Utility, Value, and Welfare

Although it has never been denied that the conditions of demand play an important role in determining the actual rate of exchange of commodities, and when, indirectly, the entire sense of economic endeavor, it is only within the past fifty years or so, that economists have deliberately undertaken a careful analysis of their nature and forms.

The demand for commodities clearly rests upon human needs and desires. These latter are conditioned not only by man's intrinsic nature, but also by convention, and the state of the art. No matter what may be their bound lines, or clocks of boundaries (and each of these is in some respect true) they are delimited, in so far as satisfaction is concerned, by the environment. The environment with which we, as students of an exchange economy, shall be concerned, consists, roughly speaking, of two factors: (1) the nature and number of available commodities, together with their price and...
The quantity of utility not possessed by the various individuals that form an economic group.

3. More specifically, a purchaser at a commodity market is confronted with definite limits of various commodities, and has a limited sum with which he purchases from them. Naturally, then, he so decides his money among these commodities that in no case would he prefer addition to one at the expense of another. This is sometimes expressed by saying that the marginal utility of the various commodities purchased by an individual must be equal. It shall be our next task to examine this notion as part of the concept of utility with the purpose in mind of determining their value for economic theory.

3. Before we attempt to clarify this notion of utility, let us examine certain cases to which it has been put. First at one quote Professor Marshall's statement of the law of variable wants: in terms of price unit.
The total utility of a thing to anyone (that is, the total pleasure or other benefit) of that person increases with every increase in his stock of it, but not as fast as his stock increases. In other words, the additional benefit which a person derives from a given increase of his stock of a thing, diminishes with every increase in the stock that he already has.\* The author then goes on to define marginal utility as the utility of that increment the individual is "only just induced to purchase." It should be clear that this latter concept involves the inclusion of the interest whose satisfaction we are considering in that system of interest which is the expansion of the self. Indeed the marginal utility of one commodity cannot be arrived at separately from the marginal utility of the other commodities on purchase. This fact is somewhat obscured by the fact that apparently the choice is between the commodities and money, but a little reflection on the latter shows that the utility of money comes to play the right and enjoyment it can obtain for us. Thus we may say, figuratively speaking, that our total perf...
chasing power, or command over commodities, like a blanket on a cold night. Large or small, it is used to keep us at happy or sorrow; and just as it may be conducive to our warmth to leave our toes a bit chilly, so we limit our purchase of commodities from the point of view of the situation as a whole. The point at which we set our tastes, from the various objects indicate those movements to which we have ascribed marginal ability.

It then becomes apparent, and this is a fact of general interest, that the analysis of its change in terms of marginal ability does not involve of necessity the historical calculus of Bentham and other utilitarian moralists. We are not concerned with the calculation of maximum pleasure or minimum pain in terms of their various demonstrations but rather with the preferring by the eye of one alternative to another, an act requiring a system of interest. This interpretation by no means deprive us of the ‘law of satisficing want’, on the contrary. This latter just as much as determining up facts which unreasonably modify our acts of choice.

4. The ability of a commodity, service, revenue,
has been defined as its capacity to give us en-joyment. Clearly, however, either this definition, though suggestive, is inadequate, or else we must abandon such terms as desiring utility. If we wish to remain on the latter basis, we must account for the fact that exactly similar objects may have widely different utilities. To do this, we must not only take into account the surrounding state of the self, but also the order in which these objects present themselves for consumption. Thus if, abstracting from the surrounding self, we make utility a function of an actual or potential order of consumption, it follows as a consequence that the sum of the utilities of n similar objects will exceed by a comfortable margin n times the utility of the nth object. This analysis gives rise to the notion of consumer surplus.

Although from the point of view of consumption the various units of a commodity are of unequal
important, they are, and for us they are axiomatic, treated by the market without discrimination. That is to say that equal parts have equal value.

This duality of context is equivalent to that between 'would pay rather than go without' and 'actually have paid'. The difference between these two is called consumer surplus.

8) Professor Cassel in his work 'The Theory of Social Economy' maintains that the economist has only to do with those aspects of exchange which are capable of measurement, and accordingly defines his science as one of prices. If we limit ourselves, then, he says, 'we would be able to rid ourselves of a lot of unnecessary discussions, mostly of a rather substantial nature, which had burdened earlier treatises on economics.' Approaching the question in this manner he comes to the conclusion that 'the introduction of the idea of marginal utility is no particular gain,' and that in trying to make it the basis of a whole economic theory, by declaring the marginal utility to be the determining factor of price or value, a quite un-

1 open cut, prepare p. II
tensible position has been taken up. "." Professor
labeled points out that the function of price
in accordance with the principle of scarcity
is to restrict demand to meet the supply. It
is from this as a premise that he draws the above
conclusion. Furthermore, individual or future,
actual or prospective, evaluate commodities
in a medium of price independent from any
direct manipulation of his will. The whole
of thinking is necessarily bound up with the
actual price... and the most that he can do
is to calculate with some probability the change
of his demand that would be caused by the al-
teration of one price." If we keep strictly to the
simple fact, we can only say that men decide
what they will buy when all the prices are given;
decide, that is to say, upon the time to be drawn
between their want, which they will satisfy and
those which they will ignore. For the great "he
concludes, "economists means must not con-
continue with the function. **

*signed at 07:53 ** dated 1082
If proper care had been taken to understand the facts that (1) the various types of human needs and their fulfillment are not commensurable, and (2) the point at which we obtain a commodity in a function not only of the particular desire it satisfies, but also of the entire system of needs and enjoyments that characterize the self during the period under consideration.

