C E - U A - R & U - Very Short - Info & Con

Q.1. Define consumer equilibrium.

Ans. A consumer is in a state of equilibrium when he allocates his given income to the purchase of different goods in a manner such that his total satisfaction is maximised.

Q.2. Define marginal utility of money.

Ans. Marginal utility of money refers to utility that the consumer expects to obtain from a standard basket of goods which he or she can buy for a rupee.

Q.3. State the conditions of consumer's equilibrium (in case of two commodities) with the help of utility analysis.

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(i)

$$\frac{MU_X}{P_X} > \frac{MU_Y}{P_Y}$$

(ii) Marginal utility of money remains constant.

(iii) Law of diminishing marginal utility holds good.

Q.4. When does the consumer in a situation of equilibrium in terms of IC analysis?

Ans. The consumer is in a situation of equilibrium, when following two conditions are satisfied:

(i)

$$\text{MRS (Marginal rate of substitution)} = \frac{P_X}{P_Y} \text{ (Slope of the price line).}$$

(ii) IC is convex to the origin, at the point of equilibrium where

$$MRS_{XY} = \frac{P_X}{P_Y}.$$