National Institute of Open Schooling
Senior Secondary – Economics(318)
Lesson-14 Consumer's Equilibrium
Worksheet – 14

1. A consumer wants to purchase two goods. The prices of two goods are Rs.4 and Rs.5 respectively. The consumer's income is Rs.40.

   a. Draw the slope of the budget line.

   b. Write down the equation of the budget line.

   c. How much goods can be purchased, if he/she spends the entire income?

   d. What will be the impact on budget if his/her total income-

   ● Increases from Rs.40 to Rs.80 and

   ● Decreases from Rs.40 to Rs.20. (Draw graph)

2. Complete the following table given below and mention the formula for the same.

Units	1	2	3	4	5	6	7
Total utility	10	_	24	_	30	_	_
Marginal utility	_	8	_	4	_	_	(-2)

   ● At which unit, TU is maximum and MU is zero?

   ● At which unit, the consumer maximises satisfaction?

3. "A consumer finds himself/herself in the state of equilibrium when he/she fulfils all his/her needs and requirements with a given level of income and prices of commodities". In the light of the statement, answer the following-

   ● Equation of equilibrium in case of two commodities approaches .

   ● Schedule for consumers equilibrium with interpretation.

4. "An indifference curve analysis is based on an ordinal concept which shows all combinations of two goods give equal satisfaction to the consumer". On the basis of the statement, explain the concept of Indifference curve with the help of schedule and diagram.

5. "The shape of the indifference curve is convex to the point of origin and neither touches the x-axis and y- axis." Highlighting this property of the Indifference curve, explain the concept with the help of graphs and also gives reasons.

6. "Interdependency between Indifference curve and budget line constitutes the basis for a consumer to avail maximum satisfaction out of combination of two goods". On the basis of the aforementioned statement, explain the concept of consumers equilibrium with schedule and diagram.

7. When and how a consumer is willing to purchase a commodity to satisfy his/her wants? With the reference of above statement, explain consumers equilibrium in case of single commodity using utility approach.

8. Explain the following equations-

   ● $MU_x = P_x$

   ● $MRS_{xy} = P_x/P_y$

   ● $M = Q_x . P_x + Q_y . P_y$ or $(M = P1_x.X+P2_y.Y)$

   ● Cardinal approach and Ordinal approach.

9. "Indifference map is considered to be the reflection of higher level of satisfaction". How?

10. "When a consumer consumes successive units of a commodity, the utility derived from each successive unit goes on diminishing". Discuss statements with suitable examples and graphical presentation.