Satisfy consumers essay

Utility refers to that ability in good and services to satisfy consumers. Utility can further be classified as cardinal utility and ordinal utility. For cardinal utility theory it attaches the significance to the magnitude of utility i. e. the size of utility difference between bundles of goods is supposed to have some significance. For ordinal utility this theory formulates consumer behaviour in term of consumer preferences.

The only property of utility assignment that is important is how it rank (order) bundles of goods. But the main concern of an economist is the marginal utility. Marginal utility of a good is described as the amount by which total utility U(X1, X2) changes when an extra unit of good is consumed. Utility is measured in unit called utils and depend on taste and consumer preferences (Beardshaw, 2001). The economic objective of individuals is to maximise utility given a specific amount of income to spend. Consumers have variety of consumption bundles which they would like to purchase but due to scarcity of resources there is a budget constraint which limit the amount of goods that individuals can be able to buy and this necessitate choice to be made between various consumption bundles.

For a rational consumer his economic objective will be to choose that bundle that maximise his utility. This bundle is found at the point of tangency between the indifferent curve and budget line. 2 Any bundle above this specific bundle is unaffordable. A bundle at the point of tangency is the consumer optimal point referred to as consumer equilibrium point. The bank can decide to cooperate with other players in the industry in a bid to maximise consumer utility.

One of the costs associated with cooperation is that it requires compromise i. e. there is no complete freedom while making decision as all parties must ensure constant consultation before making any major decision. This will therefore slow the process of decision making and may hinder a firm from taking advantages of opportunities as they arise.

The other cost associated with cooperation relates to the convenient of all parties involved. Sometimes operating individually is more convenient than operating as a group as the point of power rest on one firm therefore no disagreement arise as to who is superior/inferior in making decision. The final cost associated with cooperation is that it reduces consumer surplus. Consumer surplus is defined as the difference between the maximum amount of money the consumer is willing to pay and the amount actually charged to consumer. Competition reduces prices and this increases consumer surplus while on the other hand cooperation reduces competition which means that price remain relatively high which reduces consumer surplus.

The benefits related to cooperation are that it allows a firm to be more focused than competitors. Where the bank specialise on provision of those services for which it has competitive advantage then it will be able to satisfy the need of the market(utility) more than competitors do and this will help it capture a large market share and keep a breast of it rivals (Gottlheil, 2002). 3 Where the bank operates individually then it become less competitive in the market as it is not able to specialise. This may lower the utility on it services thereby causing it to lose customers and reducing it competitive advantage.

The benefit of operating individually is that there is more freedom in decision making and therefore the bank can be able to take advantage of opportunity as they arise. Furthermore it is more convenient to operate individually rather than a group as there is no power struggle hence greater latitude while making strategic decision. In addition individual actions increases consumer surplus as competition reduces prices thereby increasing consumer surplus (Hubbard & Obrien, 2006). References: Beardshaw, J. (2001). Economics: a student's guide.

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