Quadrant II – Transcript and Related Materials

Programme: Bachelor of Commerce (First Year)

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Paper Title: Micro Economics

Unit: I – Demand and Consumer Behaviour

Module Name: Indifference Curve Analysis

Module No: 11

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Transcript

Indifference Curve Analysis

Meaning:

Indifference curve is the locus of points which shows the different combinations of two commodities between which a consumer is indifferent. Indifference curve analysis assumes that while utility cannot be measured quantitatively, the consumer is able to rank different combinations of the commodities in order of preference or indifference.

In other words, the indifference curve is a curve which joins all combinations of the two goods that give equal satisfaction to the consumer. All points on the curve give equal utility to the consumer.

Since these combinations give equal satisfaction to the consumer, he is indifferent as to which combination he consumes.

Assumptions:

1. Rationality: It is assumed that the consumer is rational. He tries to maximise his satisfaction, given the constraint of his purchasing power.

2. Two goods only: At any given point of time, the consumer has only two goods in his consumption basket.

3. Rank preferences: While it is not possible to quantify the utility derived from consumption, the consumer is able to rank his preferences on a scale.

4. Consistent choices (Transitivity): The consumer is consistent in his choices. If he prefers A to B and B to C, he will prefer A to C, where A, B and C refer to combinations of the two commodities.

5. Non-Satiety: The consumer is never completely satisfied. He always wants more.

6. Divisibility: It is assumed that the two goods in question are perfectly capable of being divided into smaller units.

Indifference Schedule: The indifference schedule shows different combinations of the two goods consumed which give equal satisfaction to the consumer.

Combination	X	Y
A	1	15
B	2	10
C	3	6
D	4	3
E	5	1

There are two commodities, X and Y. Whether the individual consumes combination A, i.e. 1 unit of X and 15 units of Y or combination B, i.e. 2 units of X and 10 units of Y or combinations, C, D or E, the satisfaction or utility he derives from these combinations will be the same. So he will be indifferent in his choice of combination since either one will provide the same level of utility or satisfaction to him.

Indifference Curve: The indifference curve is a curve that joins all combinations of the two commodities that provide equal satisfaction to the consumer. Since the satisfaction derived is the same from different combinations, he is indifferent as to which combination he gets.

If the various combinations given in the indifference schedule are plotted on a graph, we get an indifference curve. Any point on this indifference curve will give the same utility or satisfaction for the consumer. He will be indifferent whether he consumes combination A or B or C or D or E.

Indifference Map: An indifference map consists of different indifference curves which show different utility or satisfaction levels of the consumer. The consumer

will always prefer a higher indifference curve compared to a lower indifference curve. This is because on a higher indifference curve, the consumer gets a larger quantity of at least one commodity, which means his satisfaction will be higher.

Properties of Indifference Curves:

1. **Indifference curves have a negative slope:** Indifference curves have a negative slope. This means that if the consumer wants more of one commodity, he will have to sacrifice some quantity of the other commodity. In other words, in order to have more of one, he has to have less of the other commodity.

2. **Higher indifference curve represents higher utility:** While a higher indifference curve may not necessarily have more quantities of both commodities, it will have a higher quantity of at least one of the two commodities. And this will provide greater satisfaction/utility to the consumer.

3. **Convex to the origin:** When a consumer wants more of one commodity, he has to reduce the consumption of the other commodity. However, his willingness to sacrifice the other commodity becomes lesser. This is because of diminishing marginal rate of substitution.

4. **Indifference curves can never intersect:** If indifference curves intersect then at the point of intersection, two different curves will have the same level of satisfaction. This cannot happen as it will violate the assumption that a higher indifference curve means higher satisfaction and vice-versa. Hence no two indifference curves can intersect.