ECONOMICS

BOOKS - SANDEEP GARG ECONOMICS (HINGLISH)

CONSUMER'S EQUILIBRIUM

example

1. A person's total utility (TU) schedule is given below. Derive marginal utility (MU)

Units	0	1	2	3	4	5
TU	0	10	25	38	48	55

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2. A person's MU schedule is given below. Derive

TU :

Units consumed	1	2	3	4	5	6
MU	9	6	4	2	0	-2

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3. Calculate the missing figures.

Units	1	2	3	4	5
$TU(\text{in utils})$	16	–	–	–	40
$MU(\text{in utils})$	–	12	8	6	–

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4. Suppose the price of a connodity 'x' is given as Rs 8 and the MU (in terms of money) for 4 units is given as :

Units	1	2	3	4
$MU_x(Rs)$	12	10	8	6

How many units should a consumer purchase so that his satisfaction is maximum ?

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5. Given below is the utility schedule of a consumer for commodity X. The price of the commodity is Rs 6 per unit. How many units should the consumer purchase to maximize his satisfaction ? (Assume that utility is expressed in utils and 1 until $=$ Rs 1). Given reason for your answer.

Consumption units	1	2	3	4	5	6
Total utility (TU)	10	18	25	31	34	34
Marginal Utility (MU)	10	8	7	6	3	0

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6. Following is the utility schedule of a person:

Units of x consumed	1	2	3	4	5
MU (in utils)	50	40	30	20	10

Suppose that the connodity is sold for Rs 4 and MU of one rupee is 5 utils. How many units of the commodity will the person purchase to maximise his satisfaction ?

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7. Suppose that an ice-cream is sold for Rs 30. Laxmi, who loves ice-cream, has already eaten 3.

Her marginal utility from eating the 3^{rd} ice-cream is 90 utils. If MU of Rs 1 is 3 utils, should she eat more ice-creams or should she stop ?

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8. The marginal utility schedule for good X and Y are given below. Both the goods are proced at Rs 1 each and income of Rakesh (an individual) is assumed to be Rs 8. Determine, how many units of both the commodities should be purchased by Rakesh to maximize his

total utility ?

Quantity (units)	Marginal Utility of X (MU_X) (Utils)	Marginal Utility of Y (MU_Y) (Utils)
1	11	19
2	10	17
3	9	15
4	8	13
5	7	12
6	6	10
7	5	8
8	4	6

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9. A consumer consumers only two goods X and Y whose prices are Rs 5 and Rs 4 per unit respectively. If $MU_Y = 16$ at the point of consumer's equilibrium, calculate MU_X.

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10. A consumer consumes only two goods X and Y. The consumer choose a combination of two good with marginal utility of X equal to 30 and that of Y equal to 20. If price of good X is Rs 6 per unit, then what will be price of good Y at the point of consumer's equilibrium ?

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11. A consumer consumes only two goods X and Y whose price are Rs 5 and Rs 6 per unit respectively. If the consumer chooses a

combination of the two goods with marginal utility of X equal to 35 and that of Y eqaul to 30, is the consumer in equilibrium? Given reason. What will a rational consumer do in this situation ? Use utility analysis.

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12. A consumer wants to consume two goods. Good A and Good B. Good A is priced at Rs 2 per unit and Good B at Rs 4 per unit. The income of the consumer is fixed at Rs 20. On

the basis of this information, anser the following question:

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

Or

Mention all the bundles which come under the 'Budget Set'

(ii) Find out the bundles which cost exactly Rs 20.

Or

Mention the bundles which can be represented on the 'Budget Line'

(iii) How much units of good A can be

purchased if the entire income is spent on the good ?

(iv) Write down the algebraic expression of budget line.

(v) Determine the slope of the buget line ?

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13. Suppose a consumer wants to consume two goods which are available in integer units only. If the income of the consumer is Rs 20 and

both the goods are equally priced at Rs 4, write the bundles which cost exactly Rs 20

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14. Suppose there are four bundles containing goods x and goods y, bundle (5,5), Bundle (4,4), Bundle (5,4), Bundle (4,5). If a consumer's perferences are monotonic, then which bundle will be preferred by the consumer ? Give reason for your answer.

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15. A consumer consumes only two goods X and Y whose prices are Rs 6 and Rs 3 per unit respectively. What will be the MRS_{XY}, when the conumer is in equilibrium ?

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16. If a consumer faces the Budget line equation: $20X + 10Y = 500$. Answer the following questions:

(i) What will be the slope of budget line ?

(ii) How many units would he be to buy if the entire sum of Rs 500 is to be spent on Good X only? show calculations.

(iii) Construct a new budget line equation if the price of Good Y falls by 50%. Also, write the slope of the new budget line equation.

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Higher order thinking skills questions

1. How many ice -cream will a consumer have, it ice-cream is available free of cost" ?

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2. 'Law of diminishing marginal utility will operate even if consumption takes place in intervals". Defend or refute.

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3. 'TU remains the same, whether MU is positive or negative". Defend or refute.

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4. What changes will take place in TU, when (i) MU curve remains above the X-axis, (ii) MU curve touches the X-axis, (iii) MU curve lies below the X-axis.

