

INDIFFERENCE CURVE

DEFINITION: IC

An Indifference curve (IC) is the locus of all those combination of two goods which give the **same level of satisfaction** to the consumer.

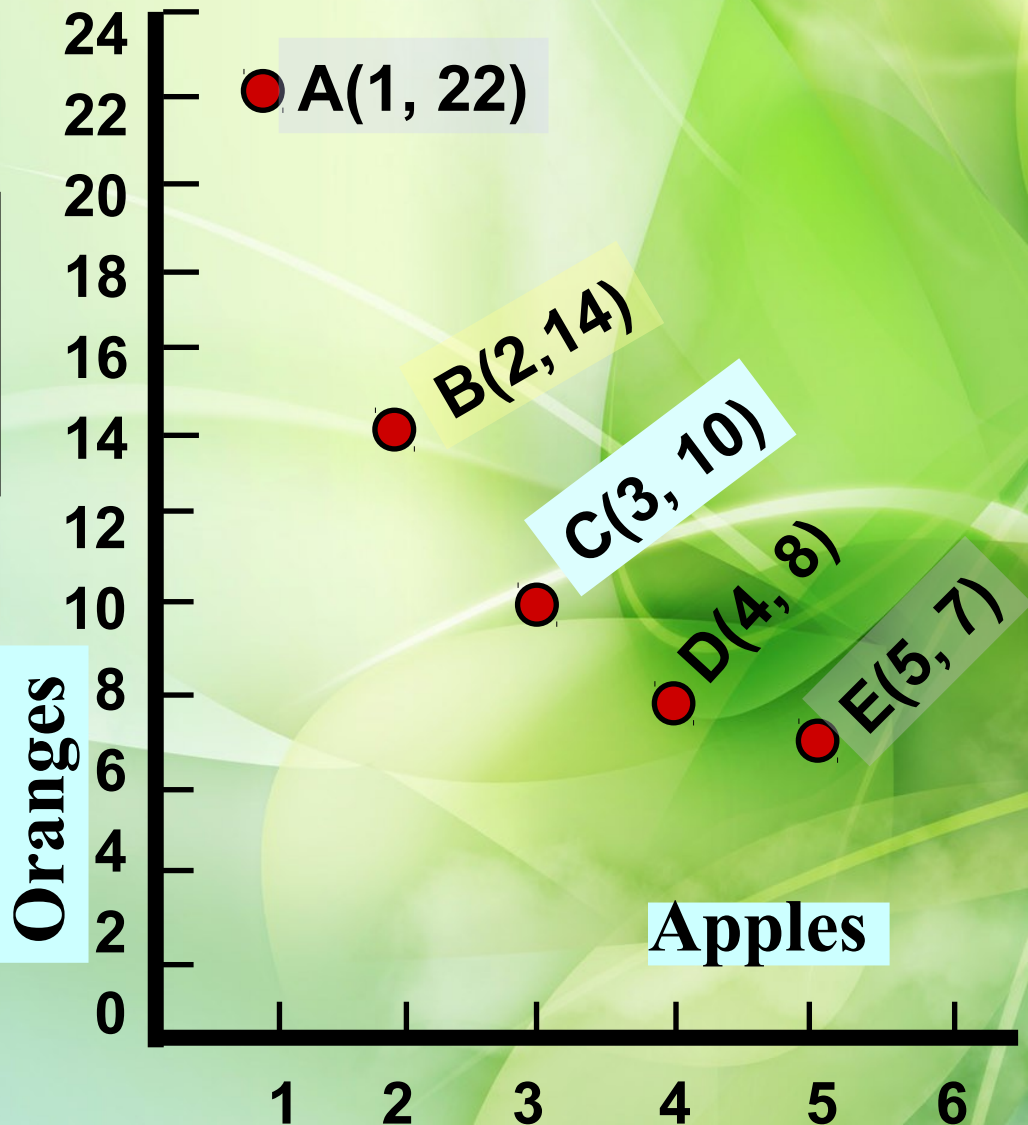
Thus consumer is indifferent towards all the combinations lying on the same indifference curve. **In other words, consumer gives equal preference to all such combinations.**

INDIFFERENCE CURVES

INDIFFERENCE SCHEDULE

(Table Showing Different Combinations giving Equal Satisfaction)

