

FOUR.

UTILITY

“PEOPLE AIM TO MAXIMIZE UTILITY,
UNTIL IT IS MARGINALIZED
AND DIMINISHING.”

UTILITY

**is the usefulness (or value)
of a good or service.**

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

But utility is not 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 as additional units of goods or services are acquired.

UTILITY EXAMPLES



A REFRIGERATOR 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 ONE MORE 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**.