

is the usefulness of a good or service in satisfying a need or want.

In order to have value, a good or service (or system) must have the capacity to be useful and provide satisfaction to someone.

But utility is <u>not</u> fixed or static.

The utility of a good or service may vary from one person to the next.

UTILITY DEFINITIONS

Utility – the usefulness of an item purchased that generates satisfaction by filling a specific need or want.

Marginal Utility – the satisfaction or usefulness obtained from acquiring one more unit of a good or service.

Diminishing Marginal Utility – decreased satisfaction or usefulness <u>as additional units</u> of goods or services <u>are acquired</u>.

LOOK AT THE NEXT 2 SLIDES FOR EXAMPLES - you do not need to write all the information as notes; instead, just mention include the overall idea of the 1 of the 2 examples for each of the above definitions.

UTILITY EXAMPLES

Burger 1

Eating the first burger gives the consumer a lot of satisfaction

(utility)



Satisfaction thermometer

Burger 2

Eating a second burger will not give as much extra satisfaction as the first did (marginal utility)



Burger 3

Eating a third burger will give even less extra satisfaction then eating the second one (diminishing marginal utility)



UTILITY EXAMPLES



A <u>REFRIGERATOR</u> has a great deal of **utility**. It allows you to store foods in your home that must be kept cold or frozen. You are no longer limited to foods that can be stored at room temperature.

There is a great deal of difference between having NO refrigerator and having ONE refrigerator. **This satisfaction** difference is the refrigerator's utility for you.

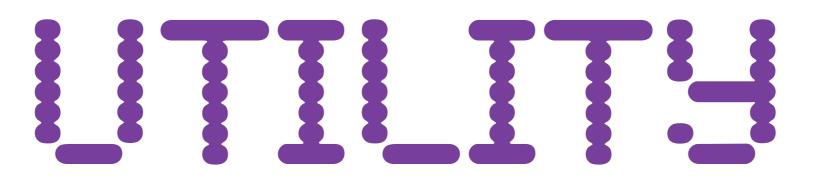




Buying <u>ONE MORE</u> REFRIGERATOR adds **marginal utility.** You could put it in the garage and store *even more* cold and frozen foods (probably helpful for a large family). While not absolutely necessary for most people, it can increase your satisfaction, *despite the high expense of refrigerators*.



Do you really want or need a third refrigerator if you have an average-sized home? You might find it a little more convenient (one on each floor??), but does it add as much satisfaction as getting a 2nd one did? Is it worth the large added expense? This is **diminishing marginal utility.**



is the usefulness of something in satisfying a need or want.

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