

# **Vivekanand College, Kolhapur (Autonomous)**

**Department of Economics**

**Subject- Micro Economics**

***Topic- Consumer Behaviour: Utility Analysis***

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# What is Consumer Behaviour?

- ▶ A consumer is a person who buys products and services for the satisfaction of wants.
- ▶ Consumer has his own expectations as regard quality, price, availability of product.
- ▶ In sellers' market, consumer bought whatever was available.
- ▶ But after 1990s, consumer all over the world has become important and he dictates what he want.
- ▶ So it is necessary for a business person to know how a consumer behaves, given certain conditions.

- ▶ Consumer behaviour can be defined as those acts of individuals (consumers) directly involved in obtaining, using and disposing of goods and services.
- ▶ Consumer behaviour is the study of how individuals, groups and organizations select, buy, use and dispose of goods and services.
- ▶ A consumer has a certain set of pattern of behaviour. This can be studied for making proper business decisions. Mainly there are three approaches to the study of consumer behaviour.

1) Utility Analysis

2) Indifference Curve Analysis

3) Revealed Preference Approach

# Utility Analysis

- ▶ The utility analysis of consumer behaviour has been developed by Prof. Alfred Marshall.
- ▶ This is based on cardinal function. It means utility can be measured in numerical terms.
- ▶ Originally, Prof. Jevans, Walras and Menger contributed to the utility analysis. Marshall developed the same further.

# Meaning of Utility:

- ▶ Utility is want satisfying capacity of a commodity or service.
- ▶ Everything that satisfies human want has utility.
- ▶ A consumer demands any product or service only when it has utility.
- ▶ The price he pays also depends on utility.
- ▶ Consumers always try to maximize their utility.
- ▶ The economic utility of a good or service is important to understand, because it directly influences the demand, and therefore price, of that good or service.
- ▶ Economic utility can decline as the supply of a service or good increases.

# Utility V/S Satisfaction

- ▶ Utility is sometimes confused with satisfaction. But both are different concepts.
- ▶ Satisfaction we get after consumption of goods or services.
- ▶ Utility is calculated before using or buying a commodity.
- ▶ Utility is what consumer thinks and satisfaction is what a consumer gets.
- ▶ Utility implies 'expected satisfaction and satisfaction is realized satisfaction.
- ▶ A product has utility and it gives satisfaction.

- ▶ Utility is also not useful.
- ▶ A product may have a capacity to satisfy human wants but may not be useful.
- ▶ Its consumption may be harmful.
- ▶ For example- a cigarette satisfies the wants of smoker, but it is harmful to health.
- ▶ It means cigarette has utility but not useful.
- ▶ Utility is silent about morality.
- ▶ Utility is in the mind of a consumer.
- ▶ It is subjective.
- ▶ It is only known to the consumer himself.