

PRINCIPLES OF ECONOMICS

B. Com Hons Part-I

TOPIC -

Is utility Measurable?

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Is Utility Measurable?

Two concepts that are used in measurement of utility :-

- (i) Cardinal approach (Marshall's concept).
- (ii) Ordinal approach (Supported by Pareto, Hick, Allen).

(1) Cardinal Approach :-

Cardinal approach was propounded by Marshall to measure utility. Utility is a quantitatively or cardinally measurable entity. They used money as the measure of utility and assumed that one unit of money equals one 'unit of' utility. Utility analysis assumes that utility can be measured and the exact number can be given by assigning definite number such as 1, 2, 3, 4 etc. so, it is assumed that utility is a quantifiable entity. According to the cardinal utility concept, it is possible to measure and compare the utilities of commodities.

(2) Ordinal Approach :-

In economics, an ordinal function is a function representing the preferences of an agent on an ordinal scale. The ordinal utility approach is based on the fact that the utility of a commodity cannot be measured in absolute quantity,

but however, it will be possible for a consumer to tell subjectively whether the commodity derives more or less or equal satisfaction when compared to another. Ordinal utility holds that utility cannot be measured but can be ordered according to consumer's preferences. Different product combinations may be viewed as having same utility and these combinations of same utility consist of one indifference curve (IC).