



# ECONOMICS

**BOOKS - GOYAL BROTHERS**

**PRAKASHAN ECONOMICS (HINGLISH)**

**CONSUMERS'S EQUILIBRIUM:**

**INDIFFERENCE CURVE ANALYSIS**

**Multiple choice question**

1. The indifference Curve Analysis is different from the Utility Analysis because the IC Analysis is based on

- A. Cardinal utility
- B. Ordinal utility
- C. Law of diminishing marginal utility
- D. Law of equi-marginal utility

**Answer: B**



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2. Expressing choices in terms of first preference, second preference, third preference and so on is expression in terms of :

A. Diminishing marginal utility

B. Cardinal utility

C. Monotonic preference

D. ordinal utility

**Answer: D**



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3. An indifference schedule is based on the assumption that

A. The consumer consumes only two goods

B. Preferences are ordinal.

C. Marginal rate of substitution is decreasing

D. All the above

**Answer: D**



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4. Monoatomic preference is in the indifference Curve Analysis means that

A. Total utility increases as quantity of goods with the consumer increases

B. Total utility decreases as quantity of goods with the consumer decreases

C. Both (a) And (b)

D. Neither (a) nor (b)

**Answer: C**



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5. As we move along an indifference curve, each point to the right shows

A. Higher utility

B. Lower utility

C. Same utility

D. Initial higher , then same and ultimately declines.

**Answer: C**



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6. An indifference curve slopes downwards from left to right because

A. Marginal rate of substitution is declining

B. Consumer must give up some units of one good to obtain more units of the other good.

C. Both (a) and (b)

D. None of the above

**Answer: B**



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7. A typical indifference curve is downwards sloping convex curve because as we move downwards along the indifference curve, the slope of the curve

A. Decreases

B. Increases

C. Unchanged

D. Initially increases, then decreases

**Answer: A**



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8. An indifference curve to the right shows higher utility because of

- A. Monotonic preferences
- B. Cardinal preferences
- C. Ordinal preferences
- D. None of the above

**Answer: A**



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9. A consumer consume only two goods X and Y. Let  $P_x$  and  $P_y$  be their prices and  $Q_x$  and  $Q_y$  the quantities of these goods respectively. Let  $m$  be income. The budget constraints equations is

A.  $P_x \cdot Q_x + P_y \cdot Q_y = m$

B.  $P_x \cdot Q_x + P_y \cdot Q_y < m$

C.  $P_x \cdot Q_x + P_y \cdot Q_y > m$

D. None of the above

**Answer: B**



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**10.** A consumer consumes only two goods X and Y. let  $P_x$  and  $P_y$  be their prices and  $Q_x$  and  $Q_y$ . The quantities of these two goods respectively . Let  $m$  be the income. The budget line equation is

A.  $P_x \cdot Q_x + P_y \cdot Q_x = m$

B.  $P_x \cdot Q_x + P_y \cdot Q_y > m$

$$C. P_x \cdot Q_x + P_y \cdot Q_x \geq m$$

$$D. P_x \cdot Q_x + P_y \cdot Q_x \leq m$$

**Answer: A**



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**11. Slope of a budget line is**

A. Increasing throughout

B. Decreasing throughout

C. Constant throughout

D. Fluctuating through out

**Answer: C**



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**12. A budget line can shift if :**

A. Price of the good on X axis changes.

B. Price of the good on Y axis changes

C. Income of the consumer changes

D. Any of the above

**Answer: D**



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**13.** In the indifference Curve Analysis, the consumer is in equilibrium when :

A. Budget line is tangent to indifference curve.

B. Indifference curve is convex.

C. Both (a) and (B)

D. None of the above

**Answer: C**



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**14.** When price of one or both the goods consumer consumes falls, the consumer's utility level at equilibrium in the IC analysis.

A. Falls

B. Increases



C. Remain unchanged

D. Uncertain

**Answer: B**



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**15.** Suppose prices of only two goods the consumer consumes are doubled, and at the same time income is also doubled, the consumer's utility level at equilibrium in the IC analysis.

A. Falls

B. Increases

C. Remain unchanged

D. Uncertain

**Answer: A**



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**16.** Suppose prices of one of the two goods the consumer consumes falls and that of other

rises, the consumer's utility level at equilibrium in the IC analysis.

