

CARDINAL UTILITY AND ORDINAL UTILITY

In the theory of consumer demand, there are two main approaches: the classical approach championed by Marshall and his followers, known as the cardinal approach, and an alternative perspective developed by Hicks, Allen, and others, called the ordinal approach.

The cardinal approach assumes that utility, or satisfaction derived from a good, is measurable or quantifiable. This means that a consumer can express the satisfaction from a commodity in numerical terms. For instance, they might say that the first apple provides a utility of 10 units, while the second apple provides 8 units, and so on. This allows the consumer to compare utilities across different goods, such as a mango offering 10 units of utility and an apple 20 units, showing that the apple is valued twice as much in utility as the mango. Here, numbers like 1, 2, and 3 are cardinal, indicating that number 2 is twice the magnitude of number 1. However, these units of measurement are purely hypothetical.

In contrast, the ordinal approach maintains that utility cannot be measured precisely because it is subjective and mental. According to this view, resources are limited, and individuals must prioritize their needs. Consumers therefore rank their preferences, establishing a scale of preference. For example, they may decide which is most important

between a visit to the cinema, a canteen meal, or a book purchase, ranking these options in order of preference. The ordinal approach simplifies decision-making by emphasizing relative ranking over precise measurement. A consumer's scale of preference is influenced by their tastes and temperament, with Hicks' indifference curve approach being a central example of this ordinal utility analysis.

Dr. S. SENGUPTA KUMAR, C.F.A. College, Bodinayakanur