



# ECONOMICS

## BOOKS - FULL MARKS ECONOMICS (HINGLISH)

### CONSUMER EQUILIBRIUM

#### Ncert Textbook Questions Solved

1. What do you mean by the budget set of a consumer ?



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**2. Define Budget set.**



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**3. What is Budget Line ?**



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4. Explain why budget line is downward sloping ?



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5. Why is budget line negatively sloped?



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6. A consumer wants to consume two goods .  
The prices of the two goods are Rs 4 and Rs 5

respectively. The consumer's income is Rs 20.

(i) Write down the equation of the budget line.

(ii) How much quantity of good 1 can the consumer consume if she spends her entire income on that good ?

(iii) How much of good 2 can she consume if she spends her entire income on that good ?

(iv) What is the slope of the budget line ?



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7. How does the budget line change if the consumer's income increase to Rs 40 but the prices remain unchanged ?



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8. How does the budget line change if the price of good 2 decrease by a rupee but the price of good 1 and the consumer's income remain unchanged ?



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9. What happens to the budget set if both the prices as well as the income double ?



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10. Suppose a consumer can afford to buy 6 units of good 1 and 8 units of good 2 if she spends her entire income. The prices of the goods are Rs 6 and Rs. 8 respectively . How much is the consumer's income ?



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**11.** Suppose a consumer wants to consume two goods which are available only in integer units. The two goods are equally priced at Rs10 and the consumer's income is Rs 40.

(i) Write down all the bundles that are available to the consumer.

(ii) Among the bundles that are available to the consumer's . Identify those which cost her exactly 40.



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**12.** What are monotonic preferences ?



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**13.** If a consumer has monotonic preferences ,  
can she he indifferent between the bundles  
(10,8) and (8,6) ?



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14. Suppose a consumer's preferences are monotonic . What can you say about her preference ranking over the bundles  $(10,10)$  ,  $(10,9)$ ,  $(9,9)$  .



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15. Suppose your friend is indifferent to the bundles  $(5,6)$  and  $(6,6)$  . Are the preferences of your friend monotonic ?



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## More Questions Solved | Very Short Answer Type Questions

1. Define utility .



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2. Define total utility .



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3. How is total utility derived from marginal utility ?



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4. Define marginal utility .



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5. What is consumer's equilibrium ?



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6. What is meant by MU of one rupee ?

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7. Define indifference curve.

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8. Define indifference map ?

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9. Define marginal rate of substitution .



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10. Why are indifference curves always convex to the origin ?



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11. Why does an indifference curve slope downwards ?



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12. Give equation of Budget Line .



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13. Give equation of Budget Set.



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14. Define Budget set.



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15. Define Budget Line.



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[More Questions Solved](#) | [Multiple Choice Questions](#)

1. Total utility is maximum when

A. Marginal utility is zero.

B. Marginal utility is at its highest point.

C. Marginal utility is equal to average utility.

D. Average utility is maximum.

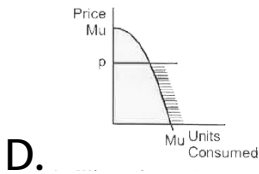
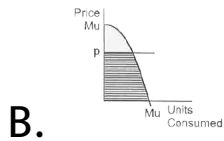
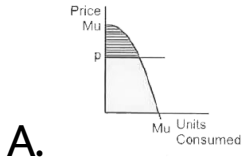
**Answer: a**



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2. Which of the shaded area in the diagrams below represent total utility ?



**Answer: c**



3. What does the area under the marginal utility curve depict ?

- A. Average Utility
- B. Total Utility
- C. Indifference Curve
- D. Consumer Equilibrium

**Answer: b**



4. Which one of the following is not an assumption of the theory of demand based analysis of indifference curve ?

A. Given scale of preferences as between different combinations of two goods.

B. Diminishing marginal rate of substitution.

C. Constant marginal utility of money.

D. Consumers would always prefer more of a particular piece of goods to less of it, other things remaining the same.

**Answer: c**



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5. The consumer is in equilibrium at a point where the budget line -

A. Is above an indifference curve.

B. Is below indifference curve.

C. Is tangent to an indifference curve.

D. Cuts an indifference curve.

**Answer: c**



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**6.** An indifference curve slopes down towards rights since more of one commodity and less of another result in -

- A. Same satisfaction.
- B. Greater satisfaction.
- C. Maximum satisfaction.
- D. Decreasing expenditure.

