



# **ECONOMICS**

**BOOKS - GOYAL BROTHERS**

**PRAKASHAN ECONOMICS (HINGLISH)**

**CONSUMER 'S EQUILIBRIUM : UTILITY  
ANALYSIS**

**Multiple choice questions**

1. In the study of consumer behaviour, we study decision making by a consumer with respect to :

A. Spending of income

B. Adjusting purchases due to change in price

C. Both (a) and (b)

D. Neither (a) nor (b)

**Answer: C**





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2. A rational consumer is called 'rational' because he/she aims at :

- A. Maximizing purchases
- B. Minimizing expenditure
- C. Maximizing utility
- D. Minimizing wastage

**Answer: C**



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3. On consuming some units of a good, the utility obtained is 10 utils. It is an example of :

- A. Ordinal utility
- B. Cardinal utility
- C. Marginal utility
- D. Minimizing wastage

**Answer: B**



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4. There is a 'Law' in theory of consumer behaviour which states that as a consumer consumes more and more units of a good, the utility from each new unit consumed :

A. Increases

B. Remains constant

C. Decreases

D. Increases initially remains constant and ultimately decreases.

**Answer: C**



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**5. Marginal utility refers to utility :**

- A. From the last unit consumed
- B. From one more unit consumed
- C. From one less unit consumed
- D. All the above

**Answer: D**



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6. Marginal utility of a good means utility on consuming :

- A. More units
- B. Less units
- C. One more unit
- D. All the above

**Answer: C**



7. When a consumer increases consumption of a good from 2 units to 4 units, total utility rises from 9 units to 14 utils. Marginal utility is :

A. 5 utils

B. 2.5 utils

C. 3 utils

D. Can't calculate



**Answer: B**



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**8.** According to the Law of Diminishing Marginal Utility, as the consumer reduces consumption of a good's marginal utility of the remaining quantity of that good :

A. Falls

B. Rises

C. Remains unchanged

D. Cannot calculate

**Answer: B**



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9. A consumer consumes only two goods X and Y . On planning to spend the whole of income on these two goods he finds  $MU_x = 6$  utils and  $MU_y = 4$  utils,  $P_x$  and  $P_y$  are rupees 4 and 6 per unit respectively. In this situation the consumer will :

A. Stick to his plan

B. Buy less of X

C. Buy more of Y

D. Buy more of X and less of Y

**Answer: D**



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**10.** A consumer consumes only two goods X and Y and plans to spend entire income on these. The prices of X and Y are respectively

rupees 7 and rupees 8 per unit respectively.

In the plan marginal utilities of X and Y turn out to be 8 units and 7 utils respectively.

Suppose marginal utility in case of each good remains unchanged as more or less is consumed. In such a case consumer will :

A. But only X

B. Buy only Y

C. Buy both X and Y in equal quantities

D. Stick to his plan

**Answer: A**



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11. Given total utility schedule of a good, how many units of the good the consumer will buy if the price per unit is rupees 4 .

<i>Consumption (unit)</i>	<i>Total utility (utils)</i>
1	3
2	5
3	6

- A. 1 unit
- B. 2 units
- C. 3 units

D. 0 unit

**Answer: D**



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**12.** A consumer consumes only two goods X and Y with prices rupees 4 and rupees 5 per unit respectively. On making a plan of spending his whole of income he finds  $MU_x = 12$  utils and  $MU_y = 15$  utils. The consumer:

A. Is in equilibrium.

B. Is not in equilibrium nor can reach equilibrium.

C. Can reach equilibrium by buying less of X and more of Y.

D. Can reach equilibrium by buying more of X and less of Y.

**Answer: A**



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13. A consumer consumes only two goods X and Y and is in equilibrium with  $MU_x = MU_y$ , then:

A.  $P_x = P_y$

B.  $P_x < P_y$

C.  $P_x > P_y$

D. Any of the above

**Answer: A**



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## short answer question -I

1. Explain the meaning of equilibrium.



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2. Explain the concept of marginal utility by giving a numerical example.



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3. State and explain the Law of Diminishing Marginal Utility.



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## Short answer question -II

1. Explain the two alternative meanings of equilibrium.



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2. State and explain the Law of Diminishing Marginal Utility with the help of a numerical example.



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3. Explain why the price which a consumer is willing to pay for a good equals the marginal utility of that good, when purchasing a good.



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4. Explain the conditions of equilibrium assuming that consumer consumes only two goods.



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## Some important questions

1. Define marginal utility. State the Law of Diminishing Marginal Utility.



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2. Define Utility. Describe the law of diminishing marginal utility.



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3. A consumer only two goods. Explain his equilibrium with the help of utility analysis.



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4. Given the market price of a good , how does a consumer decide as to how many units of that good to buy? Explain



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5. A consumer consumes only two goods. What are the conditions of consumer's equilibrium in the utility approach? Explain the changes that will take place if the consumer is not in equilibrium.





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6. A consumer consumes only two goods X and Y and is in equilibrium. Price of X falls. Explain the reaction of the consumer through the Utility Analysis.



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7. A consumer consumes only two goods and is in equilibrium. Show that price and demand

for a good are inversely related. Explain using Utility Analysis.



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## Value based questions

1. A consumer consumes only two goods and is in equilibrium . Persistent campaign about consumer's awareness enables the consumer to buy one of the goods at a lower price. Explain its effect on consumer's equilibrium.





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2. Consumer makes purchase of any good by comparing price and marginal utility. When he becomes aware of his rights as a consumer, he is able to get the same product at the same price but with better 'after sale service'. Explain its effect on the purchase of good by the consumer.



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