The goal of the consumer

Economists assume that any decision maker a consumer, the manager of a business firm, or officials in a government agency tries to make the best out of any situation. More specifically, we assume that consumers strive to maximize their utility a quantitative measure of their well-being or satisfaction. Anything that makes the consumer better off is assumed to raise his utility. Anything that makes the consumer worse off will decrease his utility. Are you troubled by this assumption? Many people are when they first encounter it in an economics course.

One common objection is that it is unrealistic. It seems to imply that we are all engaged in a relentless, conscious pursuit of narrow goals an implication contradicted by much of human behavior. As you read this paragraph, are you consciously trying to maximize your own well-being? Are you fully aware that reading this will improve your grade in economics and that, in turn will help you achieve other important goals? Perhaps. But more likely, you aren’t thinking about any of this. You are reading this topic right now because well, because you should.

In truth, we only rarely make decisions with conscious, hard calculations, and are more often guided by feelings that we may or may not be aware of. Why, then, do economists assume that people make decisions consciously and quantitatively when, in reality, they often don’t? This is an important question. Economists answer it this way: The ultimate purpose of building an economic model is to understand and predict behavior the behavior of households, firms, government, and the overall economy. As long as people behave as if they are maximizing something, then we can build a good model by assuming that they are.

Whether they actually, consciously maximize anything is an interesting philosophical question, but the answer doesn't affect the usefulness of the model. Milton Friedman, Nobel-prize winning economist, put it this way: " Consider the problem of predicting the shots made by an expert billiard player. It seems not at all unreasonable that excellent predictions would be yielded by the hypothesis that the billiard player made his shots as if he knew the complicated mathematical formulas that would give the optimum directions of travel, could estimate accurately by eye the angles, etc. describing the location of the balls, could make lightning calculations from the formulas, and could then make the balls travel in the direction indicated by the formulas.

Our confidence in this hypothesis is not based on the belief that billiard players, even expert ones, can or do go through the process described; it derives rather from the belief that, unless in some way or other they were capable of reaching essentially the same result, they would not in fact be expert billiard players. Keep this in mind as we delve further into consumer theory. The consumer is assumed to maximize his or her utility. This does not mean that we really believe consumers consult some kind of utility meter every time they make a purchase or decide how to allocate their time. But it does mean that, for the most part, consumers behave as if they consult such a meter.