



[Glossary]

Ordinal Utility Approach

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| Subject: | Business Economics |
| Course: | B. A., 1st Semester, Undergraduate |
| Paper No. & Title: | Paper – 101 Microeconomics – I |
| Unit No. & Title: | Unit – 2 Consumer Demand: Ordinal Utility Approach |
| Lecture No. & Title: | Lecture – 2 Consumer Demand: Ordinal Utility Approach |

Glossary

Diminishing Marginal Utility (DMU)

An economic concept that refers to the notion that additional units consumed of a particular commodity provide less and less additional satisfaction relative to previous units consumed.

Income Effect

A reaction of consumer's demand for goods or services due to changes in purchasing power holding relative prices constant (see Substitution Effect).

Indifference Curve

A set of points that represent different bundles of goods which provide the consumer with the same level of satisfaction (or utility).

Marginal Rate of Substitution

The rate by which a consumer may substitute a quantity of one good for another holding his/her level of utility constant.

Marginal Utility

The satisfaction a consumer receives by consuming one more unit of some good or service.

Substitute Goods

A pair of goods where the quantity demanded of one increases when the price of a related good also increases.

Utility

A measure of the satisfaction received from some type of economic activity (i.e., consumption of goods and services or the sale of factor services).

Wants

Preferences for goods and services over and above human needs.

Budget

A spending-and-savings plan, based on estimated income and expenses for an individual covering a specific time period.

Equilibrium Price

The price at which the quantity demanded by buyers equals the quantity supplied by sellers; also called the market-clearing price.