- A. Falls
- B. Increases
- C. Remain unchanged
- D. Uncertain

**Answer: D**



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1. Distinguish between cardinal utility and ordinal utility.



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2. Explain the concept of Marginal Rate of Substitution.



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3. Show how MRS is measured on an indifference curve.



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4. State three properties of an indifference curve.



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5. Why is an indifference curve negatively sloped ? Explain.



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6. Why is an indifference curve strictly convex ? Explain.



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7. Why does a higher indifference curve represent a higher level of utility ? Explain



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8. Explain the concept of market rate of exchange.



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**9.** What is budget line ? State two alternative measures of its slope.



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**10.** State the determinants of budget line.  
What happens when any one of the determinant changes ?



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**11.** Explain what is meant by 'consumer is rational' .



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**12.** What is consumer's equilibrium ? State its conditions under indifference curve Analysis.



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**Short Answer Question-II**

1. Explain the concept of Marginal Rate of Substitution with the help of a schedule.



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2. Explain the concept of indifference map. Use diagram.



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**3.** Distinguish between budget set and budget line. Use diagram.



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**4.** Explain how change in income affects the budget line. Use diagram



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5. Explain the effect of change in the price of a good on the budget line. Use diagram



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6. What is the effect of simultaneous and same percentage change in the prices of both the goods on the budget line ? Use diagram.



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7. State the the assumption on which consumer's equilibrium in the indifference curve analysis is based.



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8. Explain any two assumption the consumer's equilibrium is based in Indifference Curve Analysis.



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9. Suppose MRS is greater than the ratio of prices. Explain how will a consumer reach equilibrium.



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10. Suppose MRS is less than the ratio of prices. What is likely to happen so that consumer's equilibrium is restored ?



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## Long Answer Question

1. Explain the concept of indifference schedule and the elements on which the schedule is based.



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2. Explain the concept of MRS with the help of an example and diagram.



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3. Explain the concept of Indifference Map and the assumption about preferences on which it is based.



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4. Explain three properties of indifference curve.



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5. Distinguish between budget set and budget line and their equations. Use diagram



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6. Explain the effect of fall/rise in income of the consumer on the budget line. Use diagram



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7. Explain the effect of the following on budget line : (a) Fall in price of good shown on the x-axis and (b) Rise in the price of the good shown on the Y-axis.



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8. Explain the assumption on which the indifference curve analysis is based.



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9. Explain the conditions of consumer's equilibrium in the indifference Curve Analysis .

Use diagraph.



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10. Show that two indifference curves cannot intersect each other.



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**Some Important Question**

1. Using indifference curve approach, explain the condition of consumer's equilibrium

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2. Define budget set.

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3. Explain the three properties of indifference curves.



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4. Explain the concept of MRS by giving an example. What happens to MRS when a consumer moves downwards along the indifference curve? Give reasons for your answer.



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5. Explain why is an indifference curve (i) downwards sloping from left to right and (ii) convex.



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6. Explain the conditions of consumer's equilibrium with the help of indifference curve analysis.



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7. Explain the concepts of (i) MRS and (ii) budget line equation with the help of numerical examples.



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8. A budget set is a collection of such bundles of goods that given same satisfaction. True or false ? Give reason.



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9. Explain the distinction between the equations of budget line and budget constraint.



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10. A consumer consumes only two goods X and Y, both priced at Rs 2 per unit. If a consumer chooses a combination of two goods with Marginal Rate of substitution equal to 2, is the consumer in equilibrium ?



Why or why not ? What will a rational consumer do in this situation ? Explain .



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## Value based question

1. A consumer consumes only two goods. Consumer awareness programmes bring the consumer into a better bargaining position. Explain how does it affect the budget line of the consumer. Use diagram.



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2. A consumer is in equilibrium but has incomplete information about the market. Complete information can bring him into a better bargaining position. Explain how will complete information influence the consumer's equilibrium under indifference Curve Analysis .



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3. A consumer who is below the poverty line is in equilibrium. Taking a policy decision government decides to grant cash transfers to the households below the poverty line. Show, with the help of the indifference Curve Analysis, that this consumer would be better off after cash transfer. Use diagram.



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4. Welfare of the poorer sections of the society is a big priority. What possible step can the government take to achieve this objective. Explain with the help of indifference Curve Analysis . Use diagraph.



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