

Utility

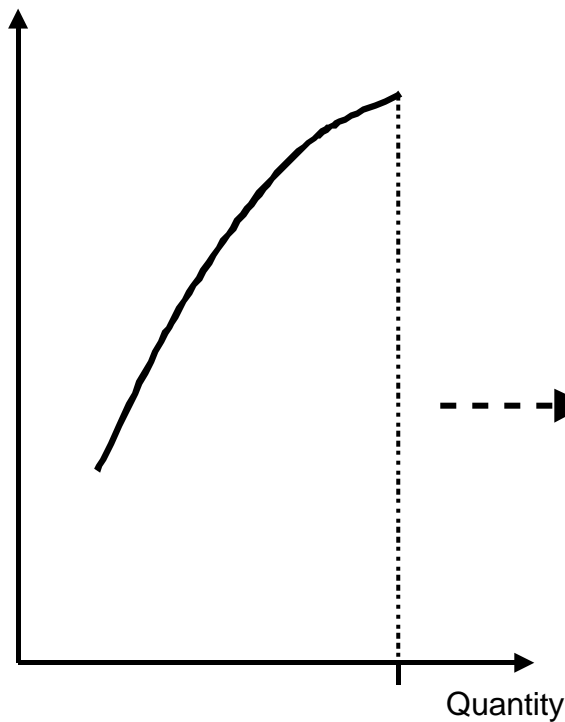
1 What is utility?

Utility is the satisfaction which the consumer gets from consuming goods and services.

2 Total and marginal utility

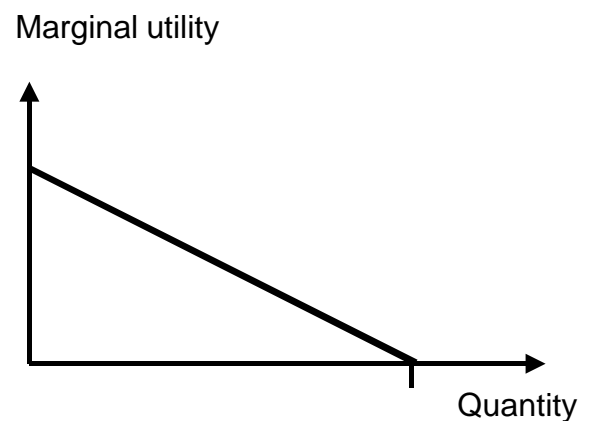
21 Total utility

Total utility



22 Marginal utility (MU)

The law of diminishing marginal utility



3 Consumption equilibrium

At the equilibrium, the marginal utility per \$ is the same for each good or service. We assume only two goods, A and B. Therefore,

$$\frac{\text{MU A}}{\text{Price A}} = \frac{\text{MU B}}{\text{Price B}}$$

If Price A rises, MU A must rise, too (assuming $\frac{\text{MU B}}{\text{Price B}}$ is unchanged). This implies less units A for a higher price A which is also expressed by the demand curve.