**Answer: a**



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7. The second glass of lemonade gives lesser satisfaction to a thirsty boy . This is a clear case of

- A. Law of demand.
- B. Law of diminishing returns
- C. Law of diminishing utility .
- D. Law of supply.

**Answer: c**



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**8.** The consumer is in equilibrium when the following condition is satisfied :

A.  $\frac{MU_x}{MU_y} > \frac{P_x}{P_y}$

B.  $\frac{MU_x}{MU_y} < \frac{P_x}{P_y}$

C.  $\frac{MU_x}{MU_y} = \frac{P_x}{P_y}$

D. None of these.

**Answer: c**



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9. Which of the following options is a property of an indifference curve ?



A. It is convex to the origin.

B. The marginal rate of substitution is constant as you move along an indifference curve.

C. Marginal utility is constant as you move along an indifference curve .

D. Total utility is the greatest where the 45 degrees line cuts the indifference curve.

**Answer: a**



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**10.** When economists speak of the utility of a certain good, they are referring to -

A. The demand for the good.

B. The usefulness of the good in consumption.

C. The satisfaction gained from consuming the good.

D. The rate at which consumers are willing exchange one unit of good for an other

one.

**Answer: c**



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**11. Budget set is -**

A. Right angled triangle formed by the budget line with the axes.

B. All points on the budget line .

C. Points inside the budget line.

D. Points on Y - axis from where budget line starts and the point on X - axis where budget line ends .

**Answer: a**



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12. If indifference curve is straight line downward sloping ,

A. MRS is increasing

B. MRS is decreasing

C. MRS is constant

D. MRS is zero

**Answer: c**



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**13.** If X and Y are two commodities, indifference curve shows -

A. X and Y are equally preferred

B. Y is preferred to X

C. X is preferred to Y

D. None of these.

**Answer: a**



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**14.** If Marginal Rate of Substitution is constant throughout, the Indifference curve will be :

A. Parallel to the x - axis .

B. Downward sloping concave.

C. Downward sloping convex .

D. Downward sloping straight line.

**Answer: d**



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**15.** If Marginal Rate of Substitution is increasing throughout , the Indifference curve will be :

- A. Downward sloping convex
- B. Downward sloping concave.
- C. Downward sloping straight line.
- D. Upward sloping convex.

**Answer: b**



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**16.** Which of the can be referred to as 'point of satiety' ?



A. Marginal utility is negative

B. Marginal utility is zero

C. Total Utility is rising

D. Total Utility is falling

**Answer: b**



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**More Questions Solved | Short Answer Type Questions**

1. Explain with diagram , the relationship between TU and MU.



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2. How many chocolates will a consumer have, , if they are available free of cost?



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3. Total Utility remains the same , whether Marginal Utility is positive or negative ".  
Defend or refute.



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4. State with reason if the following statements are true or false:

(i) At a grand family get-together party you go on eating and eating since you have not a pay.

(ii) As we consume more units of a commodity

, our total Utility from its consumption keeps falling.



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5. Explain the law of diminishing marginal utility with the help of a total utility schedule .



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6. Derive MU Schedule from TU Schedule.

Units of X	TU
1	11
2	21
3	30
4	38
5	45
6	51
7	56
8	60



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7. A person's marginal utility schedule is given below. Derive their total utility schedule.

<b>Amount Consumed</b>	<b>Marginal Utility</b>
<b>0</b>	<b>-</b>
<b>1</b>	<b>10</b>

<b>2</b>	<b>25</b>
<b>3</b>	<b>38</b>
<b>4</b>	<b>48</b>
<b>5</b>	<b>55</b>



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**8. Calculate :**

<b>Units of X</b>	<b>TU</b>	<b>MU</b>
<b>1</b>	<b>50</b>	<b>50</b>
<b>2</b>	<b>90</b>	<b>-</b>
<b>3</b>	<b>-</b>	<b>30</b>
<b>4</b>	<b>140</b>	<b>-</b>
<b>5</b>	<b>155</b>	<b>-</b>



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**9.** Derive the inverse relation between price of the good and its demand from single commodity equilibrium condition " marginal utility = price".



