B.A. Part - I
Economics Honours
Paper - I
Micro Economics

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Topic:-

THE CARDINAL UTILITY THEORY

Assumptions:-

1. Rationality - The Consumer is rational. He aims at the maximisation of his utility subject tho the constraint imposed by his given income.

2. Cardinal Utility - The utility of each Commodity is measurable. utility is a Cardinal concept. The most convenient measure is money: the utility is measured by the monetary units that the consumer is prepared to pay for another unit of the Commodity.

3. Constent marginal Utility of money - This assumption is necessary if the monetary unit is used as the measure of utility. The essential feature of a

standard unit of measurement is that it be constant. If the marginal Utility of money changes as income increases (or decreases) the measuring rod for utility becomes like an elastic ruler. inappropriate for measurement

4. Diminishing marginal Utility – The utility gained from successive units of a commodity diminishes. In the other words, the marginal utility of a commodity diminishes as the consumer acquires larger quantities of it. This is the axiom of diminishing marginal utility.

5. The total utility of a 'basket of goods' depends on the quantities of the individual commoditities. If there are 'n' commodititities in the bundle with quantities $x_1, x_2, \ldots, x_n$, the total utility is

$$U = f(x_1, x_2 \ldots, x_n)$$

In very early versions of the theory of consumer behaviour it was assumed that the

Total utility is additive,

$$U = U_1(x_1) + U_2(x_2) + \cdots + U_n(x_n)$$

The additivity assumption was droped in later versions of the cardinal utility theory. Additivity implies independent utilities of the various commodities in the bundle, an assumption clearly unrealistic, and unnecessary for the cardinal theory.