



# INDIAN SCHOOL DARSAIT DEPARTMENT OF COMMERCE



Subject : Economics	Topic : Consumer's Equilibrium	Date of Worksheet : _____
Resource Person: Ekta Gautam		Date : _____
Name of the Student : _____	Class & Division : _____	Roll Number : _____

S.No.		Marks
1.	What are monotonic preferences?	1
2.	Suppose your friend is indifferent to the bundles (5, 6) and (6, 6). Are the preferences of your friend monotonic?	1
3.	Suppose a consumer can afford to buy 6 units of Good-1 and 8 units of Good-2 if she spends her entire income. The prices of the two goods are ₹ 5 and ₹ 7 respectively. How much is the consumer's income?	1
4.	What happens to the budget set if both the prices as well as the income double?	1
5.	What is 'ordinal utility'?	1
6.	When is a consumer said to be rational?	1
7.	What is a budget line? Why is it downward sloping?	3
8.	A consumer consumes only two goods A and B and is in equilibrium. Show that when price of Good-B falls, demand for B rises. Answer this question with the help of utility analysis.	3
9.	Identify which of the following is not true for the indifference curves. Give valid reason for choice of your answer: (i) Lower indifference curve represents lower level of satisfaction. (ii) Indifference curve must be convex to origin at the point of tangency with the budget line at the point of consumer's equilibrium. (iii) Two regular convex to origin indifference curves can intersect each other. (iv) Indifference curves are drawn under the ordinal approach to consumer equilibrium.	3
10.	Explain the meaning of diminishing marginal rate of substitution with the help of a numerical example.	4

11. By spending his entire income only on two goods X and Y, a consumer finds that 4
- $$\frac{\text{Marginal utility of X}}{\text{Price of X}} > \frac{\text{Marginal utility of Y}}{\text{Price of Y}}$$
- Explain how will the consumer react.
12. A consumer consumes only two goods X and Y both priced at ₹ 3 per unit. If the consumer chooses a combination of these two goods with marginal rate of substitution equal to 3, is the consumer in equilibrium? Give reasons. What will a rational consumer do in this situation? Explain. 4
13. A consumer consumes only two goods X and Y whose prices are ₹ 2 and ₹ 1 per unit respectively. If the consumer chooses a combination of the two goods with marginal utility of X being 4 and that of Y also being 4, is the consumer in equilibrium? Give reasons. Explain what will a rational consumer do in this situation. Use marginal utility analysis. 4
14. A consumer wants to consume two goods. The prices of the goods are ₹ 4 and ₹ 5 respectively. The consumer's income is ₹ 20. 4
- (i) Write down the equation of the budget line.
  - (ii) How much of Good-1 can the consumer consume if she spends her entire income on the good?
  - (iii) How much of Good-2 can the consumer consume if she spends her entire income on the good?
  - (iv) What is the slope of the budget line?
15. State the conditions of consumer's equilibrium in the indifference curve analysis and explain the rationale behind these conditions. 6