[Summary]

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

Summary

Hicks and Allan, in their indifference curve approach propagated the concept of ordinal utility, which 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 or satisfaction. The budget is an important component of indifference curves while analyzing the consumer behaviour. A budget line illustrates all the possible combinations of two goods that the consumer can buy at the given prices and available budget. A consumer will reach equilibrium level of satisfaction where the budget line is tangent to an indifference curve. At the equilibrium point the marginal rate of substitution (MRS_{XY}) is equal to the price ratio (P_X/P_Y) of two commodities.