



INDIAN SCHOOL MUSCAT
SENIOR SECTION
DEPARTMENT OF COMMERCE AND HUMANITIES
CLASS XI
INDIFFERENCE CURVE ANALYSIS
WORKSHEET - 3

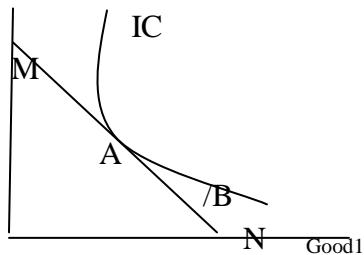


- I.** Answer in one sentence or in one word
- An indifference curve shows:
 - The amount of money that consumer has to spend on two goods.
 - The different levels of utilities that consumer can get from the consumption of different units of two goods.
 - The maximum quantity of two goods that the economy can produce with given level of technology and a given resources.
 - Different combination of two goods that consumer can purchase that gives same level of utility.
 - Define a consumption bundle.
 - Slope of indifference curve indicates:

A. Marginal Rate of transformation	B. Marginal Utility
C. Marginal Rate of substitution	D. Opportunity Cost
 - What does a consumption bundle on the budget line indicate?
 - What happens to the slope of the budget line if price of good₂ increases?
- II.** Answer in around 60 words.
- Define an indifference curve. Explain with a diagram.
 - What are the properties of an indifference curve? State the reason behind each property.
 - What is an indifference map? What does it signify?
 - A consumer has Rs. 20 to spend on two goods, good1 and good2. Price of both the goods is Rs. 4 per unit. Derive all the consumption bundles if the goods are available only in integer units. Among the consumption bundles identify the consumption bundles that lie on the budget line.

- III. Answer in around 75 words.
- Derive to prove the slope of the budget line is price ratio of the two goods.
 - Explain the logic behind the theory of optimum choice of the consumer.
 - Consider the following diagram.

Good2



MN is the budget line and IC is the indifference curve of the consumer. If the consumer is at the point B on the indifference curve, What adjustment will take place so that consumer gets maximum satisfaction. Explain in terms of price ratio of the two goods and marginal rate of substitution.

- IV. Answer in around 100 words.
- Explain the theory of optimum choice of the consumer with suitable diagram.
 - Define a budget line. What are the causes of shift in budget line? Explain with diagrams.
