Marginal Utility

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Total utility is used as a starting point for utility analysis. However, a great deal of additional insight is gained from marginal utility. Marginal utility is the additional utility, or extra satisfaction of wants and needs, obtained from the consumption or use of an additional unit of a good or service. Marginal utility is, in other words, the extra satisfaction gained from an extra unit of good.

Marginal utility is specified as:

$$\text{marginal utility} = \frac{\text{change in total utility}}{\text{change in quantity}}$$

If, for example, total utility increases from 20 to 27 utils, then marginal utility is 7 utils.

The far right column of this table presents marginal utility values derived from each ride Edgar undertakes. Marginal utility from the first ride is 11 utils. The extra utility generated by the second ride is 9 utils. The third ride provides another 7 utils. The remaining numbers in the right column are interpreted in a similar manner.

Marginal Utility

Rides	Total Utility (util)	Marginal Utility (util)
0	0	
1	11	11
2	20	9
3	27	7
4	32	5
5	35	3
6	36	1
7	35	-1
8	32	-3

Marginal utility provides a direct link between utility analysis and demand. The demand price a buyer is willing to pay for a given good is based on the marginal utility derived from consuming the good. In this example, Edgar is most likely willing is to pay more for the first ride than the fifth ride, in that the first ride generates 11 utils of satisfaction, but the fifth ride generates only 3 utils.

The Law of Diminishing Marginal Utility

A clear pattern is displayed by the marginal utility values in the far right column. Marginal utility decreases as Edgar takes more rides. This decreasing marginal utility reflects the law of diminishing marginal utility. The law of diminishing marginal utility states that marginal utility, or the extra utility obtained from consuming a good, decreases as the quantity consumed increases. In essence, each additional good consumed is less satisfying than the previous one. This law is particularly important for insight into market demand and the law of demand.

If each additional unit of a good is less satisfying, then a buyer is willing to pay less. As such, the demand price declines. This inverse law of demand relation between demand price and quantity demanded is a direct implication of the law of diminishing marginal utility.