

Indifference curve



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Your first and sur Your Due Indifference Curve An indifference curve is a graph representation showing combinations of goods for which a consumer preference/utility is indifferent, that is, it has no preference for one combination versus another. They are used as a device to represent the consumer preferences and applied extensively in choice theory. The horizontal and vertical axes of indifference curve graph represent the quantities of goods a consumer might consume, and the indifference curve itself represents a contour along which utility for that individual is constant. Indifference curve varies from one consumer to another, which is due to their personal preference. The list of indifference curves associated with different utility level is called an Indifference Map. The rational consumer prefers the higher or right most, Indifference curve, since they represent combinations of goods providing higher utility levels.

The figure below show the indifference map having with three indifference curves:

The slope of the indifference curve is called the marginal rate of substitution. It is the rate at which consumers are willing to give up one good in exchange for more of the other good. For most goods the marginal rate of substitution is not constant so their indifference curves are curved. Indifference curves are typically assumed to have the following features:

Indifference curves do not intersect.

The curves are convex due to the law of diminishing marginal utility).

There exists an indifference curve through any given point on an indifference map.

Today's Economy is market driven where customer is the king. The market price is determined by forces of 'Demand and Supply'. To excel in the

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market, the firms must assess the demand of the customer. Consumer theory uses indifference curves and budget constraints to produce consumer demand curves. A budget constraint shows the consumer's purchase opportunities as every combination of two goods that can be bought at given prices using a given amount of income. Consumer's optimal combination of goods to consume is the amount that maximizes his utility subject to his/her budget constraint.

In the indifference curve graph, a consumer has following preference:

Get to the highest indifference curve possible

Stay on the budget constraint

Utility is maximized when the indifference curve is just tangent to the budget line. Hence, indifference curve is an important tool in the hand of firms to assess customer demand.