Combination	Apples	Oranges
A	1	22
B	2	14
C	3	10
D	4	8
E	5	7



INDIFFERENCE CURVES

INDIFFERENCE SCHEDULE

Combination	Apples	Oranges
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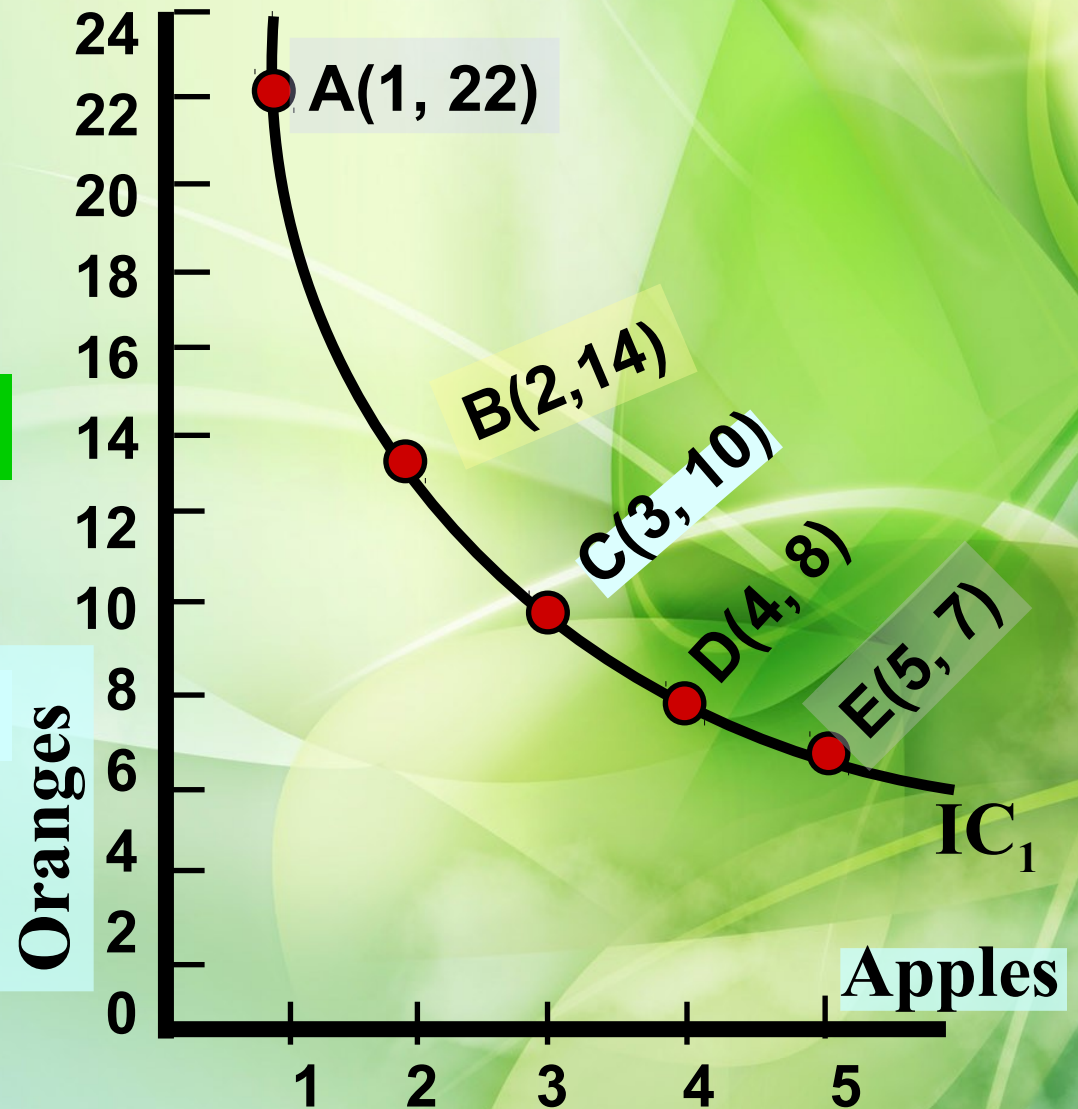
A	1	22
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B	2	14
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C	3	10
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D	4	8
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E	5	7
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MARGINAL RATE OF SUBSTITUTION (MRS)

The marginal rate of substitution of X for Y (MRS_{xy}) is defined as the amount of Y, the consumer is just willing to give up to get one more unit of X and maintain the same level of satisfaction.