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5. Explain the concept of Marginal Rate of Substitution (MRS) by giving an example. Explain its behaving along an indifference curve.

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6. 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 of price in case of X is higher than in case of Y. Explain the reaction of the consumer.

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

OR

Suppose a consumer spends his entire income on two goods. X and Y. If he has attained the point of equilibrium through utility analysis, then he will not change his allocation of

expenditure on the two goods X and Y, even if price of good X falls. Defend or Refute.

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8. What is budget set ? Explain what can lead to change in budget set.

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9. Define a budget line. When can it shift to the right ?

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10. State the conditions of consumer's equilibrium in the Indifference Curve Analysis and explain the rationale behind these conditions

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11. Explain the distinction between the equations of buget line and budget constraint.

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12. A consumer consumers only two goods X and Y both priced at Rs 3 per unit. If the consumer choose a combination of these two goods with Marginal Rate of Substitution equal to 3, is the consumer in equilibrium ? Give reasons. What will a reational consumer do in this situation? Explain.

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13. A consumer consumes only two goods X and Y whose price 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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14. A consumer consumer only two goods. For the consumer to be in equilibrium, why must Marginal Rate of Substitution between the two goods must be equal to the ratio of prices of these two goods ? Is it enough to ensure equilibrium ?

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15. A consumer consumes only two goods. Why is the consumer said to be in equilibrium when he buy only that combination of the two goods

Which lies at that point on the Indifference curve where the budget line is tangent to the indifference curve? Explain. Use diagram.

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16. A consumer's income is Rs 200. He spends it on purchase of goods X and Y. Prices of X and Y are Rs 40 and Rs 20 per unit respectively.

Answer the following question.

(a) Write the equation of his budget line.

(b) Write two such combinations of X and Y

which lie on the budget line.

(c) Write two such combination of X and Y which are a part of his budget set but do not lie on his budget line

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17. After reaching the point of equilibrium, consumer would not like to change his allocation of expenditure on Goods X and Y ever if price of Good X changes. Do you agree ? Comment

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18. What does a point on the Budget Line indicate in terms of prices ?

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19. An indifference curve does not touch either of the axis.' Defend or Refute.

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20. A consumer consumes only two goods X and Y and prices of Goods X and Y are Rs 4 and Rs 2 respectively. What will be the MRS_{XY} when consumer is in equilibrium ?

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21. How will a consumer react when he finds that $MRS_{XY} < \frac{P_X}{P_Y}$?

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22. A consumer consumes only one good. The marginal utility from the good is 60 utils and its price is Rs 7 per unit. Indicate whether the consumer is at equilibrium or not if marginal utility of money for the consumer is 6 utils. What should he do to attain equilibrium ?

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23. Identify which of the following is not true for the Indifference Curves. Give valid reasons for choice of your answer.

(a) Lower indifference curve represents lower level of satisfaction

(b) Two regular convex to origin indifference curves can intersect each other.

(c) Indifference curve must be convex to origin at the point of tangency with the budget line at the consumer's equilibrium. ltbr. (d) Indifference curves are drawn under the ordinal approach to consumer equilibrium

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24. A consumer has total money income of Rs 250 to be spent on two goods X and Y with prices of Rs 25 and Rs 10 per unit respectively. On the basis of the information given, answer the following questions:

(a) Given the equation of the budget line for the consumer.

(b) What is the value of slope of the budget line?

(c) How many units can be consumer buy if he is to spend all his money income on good X?

(d) How does the budget line change if there is a fall in price of good Y ?

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True and false

1. Utility is directly linked with the usefulness of a commodity.

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2. Any consumption beyond the point of Satiety leads to disutility

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3. Different points on an indifference curve represent different satisfaction levels

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4. An indifference curve is convex to the origin because of the law of equi-marginal utility.

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5. Marginal rate of substitution indicates the slope of budget line.

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6. When we add up utility derived from each successive unit, we get total utility.

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7. All point below the budget line show the various possible bundles which cost exactly equal to consumer's money income

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8. Marginal rate of substitution remains same the indifference curve

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9. The bundles of budget set lie either on or below the budget line.

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10. Two indifference curves intersect each other when they represent same level of satisfaction.

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11. The law of diminishing marginal utility states that a rise in price of a product results in decline in its marginal utility

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12. Total utility is minimum when marginal utility is zero

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13. The slope of indifference curve is different at different points of the cruve

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14. Only one indifference curve will pass through a given point on an indifference map

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15. When the marginal utility starts falling, total utility also start decreasing

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16. A comsumer buys a combination of two goods: X and Y with marginal utilities equal to 30 utils and 35 utils respectively. Price of X is Rs 6 per unit. The consumer will be in equilibrium only when price of Y is 7 per unit.

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17. If $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$, then the consumer should buy more of commodity Y and less of commodity X to reach the equilibrium position

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18. Marginal utlity can never be negative

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19. A budget set is the collection of all bundles of goods that a consumer wants to buy

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20. A budget set is a collection of all bundles of goods that a consumer wants to buy

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21. In case of two commodities, MU of a commodity must fall to attain consumer's equilibrium

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22. A consumer in consumption of single commodity equates price of the commodity with total utility.