10. However in the more particular circumstances of the theory, the author is by no means a clear and seen in had to forget that the theory of diminishing satisfaction expresses a tendency of the workings of which are often discerned by the unfortunate irrelevancy of everyday life. Thus, he court a criticism of the theory in the fact that it can only be seen by an actual attainment in indefinitely small amount. Not only is this conclusion irrelevant but the theory, as we see in favor of the theory of political economy p. 126, can be extended to take account of the designation of the commodity world.
Omitting from consideration the various qualifications Professor Sturges makes with respect to the notion of consumer surplus, let us examine some more fundamental considerations. Can we state the main issue as follows:

"The idea that the economic man can abstract in money the importance of his wants in an abstract, or independently of the existing prices, has led some to confuse the importance of a want with its use in their way with the price actually paid for the satisfaction of it, and, if the importance is greater than the price, to regard the difference as a special gain to the consumer. This gain of surplus is supposed to be equal to the difference between the highest price which the consumer would pay for the article, if he could not get it cheaper, and the actual price. It is clear from the passage that Professor Sturges is concerned with this point, as to the notion of such a magnitude as this surplus is supposed to be. Then he claims that "the money spent in which the article is valued has no definite meaning"
except in terms of actual price. If we take two entirely different sets of price, the valuations of an article are expressed in different money scales in the two cases and are therefore not directly comparable. "* * In order to clarify this issue, we divide the consideration of prices into two parts: a man purchases a commodity and integrates it into his own need or desire. Let us further suppose that the relative importance of each commodity is such that the quantity purchased is constant no matter what the quantity purchased. Under these circumstances, can we speak of a consumer surplus? According to the principle of diminishing marginal utility, what we can say is that an increase in purchasing power decreases the total price increase in an income-yield ratio. Then, the utility is the just force, to give up his a less utility than the next benefitment, and so on until the maximum reward for existence is confined. However, this is not a matter of price, and cannot be considered as such. It is a fact about the relation of commodity to consumption, and indeed, a fact that need not enter into the mind of
individual concerned, but alone its measurement from this, the ultimate significance of consumer surplus is obscured in its treatment by economists, by their tendency to vary in abstract terms. In particular, a transaction which neglecting not only the real exchange, but also the fact that the money used has a real significance only when it is argued.

1. Professor Tawney distinguishes between two senses of the term value. (1) Value in use or utility. (2) The vague sense or meaning of intrinsic 'in value', as when "people sometimes speak of the value of a thing as greater or less than that which appears in an actual transaction of exchange." and (3) the sense in which we shall use the term, namely as value in exchange. This latter he defines as "the power of commanding other commodities in exchange," or, in other words, the value of a commodity in "the rate at which it commands exchange for other." Then it is to be distinguished from price which is the value of a commodity in terms of the accepted medium of exchange.

13) In this definition we have not concerned ourselves with the foundation of value. Clearly, Principles of Econ. p. 112, p. 111.
however, one thing is essential, that there be a
clination to exchange. But, the fact as such
is not enough to account for the actual rate
of exchange. Since we are primarily concerned
with values in a pure and market economy let
us limit our consideration of be to the follow-
ing principle which follows directly from what
we have already said; namely, that such exchang
continues as long as either party prefers the
situation he is offered to the situation he en-
joys.

Since we are not as yet prepared to as-
sume the conditions of supply, however im-
portant they may be, we shall assume that
the supply is better the rate of supply of our
unnamed commodity is fixed. In these cir-
cumstances it follows that the firm, in acc-
ordance with the principle of scarcity, will be
such as to cause more the quantity offered for
sale. That is, to say that some purchase (or pur-
chase) which a higher price would keep off the
market (for this commodity) just prefer the
amount he buys to the other possible line
purchasing power. Often, if we wish to use
the terminology we may speak here of marginal
Vendability

In our discussion of consumer expenditure we assumed that we were the what the extent of the purchasing power of the individual, the proportional role played by each commodity was constant. However, actually this is not the case, as observation readily shows. Not only does the proportion vary with the means at his disposal, but it varies from individual to individual. Furthermore, not only does the real purchasing power vary as a whole, but also the price attached to various commodities from a somewhat independent course. These considerations lead us to the conception of elasticity of demand. Here we can speak not with individuals but with the purchasing community. "Imagine a commodity for which the same initial sum is always spent by purchasers. The quantity purchased does indeed increase as price falls, but increases in such proportion that the quantity multiplied by the price always yields the same product, and conversely, while the quantity purchased becomes less.
as purereas, the domination in and they at the
higher prize per unit, the total spent remains
unaffected. In this sort of case we apply the phrase
that the "elasticity of demand is unity." If the
amount spent increases as prize declines, the elas-
ticity is greater than unity, while if the amount
spent declines as prize declines, the elasticity is
less than one.

16) As far as the relations of utility and
exchange to welfare are concerned, for all
word of warning, moral considerations are for-
sign to one purpose. What we are in the end is
an student of economy is the extent to which
exchange contributes to the satisfaction of
human wants and desires. An exchange,
or better, a pure economy based on private
take prices, certainly involves for more than the
possibility for the individual to exercise choice
within his means— but in so far as it does so
it is clear that it brings with it a tendency to
the greatest satisfaction of the individual with
respect to the use of his income. Is what 133?
Thus, tending towards the maximum welfare of the community is counteracted by other factors in the system in a for the question that may be answered. It must be remembered that unions is also a force. That this question is important is shown by the situation in countries that are for a demand along the lines of a free economy.