**The Law of Diminishing Marginal Utility**

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The utility is the term which determines the behavior of individuals. An individual tries to maximize his satisfaction by acquiring good and services which useful for him. However, many choices made by individuals indicate that not every demand or utility is based on necessity or need, sometimes individual gives importance to the goods that are less useful but unique in nature. The main purpose of the study is to understand the behavior of individuals that their demand or satisfaction does not rely on the price of goods or services instead it base on the value on the basis of their use and exchange power.

**Total Utility and Marginal Utility:**

The utility is the main element which creates demand for goods and services. For the maximum level of utility by using limited resources like income, individuals acquire good and services to fulfill their needs and satisfaction. Total utility indicates the sum of total utilities acquired by the individuals through different units of goods and services. Marginal utility indicates the loss in total utility by acquiring an additional unit of goods or services. For instance, an individual gets 10 utils from an apple and 8 utils from the second apple then the loss of 2 utils from additional apple is marginal utility. Therefore, marginal utility is the indicator of total utility by adding or subtracting an additional unit of goods or services. The formula for finding marginal utility is:

MU = change in total utility one /unit change in quantity consumed

**Negative marginal utility:**

The marginal utility can be positive as well as negative and total utility keeps on increasing with an additional unit of commodity. However, every additional unit gives less utility than the previous one (Beattie & LaFrance, 2006). Therefore, a point comes when total utility reaches its maximum value and additional unit makes total utility lesser. This is the point where marginal utility becomes negative. In other words, the total utility has three phases that are it increases at an increasing rate at first then it increases at decreasing rate and at last, it starts decreasing. At every increase in total utility marginal utility decreases and the point where total utility starts declining, marginal utility becomes negative.

**Diamond-water Paradox:**

Diamond-water paradox is a famous example to understand the behavior of individuals. A good that has high satisfaction for an individual can be least satisfied for the other. For instance, many economists think that when the demand increase for any goods or services its price increases to meet the supply. In the case of diamond-water paradox this assumption seems wrong. For instance, water is a basic necessity however it is common or less value in exchange while diamond is the unique and expensive thing which has high value when exchanged. Individual's demands water more than diamond due to their use still water price is low. This is because the supply of water is higher. On the other hand demand supply is limited which make it more expensive than the water.

**Law of diminishing marginal utility:**

Law of diminishing marginal utility is explained by Alfred Marshall. It explains that within the period of consumption of any goods or services when an individual consumes more and more unit then its utility or satisfaction level starts decreasing although total utility increases. In other words, change in utility level by consuming an additional unit of a commodity is the marginal utility of that commodity. Marginal utility is diminishing because when an individual gets more of a good it values keep on decreasing irrespective of its price or use. Law of diminishing marginal utility acquires some assumptions like the quality of each additional unit remain constant and its consumption should be continuous. In addition unit of good should not be small to calculate marginal utility accurately and consumer choice should not change. With the help of these assumptions, an economist defines the relationship between total utility and marginal utility. Marginal utility slopes downwards as it keeps on decreasing with the increase in consumption of goods or services.

**Items that do not follow the law:**

There are almost every goods and services that follow the law of diminishing marginal utility as individual loss their satisfaction over the goods or services that are excessive for them and they find more satisfaction in the goods or services that are less. However, there are various items which do not follow this law. For example salt and sugar. Salt and sugar are basic necessities for individuals and are used in various foods on a daily basis. With so much increase and excessive availability of both the good, total utility get higher with decreasing its marginal utility (“The Diamond-Water Paradox,” n.d.). This is because it does not matter how much individuals consume salt and sugar, its value and use remain the same. Another example is medicine. If an individual gets a cure by having particular medicine, an additional unit will give more satisfaction as it becomes the reason for good health. Examples like these show that the law of diminishing marginal utility cannot be applied to every goods or service. Other factors like choice, priority, and substitution effect can eliminate the effect of diminishing marginal utility.

**Law of Diminishing Marginal Utility and diamond-water paradox:**

The Diamond-Water paradox is the best example to understand the law of diminishing marginal utility. The water is less expensive than the diamond because the marginal utility of water is low. In other words, individuals use more water than diamond to fulfill their need which leads to the increase in total utility of water but due to the excessive supply of water its marginal utility keeps on decreasing (“Should water be priced higher than diamonds?,” n.d.). Therefore, a diamond whose supply is less than the water make its total utility higher and marginal utility decreases at slower. In other words, individuals do not measure satisfaction through its use or need instead they measure it through an additional unit that is by marginal utility.

Through the explanation of total utility and marginal utility, it can be concluded that an individual's satisfaction keeps on changing for a single good or services. Whenever an individual consumes more and more unit of a good or services its satisfaction level decreases although total utility keeps on increasing. It is indicated that people value less to the thing which is excessive in nature while they get more satisfaction from the goods or services which is less, for example, diamond-water paradox.

**References**

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