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**10.** A consumer consumes only two goods X and Y. At a consumption level of these two goods , he finds that the ratio of marginal

utility to price in case of X is higher than that in case. of X is higher than that in case of Y .

Explain the reaction of consumer.



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**11.** A consumer consumes only two goods X and Y and is in equilibrium . Price of falls .

Explain the reaction of the consumer through the Utility Analysis



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12. A Consumer consumes only two goods X and Y and is in equilibrium . Price of good X falls . Show that it will lead to rise in demand for good X.



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13. By spending his entire income only on two goods X and Y a consumer finds that ,  
$$\frac{MU_x}{P_x} > \frac{MU_y}{P_y}$$
 Explain how will the consumer react.



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14. A consumer consumes two goods X and Y.

What will happen if  $\frac{MU_x}{P_x}$  is greater than  $\frac{MU_y}{P_y}$  ?



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15. A consumer consumes two goods X and Y.

Explain what will happen if  $MU_x / P_x$  is greater than  $MU_y / P_y$  ?



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**16.** A consumer consumes only two goods X and Y. At certain consumption level of these goods, the finds that the ratio of marginal utility to price in case of X is lower than that in case of Y. Explain the reaction of the consumer.



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**17.** By spending his entire income only on two goods X and Y a consumer finds that ,

$\frac{MU_x}{P_x} < \frac{MU_y}{P_y}$  . Explain how will the consumer reaction.



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**18.** A consumer consumer only two goods X and Y and is in equilibrium . Show that when the price of good X rises, the consumer buys less of good X. Use utility analysis.



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**19.** Explain the meaning of diminishing marginal rate of substitution with the help of a numerical example.



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**20.** Why is an Indifference curve generally convex to the origin.



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21. Explain why an Indifference curve has a negative slope (i.e. IC slope down - wards to the right).



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22. Why do Indifference curves not intersect each other ?



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**23.** Explain that Higher IC provides higher level of satisfaction.



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**24.** Higher indifference curve represents higher level of satisfaction to the consumer'. Explain the statement, also state the underlying assumption related to this property of indifference curve.



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## More Questions Solved | True Or False Giving Reasons State Whether The Following Statements Are True Or False

1. Total Utility increases as long as marginal utility is positive (+).



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2. TU starts declining when MU starts declining.







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3. An indifference curve (IC) is convex to the origin because of increasing  $MRS_{xy}$ .



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4. A consumer is in equilibrium if he earns the maximum profit.



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5. Marginal utility of the first unit is equal to Total Utility .

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6. In case of single commodity , consumer will be in equilibrium when M.U. = Income.

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7. If there are two commodities , consumer is in equilibrium if  $\frac{MU_x}{Income} = \frac{MU_y}{Income}$



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8. If TU remains the same, MU may be negative or positive .



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9. In case of indifference curve consumer is in equilibrium if  $MRS_{xy} = \frac{P_x}{P_y}$  .



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10. A consumer is in equilibrium where indifference curve equals budget line ?



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11. All points on the budget line give equal satisfaction to the consumer.



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12. All combinations on an IC are achievable by a consumer.



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More Questions Solved V Long Answer Type Questions

1. Explain consumer's equilibrium in case of a single commodity with the help of a utility schedule.



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2. State condition of consumer equilibrium in case of a single commodity .



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3. There is given the market price of a piece of goods , how does a consumer decides as to how many units of that piece of goods to buy .



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4. How many units of a commodity should a consumer buy to get its maximum utility ?

Example with my help of a numerical example.



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5. There is given the price of a good , how does a consumer decide as to how much quantity of the goods to buy?



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6. A consumer consumes only two goods. Explain the Conditions of the consumer's equilibrium with the help of Utility Analysis.



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7. State and explain the condition of consumer equilibrium in case of two commodities through Utility approach.



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8. For a consumer to be in equilibrium why must marginal rate of substitution be equal to the ratio of prices of the two goods?



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9. Using indifference curve approach , explain the conditions of consumer's equilibrium .



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**10.** Why is the consumer in equilibrium when he buys only that combination of the two goods that is shown at the point of tangency of the budget line with an indifference curve ? Explain .



