[Frequently Asked Questions]

Ordinal Utility Approach

Subject:	Business Economics
Course:	B. A., 1st Semester, Undergraduate
Paper No. & Title:	Paper – 101 Microeconomics – I
Unit No. & Title:	Unit – 2 Consumer Demand: Ordinal Utility Approach
Lecture No. & Title:	Lecture – 2 Consumer Demand: Ordinal Utility Approach

Frequently Asked Questions

Q1. What is the shape of indifference curve:

A1. Indifference curves are always convex to the origin. An indifference curve is convex to the origin because of the diminishing marginal rate of substitution (MRS) of one good for another. The MRS declines continuously because of the law of diminishing marginal utility.

Q2. What is the law of equi- marginal utility?

A2. The law of equi marginal utility states that a consumer can get maximum utility by allocating income among different goods in such a way that last rupee spent on each good provides him the same marginal utility that he derives from income allocated for budget.

Q3. Why indifference curve has negative slope?

A3. Indifference curve slopes downward because when the purchase of one good increases, the budget available for the other good is reduced for achieving same level of satisfaction and remaining on the same indifference curve.

Q4. Why indifference curves do not intersect with one another?

A4. Indifference curves cannot intersect each other because each IC represents different level of satisfaction.

Q5. What is budget line?

A5. A budget line is the graphical representation of all possible combinations of two goods, which can be purchased with the given income and prices, such that the cost of each of these combinations is equal to the money income of the consumer.

Q6. How the slope of the budget line is measured?

A6. The slope of a budget line is measured by dividing the price of good X by the price of the good Y.

Q7. What is indifference map?

A7. when more number of such indifference schedules are plotted on a graph, then the resultant diagram will be called an indifference map

Q8. How indifference curve is drawn?

A8. When various combinations of a particular indifference schedule are plotted on a graph, and when a line joins their locus points, the resultant diagram is called an indifference curve.

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Q10. How indifference curve analysis explains human behaviour?

A10. Indifference curves measure utility ordinally and explain the consumer behaviour in terms of his or her preferences for different combinations of goods. An indifference curve shows

different combination of the goods that give same level of utility to the consumer