

C O I - R & U - Very Short - R & U – Reason

Q.1. An indifference curve slopes upwards from left to right.

Ans. False. An indifference curve slopes downwards from left to right. This is because of monotonic preferences of a consumer. If a consumer is simultaneously buying two goods, he can have more of one good only when he has less of the other so that his total satisfaction (at any point on IC) remains the same. An IC, therefore, must slope downward.

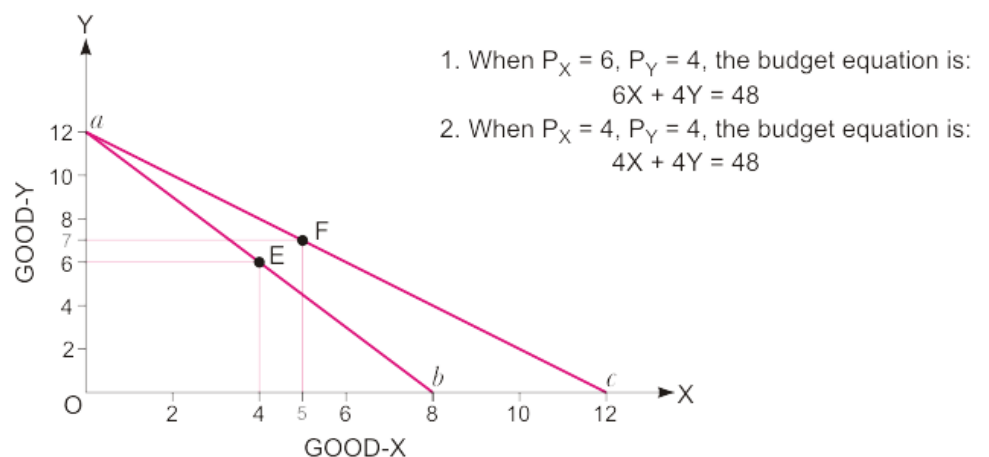
Q.2. An indifference curve to the right and above another indifference curve shows higher utility level.

Ans. True. An indifference curve to the right and above another indifference curve shows higher utility level. Because in an indifference map, a higher indifference curve represents those combinations which yield higher level of satisfaction than the combinations on the lower indifference curve. In other words, each point on a higher indifference curve shows that for a given level of consumption of Good-Y, the consumption of Good-X tends to be more than before. This implies higher level of utility in accordance with the monotonic preferences of the consumer.

Q.3. Aarav has a budget of ₹ 48 to be spent on two goods X and Y. Price of Good-X is ₹ 6 per unit, and of Good-Y is ₹ 4 per unit. As the price of Good-X falls to ₹ 4, Aarav purchases more of both the goods X and Y. Use diagram to support your answer.

Ans. True. When the price of Good-X falls, the budget line would rotate to the right, as under:

FIGURE 6



When P_X falls, real income of the consumer rises. His affordable set is now indicated by the budget line ac rather than ab . The consumer can purchase more of both goods X and Y, **depending on his tastes and preferences**.

Suppose, initially the consumer was in equilibrium at point E. He consumed:

4 units of X, and 6 units of Y (when $P_X = 6$, $P_Y = 4$)

Now, when $P_X = P_Y = 4$, he may be in equilibrium at point F. He now consumes:

5 units of X, and 7 units of Y

His total expenditure remains the same as before = $(5 \times 4 = 20) + (7 \times 4 = 28) = 48$. Hence, it is concluded that when P_X falls (P_Y remaining constant), Aarav can consume/purchase more of both goods X and Y.