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Chapter End Test

(2019-20)

Date : _____ Duration: 1:00 Hr. Min. Marks : 25	Economics Topic : Consumer's Equilibrium	XI

General instruction:

1. This paper consist of two Sections. Students has to attempt both sections.
2. Section – A is MCQ carry 1 mark each.
3. Section – B is subjective.

[Section – A]

1. The necessary condition under utility approach to attain consumer's equilibrium in case of two commodities is :

(a) $\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$ (b) $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$ (c) $MU_X = P_X$ (d) None of these

2. According to the law of diminishing marginal utility, satisfaction obtained from consumption of each successive unit:

(a) Increases (b) Decreases

(c) Remains same (d) Either increases of decrease

3. If the consumption of an additional unit of a commodity causes no change in Tu, then the resultant MU is:

(a) Zero (b) Positive (c) Negative (d) Constant

4. Marginal utility (MU) of n^{th} unit is calculated as :

(a) $MU_n = TU_N - TU_{N+1}$ (b) $MU_n = TU_N + TU_{N+1}$

(c) $MU_n = TU_N + TU_{N-1}$ (d) $MUN = TUN - TU_{N-1}$

5. If $\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$, then to reach the equilibrium position, consumer should:

(a) Stop buying any commodity

(b) Buy both the commodities in equal quantity

(c) Buy more of X and less of Y

(d) Buy more of Y and less of X

6. Total utility is _____ at the point of satiety.

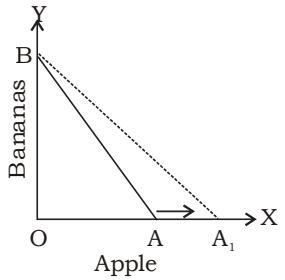
(a) Minimum (b) Maximum (c) Zero (d) None of these

7. A consumer consumes only two goods. If price of one of good falls, the indifference curve:

(a) Shifts upwards (b) Shifts downwards

(c) Does not shift (d) Can shift both upwards and downwards

8. The rotation of budget line in the following diagram is due to:



(a) Decrease in prices of Apples (b) Increase in price of Apples

(c) Increase in prices of Bananas (d) Decrease in price of Bananas

9. For consumer's equilibrium to be stable, the requirement is:

(a) Constant MRS (b) Increasing MRS (c) Diminishing MRS (d) None of these

10. An indifference curve represents all those combinations of two goods which give:

(a) No satisfaction to the consumer (b) Lower satisfaction to the consumer

(c) Higher satisfaction to the consumer (d) Equal satisfaction to the consumer

11. A consumer consumes only two goods X and Y whose price are ₹2 and ₹1 per unit respectively and MRS_{xy} is 3. The consumer will :

(a) Consume more of X and less of Y. (b) Consume more of Y and less of X.

(c) Consume more of both goods. (d) No change in consumption.

12. Given the fact that MRS between goods X and Y is rising, IC is:

(a) Convex to the origin (b) Concave to the origin

(c) Straight line (d) None of these

13. An indifference curve is related to:

(a) Consumer's income (b) Prices of goods X and Y

(c) Total utility from goods X and Y (d) Choices and preferences of the consumer

14. A set of ICs drawn in a graph is called:

(a) Indifference curve (b) Indifference map

(c) Budget line (d) Budget set

15. Marginal rate of substitution of X for Y is calculated as:

(a) $\frac{P_X}{P_Y}$ (b) $\frac{P_Y}{P_X}$ (c) $\frac{\Delta Y}{\Delta X}$ (d) $\frac{\Delta X}{\Delta Y}$

[Section – B]

1. Define indifference curve. **[1]**

2. Given the market price of a good, how does a consumer decide as to how many units of that good to buy? Explain. **[3]**

3. A consumer consumes only two goods is in equilibrium. Price of X rises. Explain the reaction of the consumer with the help of utility analysis. **[4]**

OR

Define the marginal utility. Explain the law of diminishing marginal utility with the help of schedule and diagram.

4. Explain the following:

(a) Why is indifference curve convex to origin?

(b) Why does a higher indifference curve represent a higher level of satisfaction? **[3+3]**

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Hints/Solutions to Chapter End Test

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[Section – A]

1.	(a)	**2.**	(b)	**3.**	(a)	**4.**	(d)
5.	(c)	**6.**	(b)	**7.**	(c)	**8.**	(a)
9.	(c)	**10.**	(d)	**11.**	(a)	**12.**	(b)
13.	(d)	**14.**	(b)	**15.**	(c)		

[Section – B]

1. Indifference curve refers to the graphical representation of various alternative combination of the goods which provide same level of satisfaction to the consumer.

2. "Consumer equilibrium refers to a situation under which he spends his given income on purchase of a commodity in such a way that given him maximum satisfaction and he falls no urge to change.

Consumer's equilibrium (Single commodity)

Two conditions for consumer's equilibrium.

(a) MU_X (₹) = Price.

If MU_X (₹) > P_X, consumer is getting more marginal utility in terms of money is a greater than the price. So consumer will consume more of X till MU_X (money) < P_X, he will decrease the consumption of X. When he decreases the consumption of X, the marginal utility of X will increase. He will keep on decreasing consumption of X till MU_X (money) = P_X.

(b) The consumer continues to purchase so long as gain is increasing or at least constant.

3. The consumer was in equilibrium when

$$\frac{MU_X}{P_X} = \frac{MU_Y}{P_Y}$$

When P_X rises.

$$\frac{MU_X}{P_X} < \frac{MU_Y}{P_Y}$$

- It means that per rupee MU_X is lesser than per rupee MU_Y.
- This prompts the consumer to transfer some expenditure from X to Y.
- The consumption of Y rises while that of X falls.
- Buying less of X increases MU_X and MU_Y falls.
- This change continues till per rupee MU_X becomes equal to per rupee MU_Y.

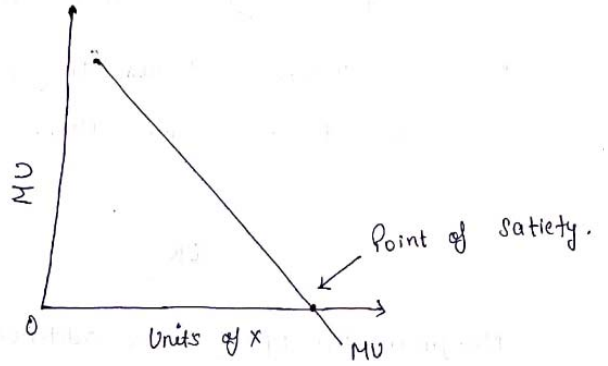
OR

Marginal utility is the additional utility derived by consuming one more unit of a given commodity.

$MU_n = TU_n - TU_{n-1}$

Law of diminishing marginal utility: The law states that as a consumer keeps on consuming more units of a commodity, additional satisfaction derived by consuming more units of a commodity will keep on declining.

Units of goods (X)	***MU (utile)***
1	32
2	24
3	16
4	8
5	0
6	–8



4. (a) Indifference curve is strictly convex to the origin because MRS declines as he moves downward along the indifference curve.

This rate keeps on decreasing due to the law of diminishing marginal utility. As a consumer consumes more of X, the additional utility derived from every successive unit keeps on declining.

(b) Higher indifference curve represent higher utility. This is based on assumption of 'monotonic preference'. Monotonic preference means that a consumer always prefers the combination which has either more of both goods and more of at least or good and no less of other goods.

As a consumer moves to higher indifference curve, he is able to have more of both the goods or can have atleast more of one good. Therefore, a higher indifference curve has a higher utility.

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