$$\mathbf{MRS}_{xy} = \frac{\text{Decrease in the Consumption of Y}}{\text{Increase in the Consumption of X}} = (-) \frac{\Delta Y}{\Delta X}$$

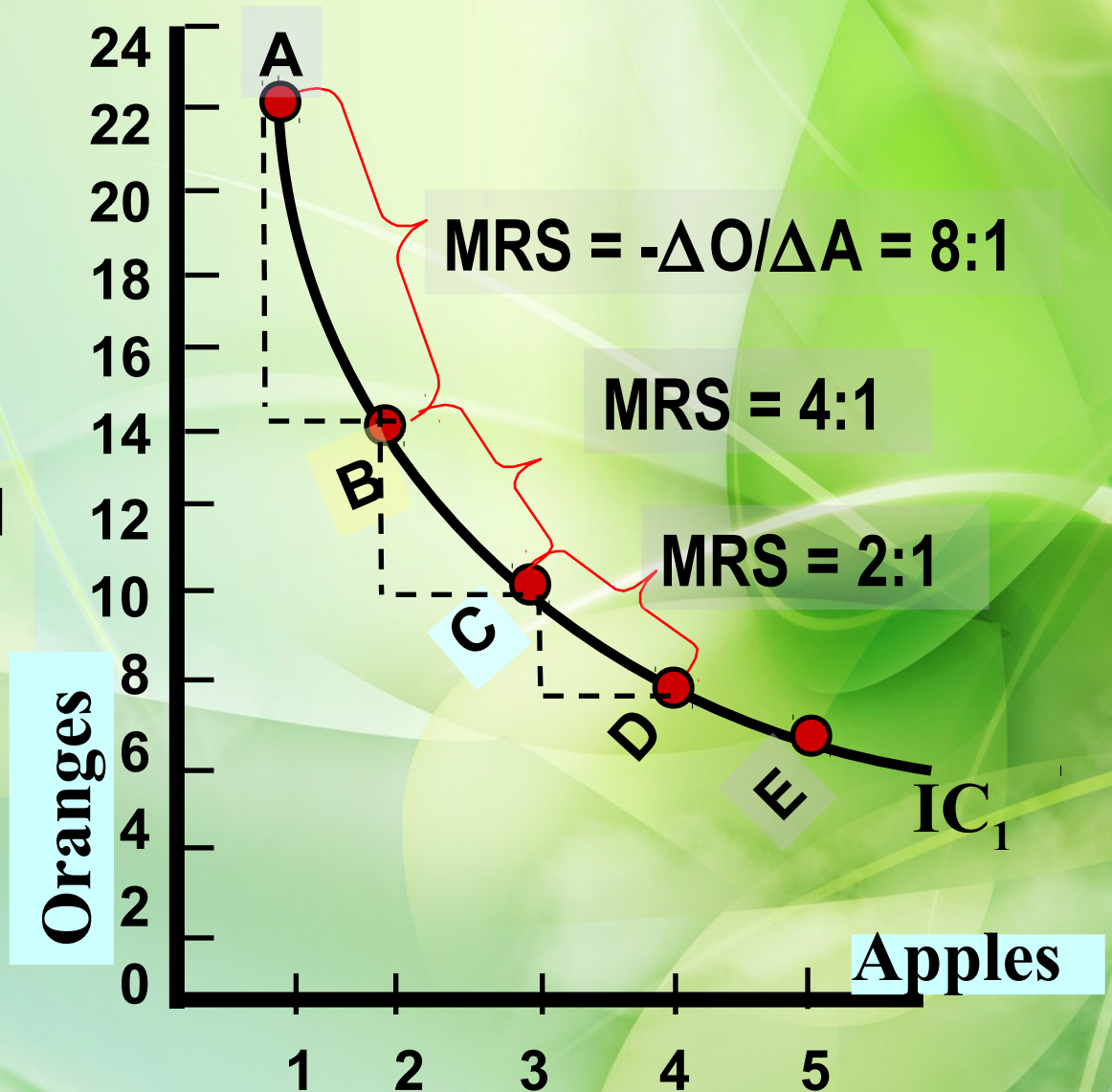
DIMINISHING MARGINAL RATE OF SUBSTITUTION

Combination	Apples	Oranges	MRS
A	1	22	---
B	2	14	8:1
C	3	10	4:1
D	4	8	2:1
E	5	7	1:1

As the consumer increases the consumption of apples, then for getting every additional unit of apples, he will give up less and less of oranges, that is, 8:1, 4:1, 2:1, 1:1 respectively This is the Law of Diminishing MRS.