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**11.** What are the conditions of consumer's equilibrium under the indifference curve approach ? What changes will take place if the

conditions are not fulfilled to reach equilibrium ?



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**12.** State and explain the conditions of consumer's equilibrium in indifference curve analysis.



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**13.** Explain consumer equilibrium using the concept of budget line and indifference map or Interior Optimum Consumer Equilibrium.



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**14.** A consumer consumes only two of goods .  
For the consumer to be in only equilibrium  
why must Marginal Rate of Substitution  
between the two goods must be equal to the

ratio of prices of these two goods ? It it enough to ensure equilibrium ?



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**15.** A consumer consumes only two goods. Explain the conditions that need to be satisfied for consumer to be in equilibrium under indifference curve analysis .



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**16.** Show diagrammatically the conditions for consumer's equilibrium in Hicksian analysis of demand .



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**17.** Differentiate between Cardinal and Ordinal Utility .



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# More Questions Solved Vi Higher Order Thinking Skills Hots

1. What does budget line in terms of price and income indicate ?



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2. What is the slope of budget line ?



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3. What is the horizontal (X axis) intercept of budget line ?



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4. What is the Vertical (Y- axis) intercept of budget line ?



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5. Law of diminishing marginal utility will operate even if consumption takes place in intervals, Defend or refute .



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6. Derive the law of demand from the two commodity equilibrium condition " Marginal Utility = price ratio through utility approach".



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7. Define market rate of exchange.



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8. Ice cream is sold for Rs 30 Lakshmi who loves eating ice cream , has already eaten 3 ice creams. Her marginal utility from eating . Her marginal utility from eating 3 ice cream is 90 . Suppose, for her ,MU of one rupee is 3 . Should she eat more ice Creams or stop?



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9. Starting from an initial situation of consumer's equilibrium state, how does increase in marginal utility of one rupee affect the quantity demanded of a product?



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More Questions Solved Vii Value Based Questions

1. How the law of diminishing marginal utility applied with regard to education/knowledge ?



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## More Questions Solved Vii Application Bases Questions

1. A consumer has Rs. 10 and both goods X and Y are price at Rs. 2 and are available in integer units .(a) give the bundles that this consumer can afford to buy (b) give the bundle that cost exactly Rs. 10 (c) give two bundles that this consumer connect afford to buy .



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2. A consumer has Rs 40 and both goods X and Y are price at Rs 20 it and are available in integer units. (a) Given the bundles that this consumer can afford (b) give the bundles that cost exactly Rs 40.



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3. Given reason for the following statements:

(i) If the income of a consumer changes and

prices of the two goods remain unchanged, a new budget line will be formed which will be parallel to the original line .

(ii) If the income of the consumer remains unchanged and if the price of goods X rises, intercept of the budget line of Y -axis will remain the same , but on the X - axis it will shift to the left .



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4. Given reasons comment on the following statements :

(i) A consumer's equilibrium is always formed at a point on the given budget line.

(ii) A consumer's equilibrium will shift to a higher indifference curve with an increase in consumer's income.



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5. Given reasons, state why the following two conditions must be satisfied when a consumer is in equilibrium.

(i) A budget line must be tangent to an indifference curve.

(ii) Marginal rate of substitution must be diminishing.



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6. (a) What is a budget line ? What does the point on it indicate in terms of prices ?

(b) A consumer consumes only two pieces of goods X and Y . Her money income is Rs 24 and the price of price of goods X and Y are Rs 4 and Rs 2 respectively.

Answer the following questions:

(i) Can the consumer afford a bundle 4X and 5Y ? Explain.

(ii) What will be the  $MRS_{xy}$  when the consumer is in equilibrium ? Explain.



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7. A consumer consumes only two goods X and Y both prices at Rs 2 Per unit if the consumer choose a combination of these two goods with Marginal Rate of Substitution equal to 2 , is the consumer in equilibrium ? Give reasons. What will a rational consumer do in this situation ? Explain.



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8. A consumer consumes only two goods X and Y whose prices are Rs 4 and Rs 5 per unit respectively . If the consumer choose a combination of the two goods with marginal utility of X equal to 5 and that of Y equal to 4 , is the consumer in equilibrium ? Give reasons. What will a rational consumer do in this situation ? Use utility analysis .



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