PRINCIPLES OF ECONOMICS

B.Com Hons Part-I

TOPIC - LAW OF EQUI-MARGINAL UTILITY

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Law Of Equi-Marginal utility
OR
Second Law Of Grossen
OR
Consumer's Equilibrium in utility Analysis

- Law of Equi-marginal utility :-

The law of equi-marginal utility is another fundamental principle of economics. This law is also known as the 'law of substitution' or 'the law of maximum satisfaction'. We know that human wants are unlimited but the means or resource to satisfy these wants are limited. so it is necessary to rank or to give priority to the urgent want that can be satisfied with the money that a consumer has. Every prudent consumer will Try to make the best use of the money at his disposal and derive the maximum satisfaction.

Consumer is rational and his aim is to obtain maximum satisfaction by distributing his income in different fields of consumption. Basis of this 'law of substitut according to which a consumer replaces less useful goods by more useful goods. This substitution process continue until all consumption items have equal marginal utility consumer attains equilibrium when he does not change his consumption.

Statement of the law :-

'Law of equi-marginal utility' states that the consumer distribute his money income between the various goods in such a way that the utility derived from the last rupee spend on each goods is equal.
In other words, consumer is in an equilibrium position, when marginal utility of money expenditure on each goods is the same.

- Assumption of the Law :-

(1) Consumer's Income is limited.

(2) Consumer's are rational in nature as they spend his money income on a number of different commodities.

(3) The law assumes market is perfect competition and the prices of commodities are given and constant.

(4) It is assumed that utility is a quantifiable entity and money is used as measure of utility.