

PRINCIPLES OF ECONOMICS

B. Com Hons Part-I

TOPIC - IMPORTANCE OF LAW OF
DIMINISHING MARGINAL UTILITY

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Importance of law of Diminishing Marginal utility.

① Consumer's Behaviour Explain :-

This law is based on consumer's Behaviour. This law shows how a consumer gets the maximum satisfaction from his limited income.

② Basis of Law of Demand :-

Law of Diminishing marginal utility shows the shape of demand curve. Law of demand operates because the law of diminishing marginal utility comes into force when a consumer buys additional quantities of a particular commodity.

③ Importance to the finance minister :-

This law helps finance minister to formulate fiscal policy. Finance minister impose high tax to the rich people and low tax to the poor people on the basis of the law.

④ Useful to reduce unequal distribution of wealth :-

It helps the government to reduce unequal distribution of wealth because marginal utility of wealth for poor is high and for rich is low. So, to maintain M.U of wealth government imposes the progressive tax.

⑤ Price determination :-

This law is useful to determine the price. Basically price of commodity depends on utility so if seller wants to sell more quantity he must reduce the price or for more quantity to sell a unit price is low.

⑥ Progressive Taxation :-

The principle of progression in taxation is also based on this law. As a person's income increases, the rate of tax rises because the marginal utility of money to him falls with the rise in his income.

⑦ Value Theory :-

The law helps to explain the phenomenon in value theory that the price of a commodity falls when its supply increases. It is because with the increase in the stock of a commodity, its marginal utility diminishes.

⑧ Diversification in consumption and production :-

We want variety in soaps, toothpastes, pens, etc. Thus, this law helps in bringing variety in consumption and production.