



## **[Frequently Asked Questions]**

### **The Revealed Preference Theory**

<b>Subject:</b>	Business Economics
<b>Course:</b>	B.A., 1st Semester, Undergraduate
<b>Paper No. &amp; Title:</b>	Paper – 101 Microeconomics - I
<b>Unit No. &amp; Title:</b>	Unit – 2 Consumer Demand: The Revealed Preference Theory
<b>Lecture No. &amp; Title:</b>	Lecture – 5 The Revealed Preference Theory

## **Frequently Asked Questions**

### **Q1. What is revealed preference theory?**

**A1.** Revealed preference theory reveals the preferences of the consumers by studying their behavior while they are making their choices.

### **Q2. What do you mean by strong ordering?**

**A2.** Strong ordering means consumer strongly choosing a single option from the given options. Consumer can't be indifferent for given options.

### **Q3. What is two-term consistence?**

**A3.** Two term consistence says that in any situation when a consumer is choosing one option over another then consumer can't choose the forgotten option over chosen one. For example:  
- if A is chosen over B then B will never be chosen on A in any situation.

### **Q4. What is assumption of transitivity?**

**A4.** Assumption of transitivity says that consumer is having proper idea what he/she is choosing over other option it means consumer is capable of making decisions while making choices.

### **Q5. What is three-term consistence?**

**A5.** If A is preferred to B and B is preferred to C than A Is also preferred to C. this is called three-term consistence.

### **Q6. Who propounded revealed preference theory?**

**A6.** The revealed preference theory propounded by Paul Samuelson in 1938.

**Q7. How revealed preference theory studies preferences?**

**A7.** Revealed preference theory studies the behavior of consumers and studies that how they are making choices.

**Q8. What is the hypothesis of revealed preference theory?**

**A8.** The main hypothesis of revealed preference theory is "Choice reveals the preferences of consumers".

**Q9. How real income of the consumer can be increased?**

**A9.** The real income of an individual increases when he is getting an advantage of buying goods at lower prices than earlier time.

**Q10. State any one limitation of revealed preference theory.**

**A10.** This theory assumes that consumer always behaves rationally but it is not so sometimes or may be many times because consumer has certain choices based on its own perceptions and interest.