer gets maximum satisfaction out of his given resources. A consumer spends his money income on different goods and services in such a manner as to derive maximum satisfaction. Once a consumer attains equilibrium position, he would not like to deviate from it.

  Economic theory has approached the problem of determination of consumer's equilibrium in two different ways:

  (1) Cardinal Utility Analysis and (2) Ordinal Utility Analysis Accordingly, we shall examine these two approaches to the study of consumer's equilibrium.

Utility Analysis or Cardinal Approach

- The Cardinal Approach to the theory of consumer behavior is based upon the concept of utility. It assumes that utility is measurable.

- In this approach, utility can be measured in cardinal numbers, like 1,2,3,4…. etc. This approach is also known as marginal utility or classical approach because it was presented by classical economists. Alfred marshal was the main thinker of this theory. Therefore, it is also known as Marshalian approach of consumer behavior. This approach is based on two laws, i.e. law of diminishing marginal utility and law of equi - marginal utility. We are unable to understand these laws until and unless we are clear about various aspects of the concept of utility.

Meaning of Utility

- The term utility in Economics is used to denote that quality in a good or service by virtue of which our wants are satisfied. In, other words utility is defined as the want satisfying power of a commodity.

- According to, Mrs. Robinson, "Utility is the quality in commodities that makes individuals want to buy them."

- According to Hibdon, "Utility is the quality of a good to satisfy a want."

Different Concepts of Utility

Total Utility : The utility obtained from all the units of a good or service over a given period of time, is called total utility. In other words , it is the sum of marginal utilities obtained from consumption of each successive unit of commodity i.e.

$TUx = $ Sum MUx

Marginal Utility: Net addition to the total utility due to the consumption of an extra unit of a good or service is called marginal utility, i.e. MUx = change in TUx/ change in Qx or

MUx= dTUx/ dQx

Continue

Initial Utility: The utility of very first unit of a good or service is called initial utility. At initial utility, MU = TU.

Positive Utility: When a consumer consumes successive units of a commodity its marginal utility decreases. The utility obtained from the consumption of all the units of a commodity before reaching the marginal utility equal to zero, is called positive utility.
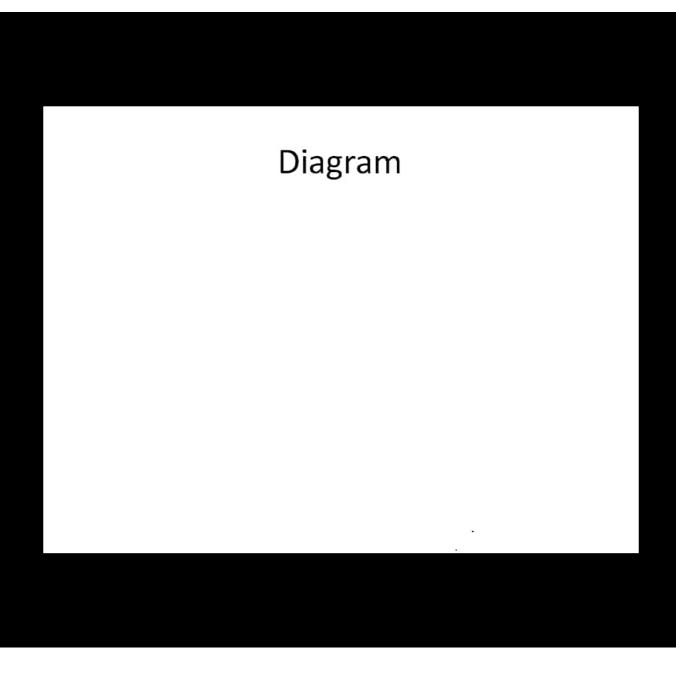
Continue

Zero Utility / Saturation Point: By the consumption of that unit of a commodity where the marginal utility drops down to zero, is called the saturation point or zero utility, i.e. MU=0.

Negative Utility: By consuming the next unit of a commodity after saturation point, that unit gives negative satisfaction to the consumer and marginal utility becomes negative, i.e. MU<0, it is known as negative utility.

Explanation of various concepts of utility with the help of table

Units of Good X (Qx)	TUx	MUx
1	10	10
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	- 2

Diagram

Indifference Curve Approach

- Indifference Curve approach was first propounded by British economist Edge worth in 1881 in his book "Mathematical Physics." The concept was further developed in 1906 by Italian economist Pareto, in 1913 by British economist W .E. Johnson, and in 1915 by Russina economist Stutsky. The credit of rendering this analysis as an important tool of theory of Demand goes to Hicks and Allen. In 1934, they presented it in a scientific form in their article titled "A Reconsideration of the Theory of Value." It was discussed in detail by Hicks in his book, "Value and Capital".

Continue

- An indifference curve is a geometrical presentation of a consumer is scale of preferences. It represents all those combinations of two goods which will provide equal satisfaction to a consumer. A consumer is indifferent towards the different combinations located on such a curve. Since each combination located on such a curve. Since each combination yields the same level of satisfaction, the total satisfaction derived from any of these combinations remains constant.