

MARGINAL UTILITY OF MONEY AND ELASTICITIES OF DEMAND

I

In an article in the current issue of the *QUARTERLY JOURNAL* entitled "Professor Pigou's Method for Measuring Elasticities of Demand from Budgetary Data," Mr. Friedman examines a device first published by me in 1910 and reproduced in an Appendix to the *Economics of Welfare*. I do not wish to comment on — indeed I have not studied — the constructive part of Mr. Friedman's article. But his criticism of my method rests on a misconception. He supposes me to assume that the marginal utilities of money to two similar persons with unequal, but neighboring, incomes are the same. As I have used different symbols for the marginal utilities of money to these two persons, symbols which he himself reproduces, I am at a loss to understand how he can have come to suppose this. In any case the supposition is incorrect. So far from making that assumption, I have explicitly excluded it — as indeed I was bound to do on pain of making nonsense of the argument and proving (?) that all elasticities of demand are infinite! Since Mr. Friedman's criticism is built on this misconception, I need not examine it further. I cannot restate my argument more clearly than it is stated already on pp. 784-785 (fourth edition of the *Economics of Welfare*).

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II

The admiration for Professor Pigou's work which I share with all students of economics makes me desirous to prevent any misconception about the comments and criticisms which I offered. As regards the three points mentioned by him, I submit the following.

(1) I did not suppose him to assume that the marginal