[Frequently Asked Questions]

Consumer Equilibrium

Subject:	Business Economics
Course:	B. A., 1st Semester, Undergraduate
Paper No. & Title:	Paper – 101 Microeconomics – I
Unit No. & Title:	Unit – 2 Consumer Equilibrium: Analysis of Indifference Curve
Lecture No. & Title:	Lecture – 3 Consumer Equilibrium: Analysis of Indifference Curve

Frequently Asked Questions

Q1. What is the significance of indifference curve analysis in real practice?

A1. Indifference curve analysis helps to give an account for the explanation of government policies of food stamps, indirect taxes, subsidies etc. Although indifference curves are based on various assumptions but still they help to explain them easily

Q2. Why budget line is important in the analysis of indifference curves?

A2. The budget constraint restricts consumer to remain on the given budget line and choose only that combination of goods which provide him maximum satisfaction.

Q3. When should the consumer substitute one good for the other?

A3. When marginal rate of substitution of X for Y (MRS_{xy}) is greater or less than the price ratio between the two goods, it is advantageous for the consumer to substitute one good for the other.

Q4. What is the shape of the price consumption curve for a normal good?

A4. The price consumption curve for a normal good slopes downward.

Q5. What doe the income consumption curve (ICC) say in the analysis of indifference curve?

A5. Income consumption curve explains how the consumer will behave when his money income changes assuming the prices of the goods and his tastes and preferences remaining unchanged.

Q6. What does the shift in budget line say?

A6. When budget line shifts to the right the consumer's income increases and he switches to higher indifference curves and enjoys higher levels of satisfaction. It is other way round if the budget line shifts towards left.

Q7. What is the effect of Engel's law?

A7. When the rise in income of consumers lead to a decline in the proportion of income spent on food and other necessities and an increase in the proportion of income spent on luxuries, it is called the effect of Engel's law.

Q8. What is the importance of price consumption curve?

A8. The price consumption curve provides required information to draw the demand from the change in the prices of goods that show an impact on consumer budget.

Q9. Is the application of Substitution effect conditional?

A9. The substitution effect is based on the principle that when prices rise, consumers will replace more expensive goods with cheaper substitutes assuming income remains the same.

Q10. When does Hicksian substitution effect occur?

A10. Hicksian substitution effect occurs when the change in price is accompanied by substantial change in money income so that the consumer is neither better off nor worse off than before and he acquires the original level of satisfaction.