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23. When $P_x \neq P_y$, then consumer is at equilibrium when $MU_x = MU_y$

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Guidelines to ncert question

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

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2. What is budget line ?

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3. Explain why the budget line is downward sloping

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4. 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 budget line.

(ii) How much of good 1 can the 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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5. How does the budget line change if the consumer's income increases to Rs 40 but the prices remain unchanged ?

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

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

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8. 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 price of the two goods are Rs 6 and Rs 8 respectively. How much is the consumer's income ?

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9. Suppose a consumer wants to comsume two goods which are abailable only in integer units. The two goods are equally priced at Rs 10 and the consumer's income is Rs 40

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10. What do you mean by 'monotonic preferences'?

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11. If a consumer has monotonic preferences, then bundle (10,8) and (8,6)?

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12. Suppose a consumer's preferences are monotonic. What can say about her preference ranking over the bundles (10,0), (10,9) and (9,9) ?

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

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Very short anwer type question

1. Define utility

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2. Define total utility

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3. How is totally utility derived from marginal utility ?

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4. Define marginal utility

View Text Solution

5. If one burger gives you satisfaction of 15 utils and 2 burgers generate total satisfaction of 25 utils, then caculate the marginal utility of second burger.

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6. What happends to marginal utility, when the totally utility is maximum ?

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7. Why does TU increase at a diminishing rate due to continous increase in consumption ?

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8. What is law of diminishing marginal utility

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9. What is meant by consumer's equilibrium ?

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10. What is the general condition of consumer's equilibrium with respect to any particular product ?

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11. What is meant by MU of one rupee ?

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12. State the conditions of consumer's equilibrium in case of two commodities

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13. Define an indifference curve

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14. Define Marginal rate of substitution

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15. Is consumer willing to move away from consumer's equilibrium point ?

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16. Define an indifference map

View Text Solution

17. Define a budget line.

View Text Solution

18. Define budget set.

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19. Why does an indifference curves always convex to the origin ?

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20. Why does an indifference curve slope downwards ?

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21. State the conditions of consumer's equilibrium in cases of indifference curve approach ?

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22. Why does the budget line slope downward ?

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23. What is the impact of diminishing marginal rate of substitution on the slope of indifference curve ?

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24. What does an indifference curve show ?

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25. Why is the study of consumer's equilibrium a subject matter of microeconmics ?

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26. Why budget line is a straight line ?

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27. What is meant by monotonic preferences ?

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28. give equation of Budget Line

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29. give equation of Budget Set

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30. What is 'ordinal utility'?

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31. Higher indifference curve represents higher level of satisfaction to the consumer. State the underlying assumption related to this property of indifference curve.

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32. When is a consumer said to be rational ?

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33. At which rate TU increases when MU is decreasing ?

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34. What is any combination of the amount of two goods consumed by a consumer called ?

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Short Answer type questions

1. Define the following terms: (1) Marginal utility, (2) Total utility, (3) Initial utility

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2. Define marginal utility. State the law of diminishing marginal utility

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3. Explain the various points of relationship between marginal utility and total utility with the help of schedule and diagram.

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4. How does a consumer reach equilibrium position when he is buying only one commodity ? Explain with the help of utility schedule.

OR

Given the market price of good, how does a consumer decided as to how many units of that goods to buy ? Explain

OR

Explain conditions determining how many units of a good consumer will buy at a given price.

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5. Explain the conditions of consumer's equillibrium in the indifference Curve Analysis . Use diagram.

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6. Define the following terms: (i) Indifference curve, (ii) Indifference map, (iii) marginal rate of substitution.

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7. What is the law of diminishing marginal product?

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8. Explain the relation between total utility and marginal utility

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9. Define an indifference curve. Explain why an indifference curve is downward sloping from

left to right.

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10. What are monotonic preferences ? Explain why an indifference curve to the right shows higher utility

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11. Define an indifference map. Explain why an indifference curve to the right shows higher

utility level.

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12. Explain the distinction between budget set and budget line.

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13. Define Marginal Rate of Substitution. Explain why is an indifference curve convex ?

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14. Explain the difference between cardinal utility and ordinal utility. Give example

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15. What is budget line ? Why is it downward sloping

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

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17. Explain the concept of 'marginal utility' with the help of a numerical example

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18. Explain why an indifference curve is convex to the origin ?

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19. A consumer consumers only two goods A and B and is in equilibrium. Show that when price of good B falls, demand for B rises Answer this question with the help of utility analysis.

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20. A consumer consumes two goods X and Y. What will happen if MU_x / P_x is greater than MU_y / P_y?

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21. A consumer consumes only two good X and Y. Marginal utilities of X and Y are 5 and 4 respectively. The prices of X and Y are Rs 4 per unit and Rs 5 per unit respctively. Is the consumer in equilibrium ? What will be the further reaction of the consumer ? Explain

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22. A consumer consumes only two goods X and Y. The Marginal Rate of Substitution is 1. Price of X and Y are Rs 3 and Rs 4 per unit respectively. Is the consumer in equilibrium ? What will be further reaction of the consumer ? Give reason

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23. Higher indifference curve respresent higher level of satisfaction of the consumer'. Explain the statement. Also state the underlying assumption related to this property of indifference curve.

