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## Ordinal Utility Analysis: Indifference Curve Schedule and Diagrammatical Representation

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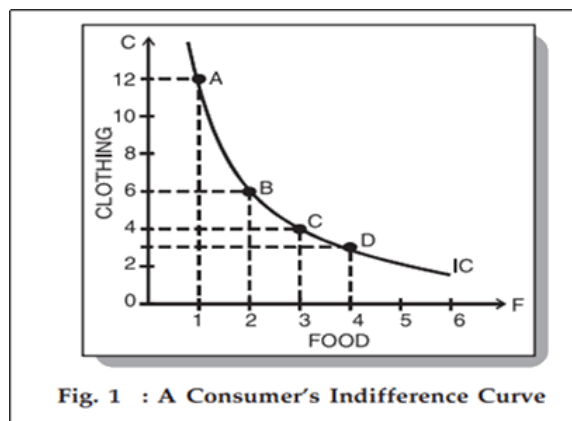
- J. R. Hicks and Allen
- No numerical allotment of satisfaction
- Definite scale of preference
- Comparison and ranking of combination of goods
- Indifference curve analysis
- Indifference curve – combination of two goods yielding same satisfaction

### Indifference Curve Schedule

Combinations	Quantity of food	Quantity of clothing
I	1	12
II	2	6
III	3	4
IV	4	2

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Diagrammatical representation



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Slope of indifference curve = MRS

### Properties of Indifference Curve

- Downward sloping from left to right
- Convex to the origin
- Never intersect with each other
- Higher indifference curve – higher satisfaction
- Need not be parallel

### Budget Line or Price Line

Shows the various combinations of two commodities that can be purchased with the given money income and prices of goods

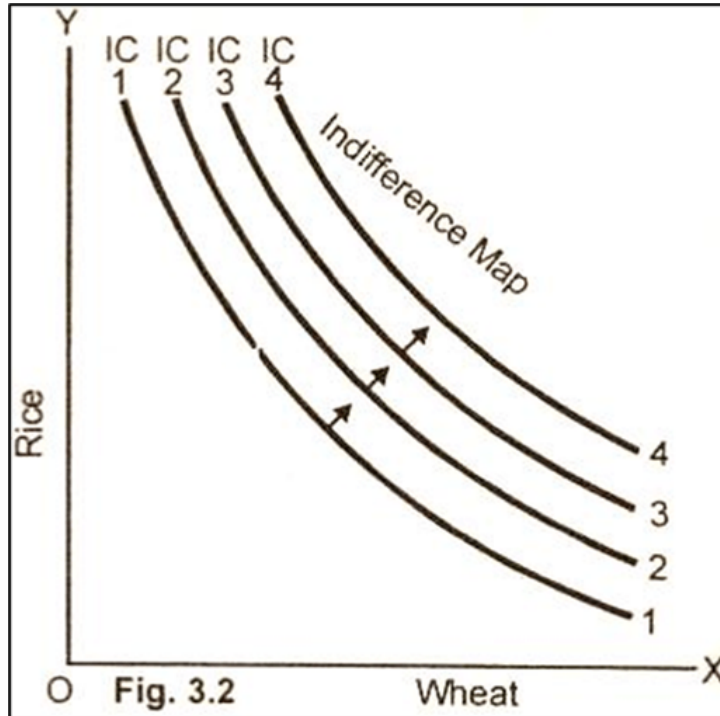
Shift in budget line may occur due to:

- Change in income
- Change in prices of commodities

The slope of budget line is the price ratio of both the commodities =  $P_x/P_y$

### Indifference Map

A graph showing a whole set of indifference curves



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### Marginal Rate of Substitution (MRS)

- $MRS_{xy}$  – amount of Y consumer is willing to give up gaining one more unit of X
- $MRS_{xy} = \Delta Y / \Delta X$
- As consumer gets more and more of X, he wants to give up less and less of Y
- MRS is always negative

### MCQs

Q. 1. Ordinal utility analysis was developed by

- (a) J. R. Hicks & R. J. D. Allen
- (b) Samuelson
- (c) Marshall and Jevons
- (d) Slutsky

Correct option – a)

Q. 2. An indifference curve represents

- (a) Four commodities
- (b) Less than two commodities
- (c) Only two commodities
- (d) Only one commodity

Correct option – c)

Q. 3. “Utility or satisfaction is a subjective concept; therefore it could only be ranked”. The statement supports

- (a) Cardinal utility theorist

- (b) Ordinal utility theorist
- (c) Behavioral theorist of the firm
- (d) None of the above

Correct option – b)

Q. 4. Indifference curve is always

- (a) Concave to the origin
- (b) Convex to the origin
- (c) L shaped
- (d) A straight line

Correct option – b)

Q. 5. An indifference curve shows combinations of two goods that:

- a) would provide the consumer with similar level of satisfaction.
- b) could provide the consumer with the same levels of satisfaction.
- c) could be available to the consumer in a given time period.
- d) a consumer could buy with their given income.

Correct option – b)

Q. 6. Which of the following statements is NOT TRUE of indifference curves?

- a) They are downward sloping.
- b) They could intersect.
- c) They are convex to the origin.
- d) They exhibit higher levels of utility as you move from the origin.

Correct option – b)

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#Ordinalutility

#Indifferencecurve

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