

An important aspect of the subjective perception of value which is also relevant for a discussion of the concept of price is the idea of scarcity, specifically what is known as the ‘paradox of value’. Both Plato and Copernicus discussed this in their writings, however, the classic presentation was by the 18th century economist and writer Adam Smith, who defined the paradox as follows: “Nothing is more useful than water; but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.”<sup>7</sup> In this context, two aspects define the price of diamonds: scarcity and desire. Scarcity is an objective criterion (especially in Smith’s time, when diamonds were rarer than today), however, desire brings one back to the subjective perception of value presented earlier in this section (“his or her subjective assessment of the pleasure, or satisfaction, derived from consumption”), and it is this subjective perception of value combined with an objective scarcity that is the main factor ‘driving’ the prices of scarce goods or services.

Perceived utility is an aspect of the subjective concept of value which is related to scarcity and also very relevant for a discussion of price. As with scarcity, it also has a (more) objective and a subjective element. The more objective element can be seen as ‘need in specific situations.’ Reviewing Smith’s water / diamond paradox in this context, for a traveller accompanying a transport of diamonds across a desert who has no water and is suffering severe dehydration, the value of water is very much higher than the value of the diamonds. This person will probably be very willing to exchange any quantity of diamonds for the scantiest amount of water because, for this person in this specific situation, diamonds with “scarce any value in use” are in abundance and essential water is scarce. However, this utility changes once initial thirst is satisfied as the traveller’s need for water decreases and continues to do so when more water becomes available. This change in utility is what is known as marginal utility. The initial quantity is critical but as this critical need (or desire) is increasingly

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<sup>7</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) (Hazleton: Pennsylvania State University Electronic Classic Series, 2005).

satisfied it decreases the value to the consumer of each additional quantity. This idea was graphically expressed in the second half of the 19th century by the Austrian economist Eugen Böhm von Bawerk, who presented an example of a farmer who after the harvest has five sacks of corn: “One sack he absolutely requires for the sustenance of his life till the next harvest. A second he requires to supplement this bare living to the extent of keeping himself hale and vigorous. More corn than this, in the shape of bread and farinaceous food generally, he has no desire for. On the other hand, it would be very desirable to have some animal food, and he sets aside, therefore, a third sack to feed poultry. A fourth sack he destines for the making of coarse spirits. Suppose ... that he cannot think of anything better to do with the fifth sack than feed a number of parrots, whose antics amuse him. Naturally these various methods of employing the corn are not equal in importance.... And now, putting ourselves in imagination at the standpoint of the farmer, we ask, What in these circumstances will be the importance, as regards his well-being, of one sack of corn?”<sup>8</sup> Obviously, the utility of the fifth sack of corn (used to feed the parrots) is much lower for the farmer than that of the first sack (needed by the farmer to survive). Thus the value of the last sack for the farmer is much lower and in a situation where sacks are damaged the farmer will not reduce quantities by equal amounts across all the five uses but will firstly stop feeding the parrots, then stop producing “coarse spirits,” etc.

To conclude the above discussion, it provides three value generation elements: (1) desire (seen as “a subjective assessment of the pleasure, or satisfaction, derived from consumption”); (2) scarcity (which can result in a something having very high value that has little relationship to a concrete physical need, as in Smith’s water / diamond discussion); (3) marginal utility (where the value of ‘one’ can be critical but the value of ‘two,’ ‘three,’ or ‘four’ diminishes very rapidly).

The perspective on value presented above is product and situation focussed. Products which are desired and are scarce have high value (which can diminish very rapidly if they become generally available), and the value of (even) common products is dependent on their availability in specific situations.

It is, however, an open question whether this view of value applies in today’s world, where for many people basic needs are satisfied, and consumers are faced by a complex and dynamic environment of multiple products and services with diverse features all competing for their attention (and money). This question arises because of the ever increasing richness and diversity of products where the value of these products or services is assessed

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<sup>8</sup> Eugen v o n B ö h m - B a w e r k, *The Positive Theory of Capital*, translated by William A. Smart (London: Macmillan and Co., 1891), 150.

by consumers based on their perception of the usability, attractiveness, relevance and price compared to competitive or alternative products or services. Thus products which are inherently common (e.g. plastics) can be converted into products which are also commonly available (e.g. toys, building blocks or other plastics products) but have a far higher price than their component value resulting from the specific features of the converted products. These converted products are not scarce, have significant competition and a huge range of alternative products which potential consumers can purchase, as well as prices which are much higher than their total production and logistics cost. Yet, even so, consumers are willing to pay these high prices because of their value perception of these products.

Similar situations can be identified with regard to marginal utility. Many products or services which have become a part of consumers' everyday life have built in compatibility barriers (especially electronics or technological products such as certain smartphones, tablets, computer games, a lot of software, etc.). These result in them activating a full range of use functions only when interconnected with other products (or services) from the same company. Thus, to achieve an optimal solution the user or consumer is obliged to purchase products or services from the same company often paying a significant premium as compared to competitive products. In this case, for a specific consumer, the value perception of the functions available with integration is much higher than the cost of each specific component and, therefore, the potential consumer is willing to pay a much higher total price to achieve this integration.

Clearly, the consumer behaviour described above does not 'fit' into the theories presented earlier in this section, which (obviously) raises questions as to the mechanisms behind this behaviour, and for answers to them one should perhaps look to a younger relative of economics, namely, marketing.<sup>9</sup> Marketing looks at value in terms of 'customer perceived value,' i.e., a relationship between the customer and the product which is "strongly related to the utility or benefits the customer gets in return for the money or any other cost they spend including both cognitive and affective aspects."<sup>10</sup> Thus, the higher the customer perceived value, the more the customer is prepared to invest in purchasing or using a product. Understanding value from this perspective may help explain the paradoxes described earlier, where consumers are prepared to pay significantly

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<sup>9</sup> According to the UK Economic and Social Research Council, marketing is a branch of the social science discipline of 'management and business studies.' See Economic and Social Research Council, "Social Science Disciplines," <http://www.esrc.ac.uk/about-us/what-is-social-science/social-science-disciplines/>.

<sup>10</sup> See Septa Akbar Aulia, Inda Sukati, Zuraidah Sulaiman, "A Review: Customer Perceived Value and Its Dimension," *Asian Journal of Social Sciences and Management Studies* 3, no. 2 (2016): 150-162.

higher prices for products or services either because of the value they perceive in the products themselves or because of the benefits they anticipate in integrating them with other products. However, whilst, from a marketing perspective, there may be a consensus on the definition of perceived value, this consensus is absent with regard to the determinants as well as to methods of measuring value perception. This lack of consensus may be a result of the enormous diversity of products and services competing with each other in one or many different markets, as these products and services are targeted at different market segments defined by different expectations of (very) different (potential) customers. On top of this diversity, many value assessment criteria are either subjective (e.g. colour, touch or smell—as in fabric softeners for instance) or qualitative (e.g. appearance, design, ‘feel’, etc.), thus looking for a ‘one size fits all’ solution, when perceived value can be both (potential) customer specific as well as product or service specific, may be an unrealistic goal. This range complexity combined with focus specificity may be the reasons why marketers use multiple criteria approaches for analysing value, as these can be adapted to enable comparison of the (potential) customer perceived value of specific products / services against complementary or competing products / services within specific customer segments.