

CLASS XII
INDIFFERENCE CURVE ANALYSIS

I. Answer in one sentence or in one word

- a. An indifference curve shows:
 - A. The amount of money that consumer has to spend on two goods.
 - B. The different levels of utilities that consumer can get from the consumption of different units of two goods.
 - C. The maximum quantity of two goods that the economy can produce with given level of technology and a given resources.
 - D. Different combination of two goods that consumer can purchase that gives same level of utility.
- b. Define a consumption bundle.
- c. Slope of indifference curve indicates:
 - A. Marginal Rate of transformation
 - B. Marginal Utility
 - C. Marginal Rate of substitution
 - D. Opportunity Cost
- d. What does a consumption bundle on the budget line indicate?
- e. What happens to the slope of the budget line if price of good₂ increases?

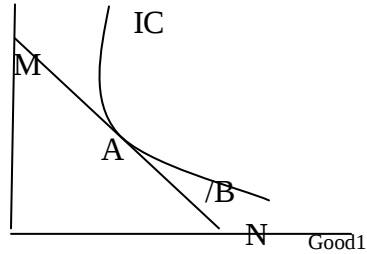
II. Answer in around 60 words.

- a. Define an indifference curve. Explain with a diagram.
- b. What are the properties of an indifference curve? State the reason behind each property.
- c. What is an indifference map? What does it signify?
- d. A consumer has Rs. 20 to spend on two goods, good₁ and good₂. Price of both the goods is Rs. 4 per unit. Derive all the consumption bundles if the goods are available only in integer units. Among the consumption bundles identify the consumption bundles that lie on the budget line.

III. Answer in around 75 words.

- a. Derive to prove the slope of the budget line is price ratio of the two goods.
- b. Explain the logic behind the theory of optimum choice of the consumer.
- c. Consider the following diagram.

Good2



MN is the budget line and IC is the indifference curve of the consumer. If the consumer is at the point B on the indifference curve, What adjustment will take place so that consumer gets maximum satisfaction. Explain in terms of price ratio of the two goods and marginal rate of substitution.

IV. Answer in around 100 words.

- a. Explain the theory of optimum choice of the consumer with suitable diagram.
- b. Define a budget line. What are the causes of shift in budget line? Explain with diagrams.