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24. Explain the reaction of the consumer when Price Ratio (or Market Rate of Exchange) is higher than marginal Rate of Substitution

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25. Explain conditions of consumer's equilibrium under indifference curve approach

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26. Explain the meaning of 'Budget set' and 'Budget line'

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27. Explain the meaning of marginal rate of substitution. Why does it diminish as one good is substituted for the other ? Explain

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28. Explain the meaning of budget line. What can cause a change in it? Explain

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29. Why is budget line a straight line? Explain

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Long Answer type question

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

OR

Explain conditions determing how many units of a good consumer will buy at a given price.

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2. A consumer consumes only two good. Explain equilibrium with the help of utility approach.

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3. Explain the conditions of consumer's equilibrium in case of (i) single commodity and (ii) two commodities. Use utility approach.

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4. A consumer consumes only two goods X and Y, both priced at Rs 2 per unit. If the consumer chooses a combination of the 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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5. A consumer consumes only two goods X and Y whoose prices are Rs 2 and Rs 1 per unit respectively. If the consumer chooses a combination of the two goods with marginal utility of X being 4 and that of Y also being 4, is the comsumer in equilibrium ? Give reason.

Explain what will a rational consumer do in this situation. Use Marginal Utility Analysis.

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6. Explain the following : (a) why is an indifference curve convex to the origin ? (b) Why does a higher indifference curve represent a higher level of satisfaction ?

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7. State and explain the characteristics of indifference curve.

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8. What are monotonic preferences ? Explain why is an indifference curve: (i) Downward sloping from left to right and , (ii) Convex.

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9. Explain the concepts of (i) marginal rate of substitution and (ii) budget line equation with the help of numerical examples.

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10. Explain the concept of Marginal Rate of Substitution and its behaviour along the typical indifference curve. Give a numerical example. Also give reason for its behaviour.

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11. 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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12. A consumer consumes only two goods X and Y and is in equilibrium. Price of good Y rises. Show that it will lead to fall in demand for good Y.

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13. Explain the distinction between budget set and budget line. When can a budget line shift ?

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

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15. A consumer spends his entire income on two goods: X and Y. Currently his marginal rate of substitution (MRS) of X and Y is more than the price ratio of two goods. Discuss the changes that will take place so that consumer is able to reach the equilibrium position.

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16. Define budget line and indifference cuve. Also explain why the two are downward sloping form left to right.?

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17. A consumer, Mr. Aman is in state of equilibrium consuming two goods X and Y, with given prices P_x and P_y. Explain what will happen if: (a) MU_x / P_x is greater than MU_y / P_y, (b) P_y falls.

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Practicals on TU and MU

1. A person's total utility (TU) schedule is given below. Derive marginal utility (MU)

Units	0	1	2	3	4	5
TU	0	12	21	29	32	30

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2. Derive MU from the total utility (TU) schedule given below:

Units	1	2	3	4	5	6
TU	4	7	9	10	10	8

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3. A person's MU schedule is given below. Derive

TU:

Units consumed	1	2	3	4	5	6
MU	14	10	8	6	0	-2

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4. Calculate the missing figure.

Units	1	2	3	4	5
TU in utils	5	9	–	14	–
MU in utils	–	–	3	–	1

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5. The MU schedule for good X and Y are given. Price of both the goods is Rs 1 each and the income of Ramesh (an individual) is assumed to be Rs 5. Determine, how many units of both the commodities should be purchased by Ramesh to maximize his total utility. What is the total amount of utility received by Ramesh at the point of equilibrium ?

Quantity (units)	MU of X (Utils)	MU of Y (Utils)
1	11	8
2	10	7
3	9	6
4	8	4
5	7	3
6	6	2

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6. The marginal utility schedule for goods A and B are given. Price of both the goods is Rs 1 each and the income of Ms. Nidhi is assumed to be Rs 8. Determine, how many units of both the commodities should be purchased by Nidhi to maximize her total utility. Also, calculate the total utility at the point of equilibrium.

Quantity (Units)	MU of A (Utils)	MU of B (Utils)
1	26	11
2	21	9
3	17	8
4	13	6
5	8	4
6	3	2

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7. Amit wants to purchase two goods which are available in integer units only. If his income is Rs 40 and both the goods and priced at Rs 10 each, then write the bundles which cost exactly Rs 40.

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8. Suppose there are three bundles containing good 1 and good 2: Bundles $(10, 10)$, Bundle $(10, 9)$ and Bundle $(7, 10)$, Which bundle will

be preferred by the consumer, if he has monotonic preferences ?

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9. Manish is indifference to the bundles $(4, 7)$ and $(4, 8)$. Indicate, whether Manish has monotonic preference or not ?