LAW OF DIMINISHING MRS

MRS is measured by the slope of the indifference curve

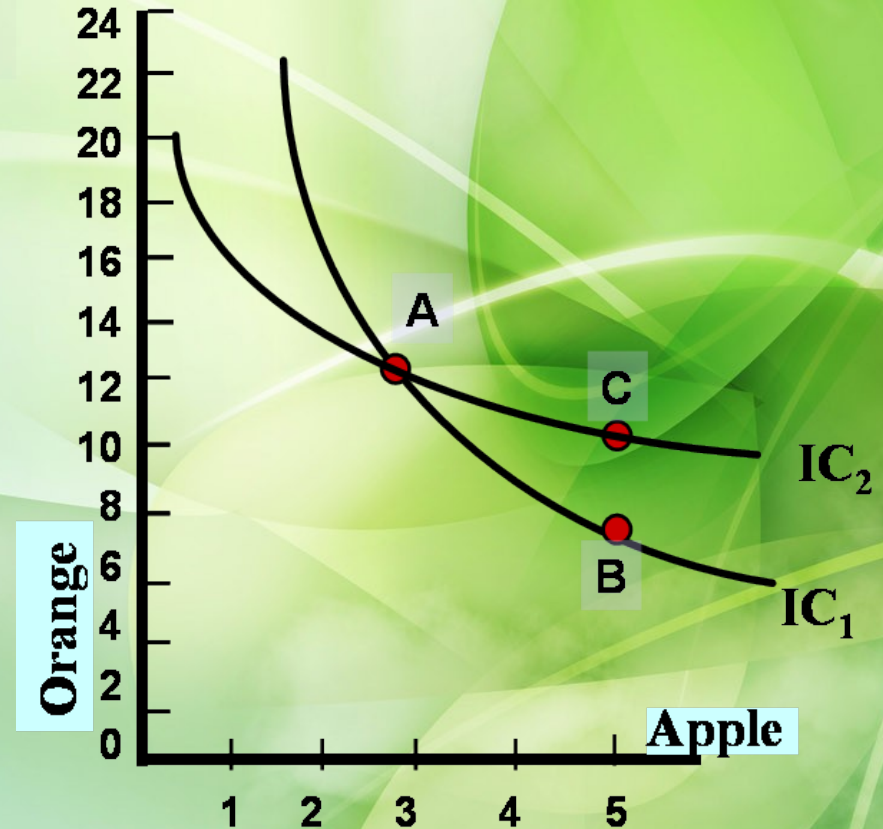


PROPERTIES OF IC

1. An Indifference curve has **negative slope** i.e. it slope downwards from left to right.
2. Indifference curve is always **convex to the origin.**

