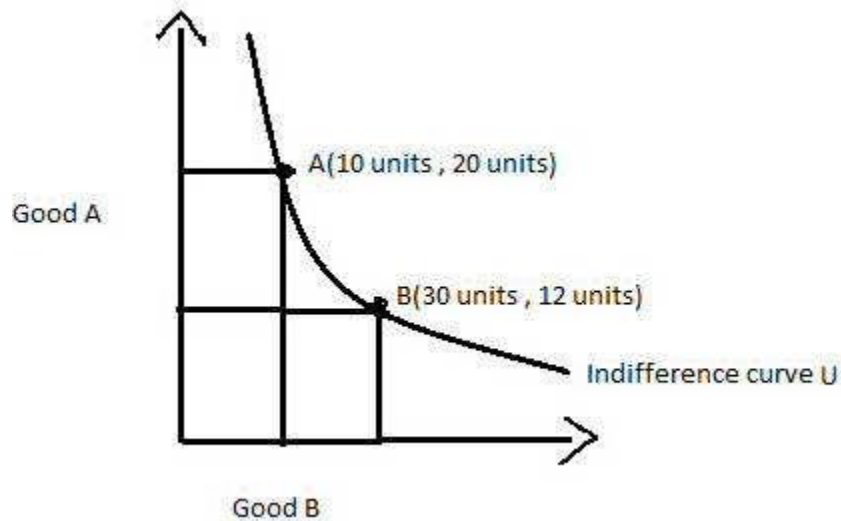


# Indifference Curve

For BA, Part: I,  
Paper: Micro Economics

An indifference curve is a graph showing combination of two goods that give the consumer equal satisfaction and utility. Each point on an indifference curve indicates that a consumer is indifferent between the two and all points give him the same utility.

**Description:** Graphically, the indifference curve is drawn as a downward sloping convex to the origin. The graph shows a combination of two goods that the consumer consumes.



The above diagram shows the U indifference curve showing bundles of goods A and B. To the consumer, bundle A and B are the same as both of them give him the equal satisfaction. In other words, point A gives as much utility as point B to the individual. The consumer will be satisfied at any point along the curve assuming that other things are constant.

## Assumptions of Indifference Curve:

**The indifference curve approach is based upon the following assumptions:**

### 1. Non-Satiety:

A rational person will prefer a larger quantity of a good than a smaller amount of it. It is assumed that the consumer has not yet reached the satisfaction point in respect of competition of a good.

### 2. Transitivity:

The consumer is supposed to be consistent about his tastes and preference. For example if he prefers A to B and B to C then it follows that he also prefers A to C. This assumption is called Transitivity.

### **3. Diminishing Marginal Substitutability:**

Suppose a consumer buys orange and apple. It can be assumed that as more and more of units of apple are substituted for orange, the consumer will be willing to give up fewer and fewer units of orange for additional units of apple. As the quantity of orange consumed increases, more of it will be required to compensate for loss of apple. This follows from the principle that as the consumption of orange increases the desire for it will fall and as the consumption of apple decreases the desire for it will increase.

Therefore, the marginal rate of substitution of orange for apple increases as the quantity of orange increases relatively to apple. Alternatively we can say that the marginal rate of substitution of orange for apple diminishes as the supply of apple diminishes. This is called the Principle of Diminishing Marginal Substitutability. It is assumed that the two goods are not perfect substitutes for one another and that want for the goods are not satiable.

The Principle of Diminishing Marginal Substitutability corresponds to the older law of diminishing marginal utility.