Chapter 2 – Consumer's Equilibrium
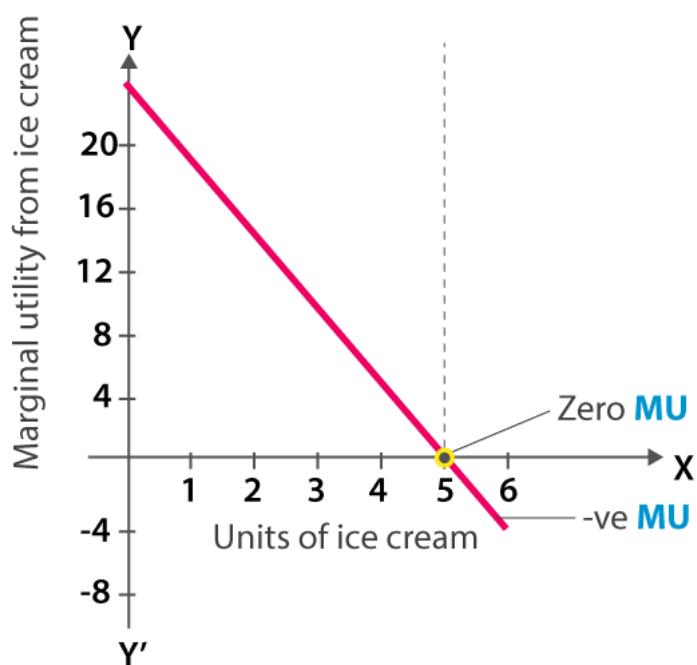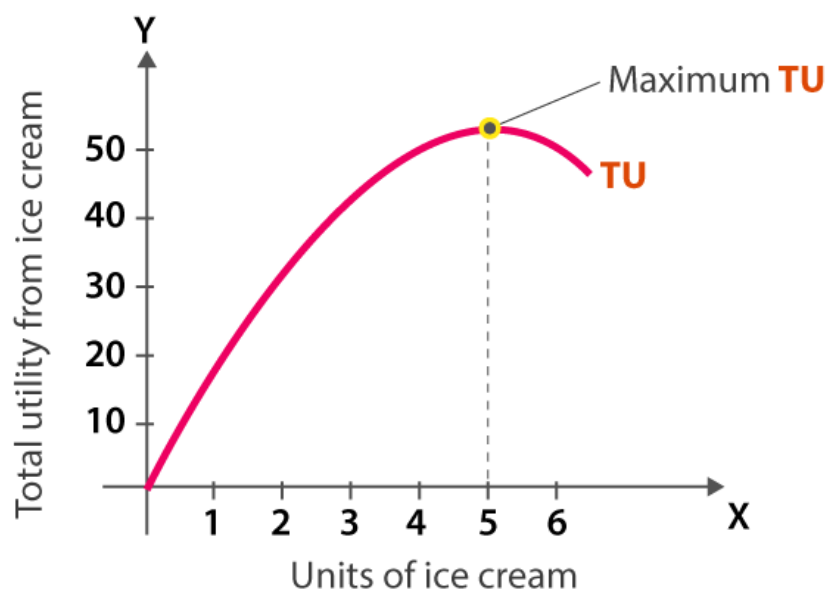
Question 1

Define Total Utility.

Ans: Total Utility refers to the total satisfaction obtained from the consumption of all possible units of a commodity.

Question 2

Explain how the Total Utility and Marginal Utility are calculated, by using graphical representation.

Ice Creams consumed	Marginal Utility (MU)	Total Utility (TU)
1	20	20
2	16	36
3	10	46
4	4	50
5	0	50
6	-6	44

Solution:

Total utility from ice cream — Units of ice cream — Maximum **TU** — **TU**

Marginal utility from ice cream — Units of ice cream — Zero **MU** — -ve **MU**

Question 3

Explain the Law of Diminishing Utility.

Ans: The Law of Diminishing Utility (LDMU) states that as we consume more and more units of a commodity, the utility derived from each successive unit goes on decreasing.

Question 4

Mention 4 Assumptions of Law of Diminishing Utility.

Ans: The 4 assumptions of Law of Diminishing Utility are:

- Rational Consumer
- Perfect Knowledge
- Fixed Income and prices
- Independent utilities

Question 5

What is Indifference Curve?

Ans: Indifference Curve refers to the graphical representation of various alternatives combinations of bundles of 2 goods among which the consumer is indifferent.

Question 6

Expand MRS.

Ans: MRS stands for Marginal Rate of Substitution.

Question 7

Give 3 Assumptions of Indifference Curve.

Ans: The three assumptions of indifference curve are :

- Non-satiety
- 2 commodities
- Ordinal Utility