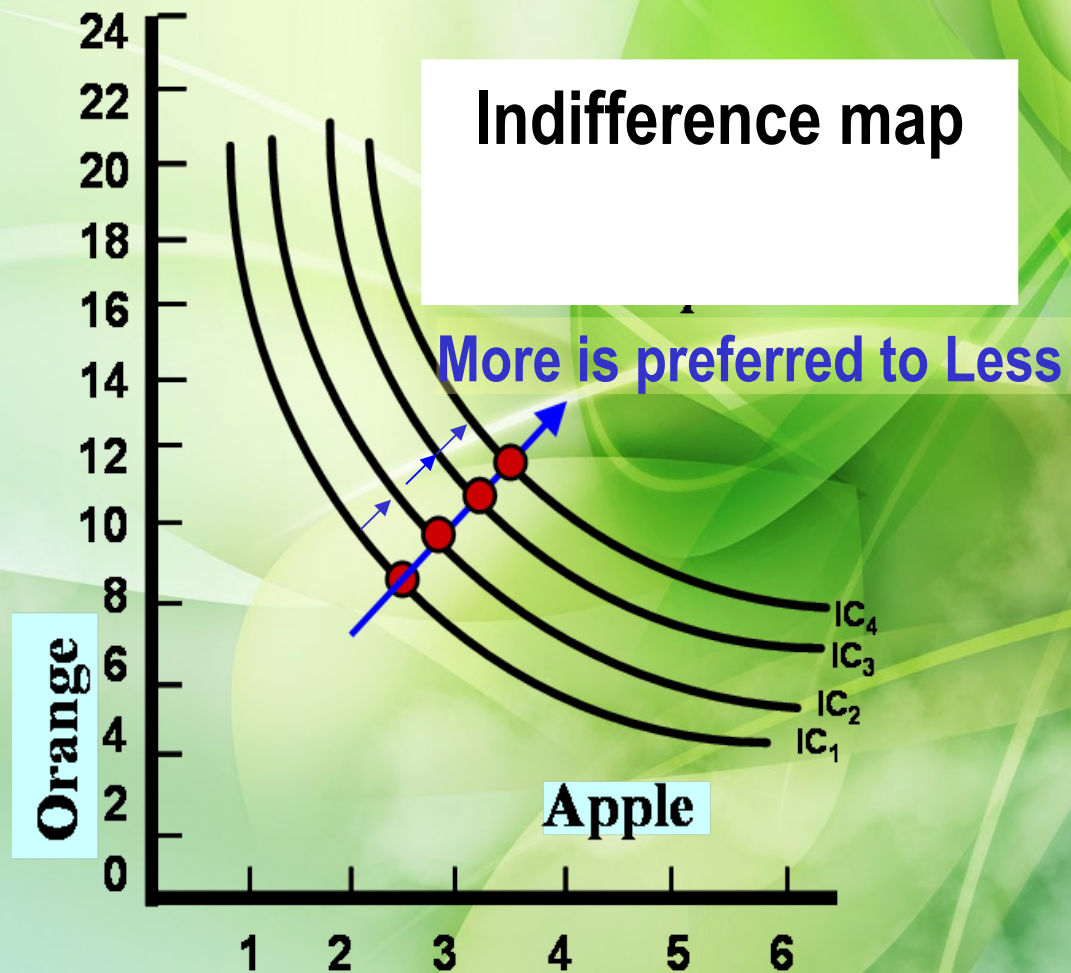
PROPERTIES OF IC

3. Two Indifference **curves**
never each other.



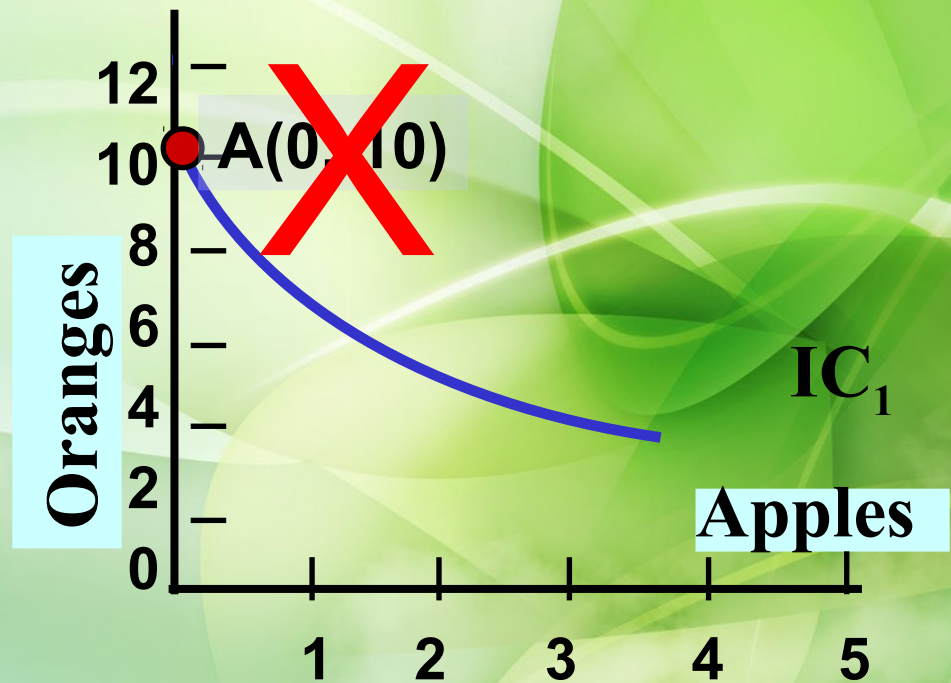
PROPERTIES OF IC

4. Higher indifference curve represents higher satisfaction.



PROPERTIES OF IC

5. Indifference curve touches neither X-axis nor Y-axis.



THANK YOU