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Revision Exercise

1. Which of these is not a property of indifference curve ?

A. Indifference curve slopes downards

B. Indifference curve is concave downwards

C. Two indifference curves cannot intersect each other

D. Higher indifference curve represents higher level of satisfaction

Answer: B

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2. Indifference curves are convex to the origin because of:

A. Increasing MRS

B. Diminishing MRS

C. Law of Diminishing Marginal Utility

D. Law of Equi-Marginal Utility

Answer: B

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3. The necessary conditions under utility approach to attain consumer's equilibrium in case of two commodity is:

A. $\frac{MI_X}{P_X} = \frac{MU_Y}{P_Y}$

B. $MRS_X = \frac{P_X}{P_Y}$

C. $MU_x = P_x$

D. None of these

Answer: A

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4. When we add up utility derived from consumption of all the units of the commodities, we get:

A. Total Utility

B. Initial utility

C. Marginal Utility

D. None of these

Answer: A

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5. Marginal Utility (MU) in terms of money is equl to:

A. $\frac{\text{Marginal Utility in utils}}{\text{Marginal Utility of one rupee}}$

B. $\frac{\text{Marginal Utility of one rupee}}{\text{Marginal Utility in utils}}$

C. $\frac{\text{Marginal Utility in utils}}{\text{Price of the Commodity}}$

D. None of these

Answer: A

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6. According to the Law of diminishing marginal utility, satisfaction obtained form consumption of each successive unit:

A. Increases

B. Decreases

C. Remains same

D. Either increases or decreases

Answer: B

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7. Indifference Map refers to:

A. Highest Indifference curve

B. Lowest Indifference curve

C. Family of indifference curves

D. None of these

Answer: C

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8. Budget set inculdes:

A. All those combinations of two goods which a consumer already possesses

B. All those combinations of two goods which a consumer cannot afford

C. All those combinations two goods which a consumer is willing to buy

D. All those combinations of two goods which a consumer can afford

Answer: D

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9. Indifference curves are :

A. Concace to the origin.

B. Convex to the origin

C. Upwards sloping straight line passing from the origin

D. None of these

Answer: B

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10. Which of these is a conditions for consumer's equilibrium by indifference curve analysis ?

A. $MU_X = P_X$

B. $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$

C. $MRS_X = \frac{P_X}{P_Y}$

D. $MU_X = MU_Y$

Answer: C

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11. If $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$, then to reach the equilbrium position, consumer should

A. Stop buying any commodity

B. Buy both the commodities in equal quantity

C. Buy more of X and less of Y

D. Buy more of Y and less of X

Answer: C

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12. If the consumption of an additional unit of a commodity casues no change in TU, then the resultant MU is:

A. Zero

B. Positive

C. Negative

D. Constant

Answer: A

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13. An indifference curve is best described as a series of points which show:

A. Combination of two commodities which give the consumer same satisfaction

B. Combinations of two goods, such that cost of each combination is equal to money income of the consumer

C. Combinations of the two goods which a consumer can afford, given his income and prices in the market

D. None of these

Answer: A

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14. Total Utility is _____ at the point of satiety:

A. Minimum

B. Maximum

C. Zero

D. None of these

Answer: B

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15. Marginal Utility (MU) of n^{th} unit is calculated as:

A. $MU_n = TU_n - TU_{N+1}$

B. $MU_n = TU_n + TU_{n+1}$

C. $MU_n = tu_n + TU_{n-1}$

D. $MU_n = TU_n - TU_{n-1}$

Answer: D

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16. In case of single commodity, consumer's equilibrium is achieved when:

A. $MU_X > P_X$

B. $MU_X < P_X$

C. $MU_X \neq P_X$

D. $MU_X = P_X$

Answer: D

17. _____ measures the slope of indifference curve.

A. Budget Line

B. Marginal Rate of Substitution

C. Marginal Rate of Transformation

D. None of these

Answer: B

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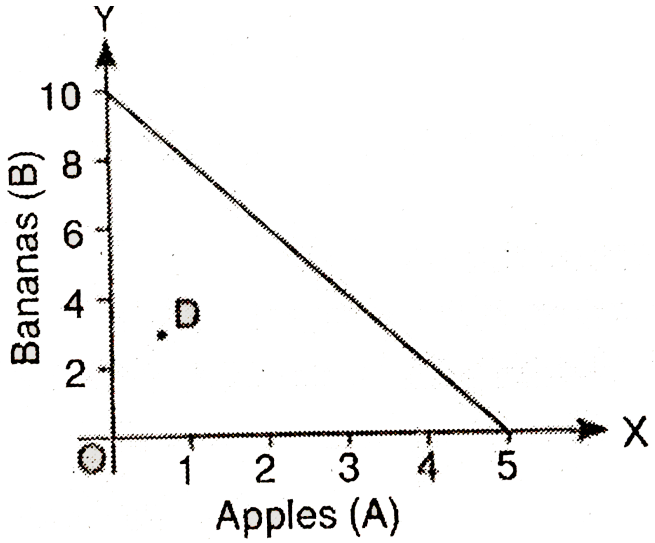
18. In the following diagram of budget line, point "D" represents :



A. Bundle which cost equal to money income of consumer

B. Bundle which cost less than money income of consumer

C. Bundle which cost greater than money income of consumer

D. None of these

Answer: B

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19. How is TU derived from MU ?

