Question and answers of chapter 2 of Microeconomics
Chapter 2
Consumer equilibrium – utility analysis

Important MCQ's

Question 1

The term 'marginal' in economics means

A) Additional

B) Unimportant

C) Minimum Unit

D) None of the above

Answer: A

Question 2

When marginal is negative, it must be true that

A) The average is positive

B) The average is negative

C) The total is decreasing

D) The total is negative

Answer: C

Question 3

The utility is generally related to

A) Satisfaction

B) Necessary

C) Useless

D) Useful

Answer: A

Question 4

The law that defines the demand curve to slopes downward is known as

A) Diminishing marginal utility

B) Utility maximisation

C) Utility minimisation

D) Consumer equilibrium

Answer: A

Question 5

Indifference curves are convex to the origin because

A) Two goods are perfect complementary goods

B) Two goods are imperfect substitutes

C) Two goods are perfect substitutes

D) None of the above

Answer: B

Question 6

When Marginal Utility = 0, Total Utility is

A) Maximum

B) Laws of return

C) Minimum

D) None of the above

Answer: A

Question 7

Diminishing marginal utility is the basis of

A) Law of demand

B) Laws of return

C) Law of supply

D) None of the above

Answer: A

Question 8

A consumer is in equilibrium when marginal utilities are

A) Increasing

B) Equal

C) Minimum

D) Highest

Answer: B

Question 9

A consumer’s spending is restricted because of

A) Utility maximisation

B) Budget constraint

C) Demand curve

D) Marginal utility

Answer: B

Question 10

When MU is positive, TU

A) Decreases

B) Is highest

C) Remains constant

D) Increases

Answer: A

<u>Short answer questions</u>

Q.1. Define Utility.
Ans. The extent to which a consumer expects a commodity to satisfy his want for same is known as utility of that commodity for him.

Q.2. Define marginal utility.
Ans. Marginal Utility of a commodity is the additional satisfaction derived by consuming one more unit of that commodity.

Q.3. What is meant by consumer's equilibrium?

Ans. Consumer's equilibrium is the situation when a consumer gets maximum satisfaction from consumption of one (or more) goods with his given income and price and feels no urge to change

Q.4. How is TU derived from MU?
Ans. TU of a commodity can be obtained by adding marginal utilities of all the units consumed.
Q.5. Define monotonic preference.

Ans. A consumer's preference is called monotonic if he prefers the bundle which has more of at least one of the goods, when the quantity of the other good is not lowered

Q.6. What will you say about MU when TU is maximum?
The MU will be zero when TU is maximum.

Q.7. Define law of diminishing marginal utility.
Ans. The law of diminishing marginal utility states that as more and more units of a commodity are consumed by a consumer, the marginal utility derived from each successive unit tends to diminish.
Q.8. What is meant by marginal rate of substitution (MR
Ans. Marginal rate of substitution is the quantity of one good that a consumer is willing to sacrifice to get an extra unit of other commodity.

Q.9. Why is MRS always diminishing?
Ans. MRS is always diminishing because the consumer will be willing to sacrifice lesser quantity of other good for each additional unit of a commodity.

Q.10. State condition of consumer's equilibrium in case of a single commodity.

Ans. In case of a single commodity, the consumer is at equilibrium when marginal utility in terms of money is equal to the price of the commodity.
i.e., Mu of a Commodity/ Mu of a money= Price of the commodity

or

MUx/Px =MU of money

Q.11. When is a consumer at equilibrium in case of more than one commodity?
Ans. In case of more than one commodity, a consumer is at equilibrium when:

$$\underset{\text{good x}}{\frac{MU_x}{\text{Price of X}}} = \underset{\text{good y}}{\frac{MU_y}{\text{Price of Y}}} = \underset{\text{good z}}{\frac{MU_z}{\text{Price of Z}}} = \text{MU of money}.$$

Q.12. State the law of equimarginal utility.
Ans. The law of equimarginal utility states that to get maximum satisfaction the consumer should spend his limited income in such a way that the utility derived from the last rupee spent on each commodity is equal.

Q.13. If an increase in price of X leads to decrease in demand for Y, how are the two goods related?
Ans. X and Y are complementary goods.

Q.14. If an increase in price of X leads to an increase in demand for Y, how are the two good related?
Ans. X and Y are substitutes of each other.

Q.15. What happens to TU when MU becomes negative?
Ans. The TU starts falling when MU becomes negative.

Q.16. Define total utility.
Ans. The aggregate utility that a consumer gets from the consumption of a given units of a commodity is called its total utility.