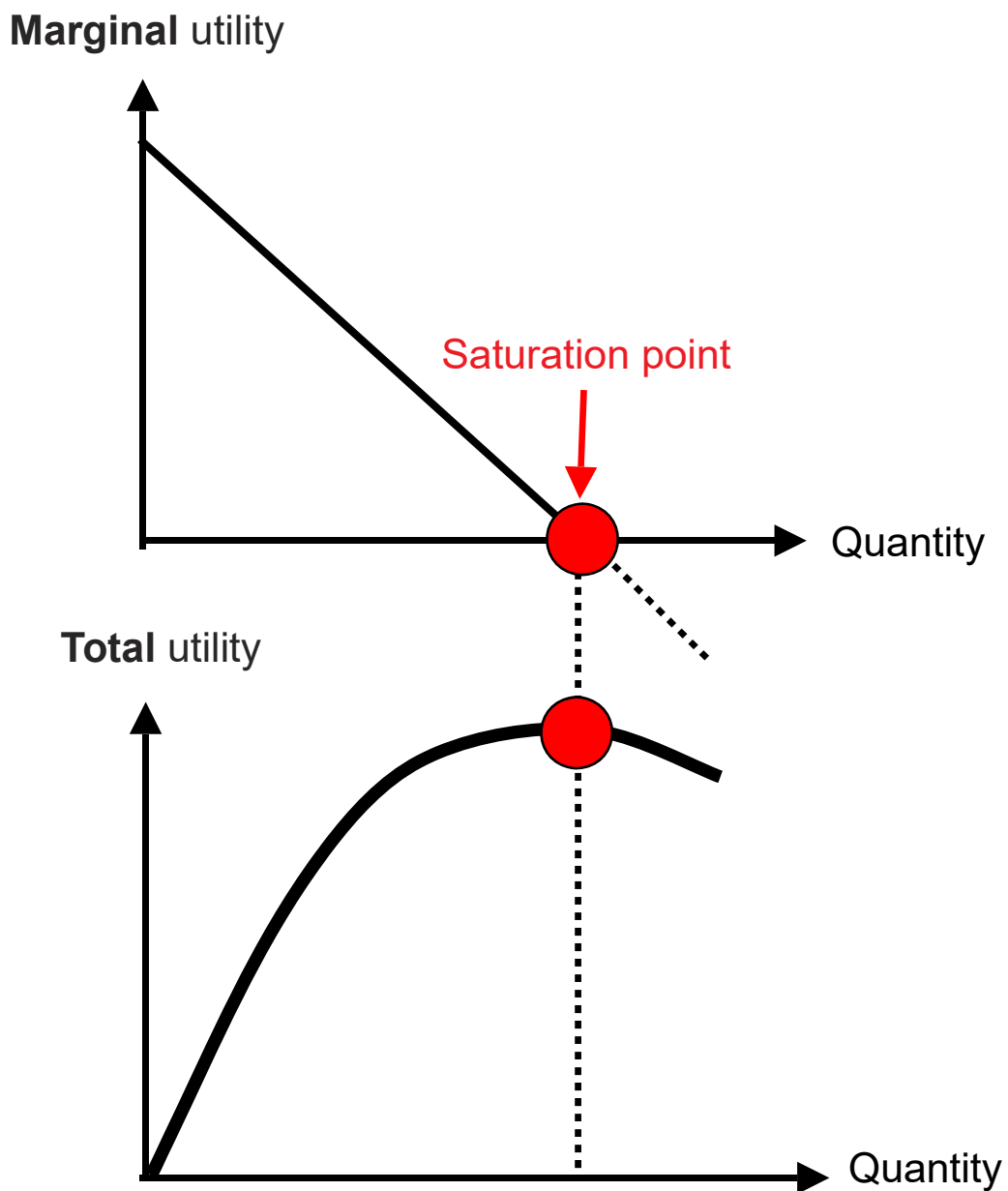


Gossen's laws

Gossen's first law

It is the law of **diminishing marginal utility**, which states that as consumption increases, marginal utility decreases. This law can be observed when consuming food. Total utility still increases, but with a decreasing slope until the saturation point is reached.