A. $TU = \Sigma MU$

B. $TU = U_1 + U_2 + U_3 \ldots\ldots + U_N$

C. Both (a) and (b)

D. None of these

Answer: C

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20. What happends to MU when TU is maximum ?

A. MU is negative

B. MU is zero

C. MU is decreasing

D. MU is increasing

Answer: B

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21. An indifference curve always:

A. Slope downwards from left to right.

B. Slopes upwards from left to right

C. Is parallel to the Y-axis

D. Is parallel to the X-axis.

Answer: A

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22. In case of cardinal utility approach, utility is measured in:

A. Rupees

B. Ranks

C. Utils

D. None of these

Answer: C

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23. The consumer will be in equilibrium where there is tangency between price line and indifference curve because at this point

A. $MRS <$ Price Ratio

B. $MRS >$ Price Ratio

C. $MRS =$ Price Ratio

D. None of these

Answer: C

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24. 'Cardinality'' means utility can be:

A. Measured

B. Ranked

C. Not measured

D. None of these

Answer: A

25. The slope of price line (in case of commodites X and Y) is given by:

A. Taste and preferences of consumer

B. Prices of both the commodities

C. Price of commodity X alone

D. Price of commodity Y alone

Answer: B

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26. Which Law states that. "When a consumer consumes more and more units of a product, the utility derived from each additional unit decreases"?

A. Law of Equi-Marginal Utility

B. Law of Ordinal Utility

C. Law of Cardinal Utility

D. Law of Diminishing Marginal Utility

Answer: D

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27. In the context of Indifference Curve Analysis, MRS stands for:

A. Marginal Rate of Substitution

B. Marginal Rate of Satisfaction

C. Marginal Return of Substitution

D. Marginal Return of Satisfaction

Answer: A

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28. For consumer's equilibrium to be stable, the requirement is:

A. constant MRS

B. Increasing MRS

C. Diminishing MRS

D. None of these

Answer: C

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29. The total utility derived by Shyam by eating 6 apples of 300 utils. Marginal Utility of the 7^{th} apple is 30 utils. The total utility for 7 apples will be _____ utils

A. 330

B. 270

C. 300

D. 30

Answer: A

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30. The assumption of "Constant marginal utility of money" means that importance of money to consumer is:

A. Increasing

B. Decreasing

C. Same

D. None of these

Answer: C

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31. When Economists speak of the utility of a certain product, they are referring to:

A. Demands for the product

B. Usefulness of the product in consumption

C. Satisfaction gained from consuming such product

D. Rate at which consumers are willing to exchange one good for another

Answer: C

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32. Utility :

A. Differs from person to person

B. Differs from time to time

C. Differs from product to product

D. All the these

Answer: D

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33. A consumer in conumption of two commodities A and B is at equilibrium. The prices of A and B are Rs 10 and Rs 20 respectively and the marginal utility of product B is 50. What will be the marginal utility of product A ?

A. 100

B. 25

C. 250

D. 4

Answer: B

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34. The Law of Diminishing Marginal Utility will not hold good if Income of the consumer:

A. Increases

B. Decreases

C. Remains constant

D. Either (a) or (b)

Answer: D

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35. As per Ordinal Approach

A. Measurement of Utility is not possible through money

B. Measurement of Utility is possible but it can not be ranked

C. Measurement of Utility is not possbile in cardinal numbers but it can be ranked

D. None of these

Answer: C

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36. Marginal Utility :

A. Is always positive

B. Is always negative

C. Can be positive or negative but not zero

D. can be positive or negative or zero

Answer: D

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37. Mollie derives total utility of 10 utils after having 4 mangoes and total utility on consuming 5 mangoes is 9. What is her marginal for the 5^{th} mango ?

A. $+1$ util

B. 0util

C. -1 util

D. 9 utils

Answer: C

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38. After reaching the point of satiety, consumption of additional units of the commodity cause:

A. TU falls and MU increases

B. Both TU and MU increase

C. TU falls and MU falls and becomes negative

D. TU becomes negative and MU falls

Answer: C

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39. According to one of the assumption of Law of Diminishing Marginal Utility, there should be ____ between the consumption of one unit and another unit

A. Equal time gap

B. No time gap

C. Long time gap

D. Any of these

Answer: B

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40. Budget line shows:

A. Possible combination of two goods that a consumer can buy by spending his entire income at the given prices

B. Possible combination of two goods which cost less than or equal to consumer's money income

C. Possible combination of two goods among which the conumer is indifferent

D. All the these

Answer: A

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41. MU_X of X is 40 and MU_Y of Y is 30. It the price of Y is Rs 9, then price of X at equilibrium will be _____

A. Rs 9

B. Rs 30

C. Rs 15

D. Rs 12

Answer: D

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42. The farther the Indifference Curve is from the origin, then :

A. Higher is the satisfaction level

B. lower is the satisfaction level

C. Same satisfaction level will be obtained

D. Nothing can be said about satisfaction

Answer: A

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43. The consumer is in equilibrium when Marginal Utility from a Commodity equals:

