I

MARSHALL'S DEFINITION OF UTILITY

In this essay, we are concerned primarily with the question of utility measurability for the individual consumer. We leave out the considerations of interpersonal comparisons of utility as this belongs to the theory of group welfare, and hence appropriately comes under the theory of Welfare Economics.

The various utility theories of value dealing with consumer behaviour and choice so far formulated, may be doubly classified as to whether they are introspective or behaviourist, and also as to whether their proposition as regards utility, is cardinally measurable or ordinally measurable. Under this classification, utility theories may be divided into 4 types on the basis of their methodology and their proposition about utility measurability.

Firstly, the introspective cardinalist theory as represented by Marshall's Marginal Utility Theory.

Secondly, the introspective ordinalist theory as represented by the Hicksian Indifference-Preference Theory.

Thirdly, the behaviourist ordinalist theory as is shown in Samuelson's Revealed Preference Analysis, and

Lastly, the behaviourist cardinalist theory, the best example of which is the Morgenstern-Neumann Utility Index.

The introspective method is so called because it seeks to explain consumer choice as the result of some mental deliberations, while the behaviourist method is based solely on the purely observable market behaviour of the consumer. Thus, while the former allows the possibilities of consumer preference or indifference, the latter rules out indifference and interprets every act of choice as a revealed preference.

The Marshallian marginal utility theory belongs to the introspective cardinalist type. It is introspective because the consumer is assumed to be guided by a Law of Satiable Wants in his acts of choice. At the same time, it is a cardinal theory because the Marshallian proposition is that utility is both measurable and quantifiable. We shall discuss this important part of the Marshallian proposition presently. But firstly, we shall define briefly, what Marshall means by utility and what characterises its nature.

The Marshallian theory is that with a given amount of resources, the consumer always aims at maximising his utility. Since a central role is attached to the word utility, Marshall was especially careful to free it from the hedonistic and psychological implications which it had acquired from Gossen, Jevons and Edgeworth, who had treated economic theory as a "calculus of pain and pleasure". Thus, Marshall, who in the early editions of his "Principles", defined Utility as pleasure-producing and Disutility as pain-resulting, later substituted more neutral expressions in their places, like 'benefits', 'satisfaction' and 'gratification', for pleasure, and 'discommodity', 'sacrifice' and 'efforts' for pain.[1] The final definition of Marshall for Utility, therefore, is an attempt to purge it of its ethical and hedonistic implications.

Utility, according to Marshall, is the intangible quality which a good or service possesses which is capable of satisfying a want or a desire. Marshall's emphasis is that this utility is tied to the subjective valuation of the individual and that it is a decreasing function of supply. The concept of a decreasing utility function leads

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[1] C.W. Guillebaud, "The Evolution of Marshall's Principles", Journal of Economics, Vol. 52, 1942, p342.

Marshall to formulate the theory of Diminishing Marginal Utility, from which when translated into relative prices, the Marshallian Law of Demand is derived. It will thus be seen that the notion of a falling utility function, forms the basis of Marshall's theory of consumer equilibrium, and accounts for the introspective method of his theory.