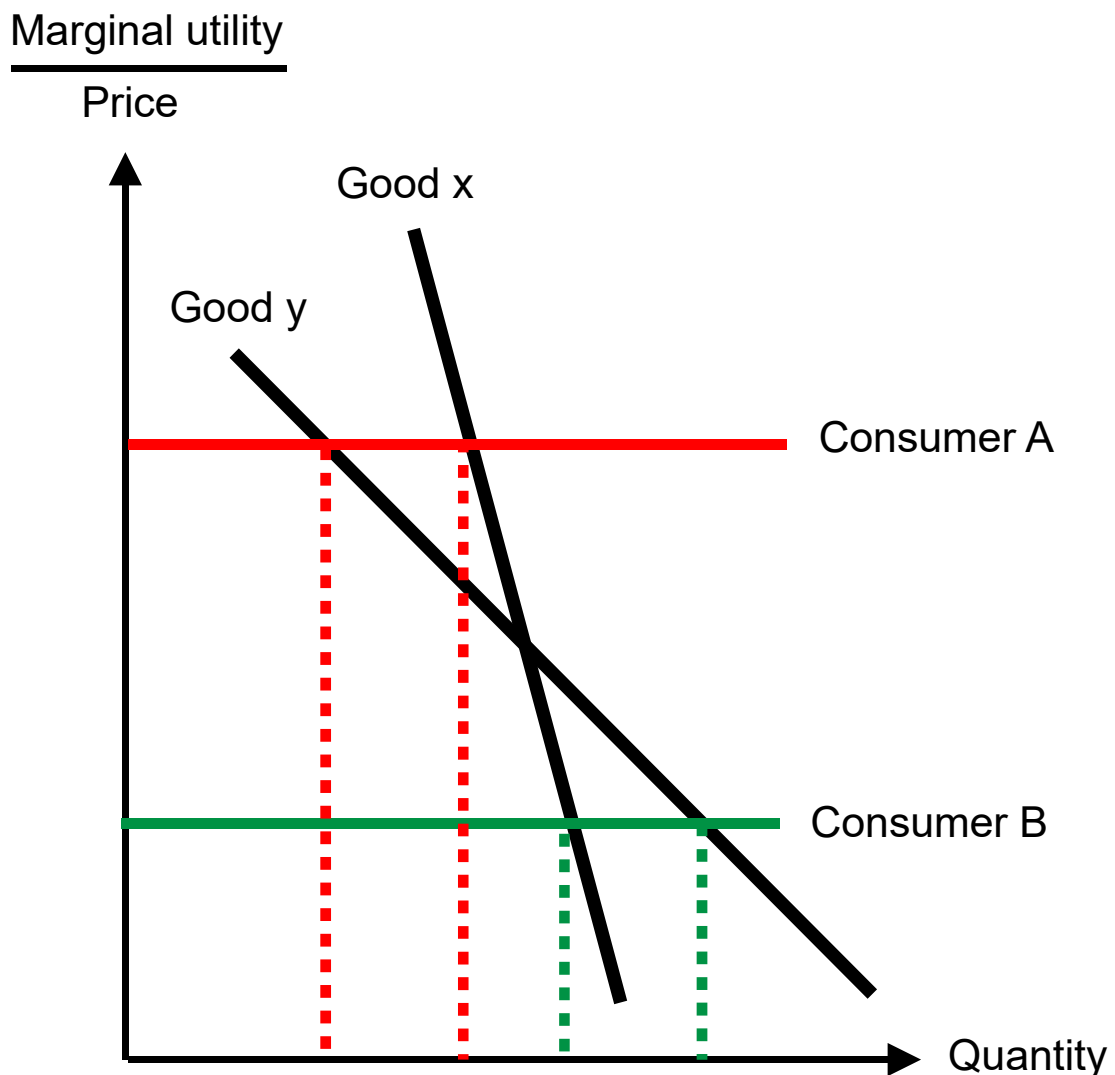
The following two graphs illustrate this law:



Gossen's second law

According to this law in equilibrium **the ratio of marginal utility (MU) to price (P)** is the **same** for all goods.

- In the case of 2 goods: $\frac{MU_x}{P_x} = \frac{MU_y}{P_y} \rightarrow$ Equilibrium
- Assuming that the price of x, P_x , increases, there is no longer an equilibrium: $\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$. To restore the equilibrium, one has to change MU by restructuring the consumption expenditure.
- Graphically, the case of 2 goods with 2 consumers, is shown as follows:



Results:

- B consumes more than A.
- The saturation point is reached more quickly by good x.