A. Demand of the Commodity

B. Supply of that Commodity

C. Price of the Commodity

D. All of these

Answer: C

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44. An Indifference Curve represents all those combinations of two goods which give:

A. No satisfaction to the Consumer

B. Lower satisfaction to the Consumer

C. Higher satisfaction to the consumer

D. Equal satisfaction to the Consumer

Answer: D

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45. The consumer is in equilibrium at a point where the budget line:

A. Is above an indifference curve

B. Is below an indifference curve

C. Is tangent to an indifference curve ?

D. Cuts an indifference curve.

Answer: C

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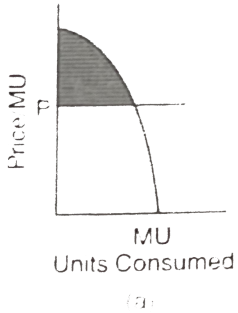
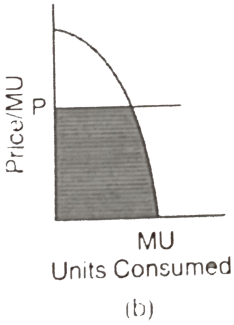
46. Which of the shaded area in the diagrams below represent total utility ?

A.

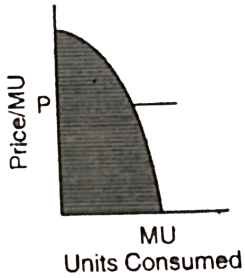

Price/MU
P
MU
Units Consumed

B.


Price/MU
P
MU
Units Consumed

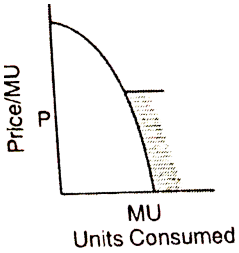
(b)

C.


Price/MU
P
MU
Units Consumed

(c)

D.


Price/MU
P
MU
Units Consumed

(d)

Answer: C

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47. If Marginal Rate of Substituation is constant throughtout, the Indifference curve will be: (Choose the correct alternative)

A. Parallel to the x-axis

B. Downward sloping concave

C. Downward sloping convex

D. Downward slopeing straight line

Answer: D

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48. If Marginal Rate of Substituation is increasing throughout, the Indifference Curve will be, (Choose the correct alternative)

A. Downward sloping convex

B. Downward sloping concave

C. Downward sloping straight line

D. Upward sloping convex

Answer: B

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49. A consumer consumes only two goods, If price of one of the goods falls, the indifference curve: (Choose the correct alternative)

A. Shifts upwards

B. Shifts downwards

C. Can shift both upwards or downwards

D. Does not shift

Answer: D

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50. A consumer consumes only two goods X and Y both Priced at Rs 4 per unit. If the consumer choose a combination of these two goods with Marginal Rate of Substitution equal to 4, then the consumer will :

A. Buy more units of X

B. Buy more units of Y

C. Buy more units of both, X and Y

D. Buy less units of both, X and Y

Answer: A

51. A consumer consumes only two goods X and Y whose prices are Rs 3 and Rs 4 per unit respectively. If the consumer chooses a combination of the two goods with marginal utility of X equal to 4 and that of Y equal to 3,

is the consumer in equilibrium, then the consumer will :

A. Buy more units of both, X and Y

B. Buy more units of Y and less of X

C. Buy more units of X and less of Y

D. Buy less units of both, X and y

Answer: C

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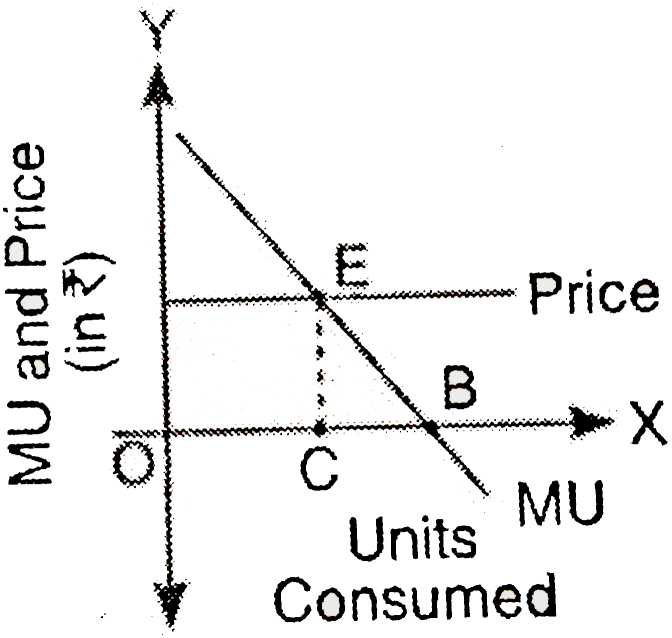
52. In the following diagram, the situation of Consumer's Equilibrium and Point of Satiety are represented by the points:



A. Point C and Point E

B. Point E and Point B

C. Point B and Point E

D. Point B and Point C

Answer: B

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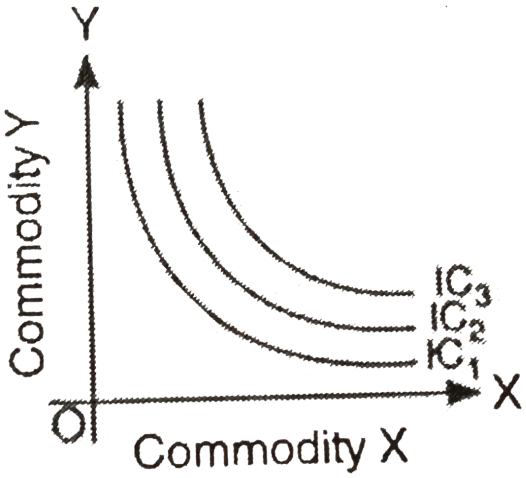
53. Which Indifference Curve represents the highest level of satisfaction ?



A. IC_1

B. IC_2

C. IC_3

D. None of these

Answer: C

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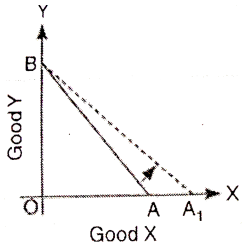
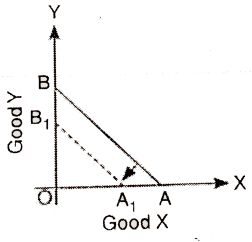
54. An increase in income will lead to the following change in Bundget Line :

A.



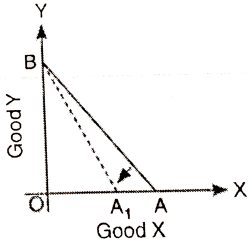
(a)

B.

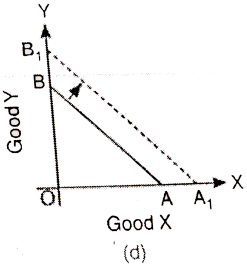


(b)

C.



(c)

D. 

Answer: D

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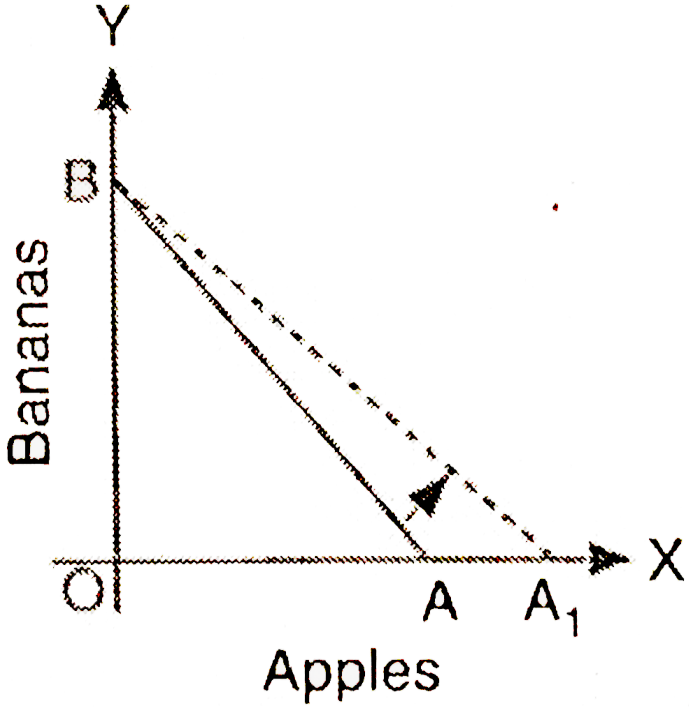
55. The rotation of budget line in the following diagram is due to:



A. Decrease in price of Apples

B. Increase in price of Apples

C. Increase in price of Bananas

D. Decrease in price of Bananas

Answer: A

56. Marginal utility is:

A. the utility from first unit of a commodity consumed

B. the utility from the last unit consumed

C. total utility divided by number of units consumed

D. always positve.

Answer: B

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57. Total utility is _____

A. the sum of marginal utilities

B. utility from first unit $\times$ number of units consumed

C. always increasing

D. utility from last unit $\times$ number of units consumed

Answer: A

58. Which of the following 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

59. At the Point of Satiety,

A. MU is Negative

B. MU is zero

C. MU is Rising

D. None of these

Answer: B

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60. A consumer consumes only two goods. If price of one of the good falls, the indifference curve:

A. Shifts leftward

B. Shifts rightward

C. can shift both leftward and rightward

D. Does not shift

Answer: D

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61. Slope of an indifference Curve is measured by:

A. Marginal Rate of Substitution

B. Marginal Rate of Transformation

C. Marginal Opportunity Cost

D. None of these

Answer: A

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62. If $MU_y = 20$, $MU_x = 60$, Price of $Y = Rs4$, then what will be the price of X at Equilibrium

A. $Rs14$

B. $Rs3$

C. $Rs12$

D. $Rs4$

Answer: C

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63. Market Rate of Exchange also denotes :

A. Slope of PPC

B. Slope of Budget Line

C. Slope of Indifference Curve

D. None of these

Answer: B

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64. When marginal utility is zero, total utility is:

A. Zero

B. Minimum

C. Maximum

D. Negative

Answer: C