

## Chapter 2 – Theory of Consumer Behaviour

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### Question 1

Which of the following statement regarding utility is not true?

1. It is satisfying of a commodity
2. A utility is always miserable
3. It helps a consumer to make choices
4. It is purely a subjective entity

**Answer:** A utility is always miserable

### Question 2

Which of the following utility approach is based on the theory of Alfred Marshall?

1. Ordinal utility approach
2. Cardinal utility approach
3. Independent utility approach
4. None of the above

**Answer:** Cardinal utility approach.

### Question 3

How is total utility derived from the marginal utility?

**Answer:** The total utility is the total sum of marginal utilities of different unit of goods.

$$TU_n = MU_1 + MU_2 + MU_3 + \dots + MU_n$$

### Question 4

An individual bought 50 units of a product at Rs. 4 per unit. When the price falls by 25% it demand rises to 100 unit. Find the price elasticity of demand.

**Answer:** Elasticity of demand is 4.

### Question 5

Which curve shows the various combination of two products that give the same amount of satisfaction to the consumer?

**Answer:** Indifference Curve

### Question 6

Which utility is added to the total utility by consuming one additional unit of the commodity?

1. Ordinal Utility
2. Total Utility
3. Marginal Utility
4. Average Utility

**Answer:** Marginal Utility

#### **Question 7**

Define Utility.

**Answer:** The "Utility" in economics determines the satisfaction received or expected to be acquired from the consumption of product and services.

#### **Question 8**

State the law of equi-marginal utility.

**Answer:**

The law of equi-marginal utility refers to a balanced position where a consumer distributes his income between different goods in such a way that the value derived from the last rupees is the same as the first one.

#### **Question 9**

What will be the MU when TU is maximum?

**Answer:** The MU will be zero when TU is maximum.

#### **Question 10**

What is the reason behind a convex indifference curve?

**Answer:** The reason behind a convex indifference curve is the diminishing marginal rate of substitution.

#### **Question 11**

Which direction the indifference curve slope?

**Answer:** The indifference curve slopes downward to the right.

#### **Question 12**

What is a consumer surplus?

**Answer:** Consumer surplus is defined as the difference between what the customers are want to pay for a product and what he is able to pay.

#### **Question 13**

What does the law of diminishing utility say?

**Answer:** The law of diminishing utility says any addition in the consumption causes a decrease in total utility.

#### **Question 14**

What is the point of satiety?

**Answer:** The point of satiety is when the marginal utility becomes zero.

#### **Question 15**

The quantity demanded of a good at a price of Rs. 10 per unit is 40 units. Its price elasticity of demand is -2. Its price falls by Rs. 2/- per unit. Calculate its quantity demanded at the new price.

**Answer:** 56 units.

#### **Question 16**

Price elasticity of demand for flour is equal to unity and a household demands 40kg of flour when the price is Rs. 1 per kg. At what price will the household demand 36 kg of flour.

**Answer:** The cost of the flour rises to Rs. 1.10 per kg.

#### **Question 17**

State the proportionate /percentage methods of evaluating price elasticity of demand?

**Answer:** Proportionate / percentage method:

$Ed = \% \text{ change in Quantity demanded} = \frac{\Delta Q}{Q} \times 100$  OR  $= \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$

$\% \text{ change in price} = \frac{\Delta P}{P} \times 100$

#### **Question 18**

Is the demand for the following elastic, moderate elastic, inelastic? Give reason.

1. Demand for petrol
2. Demand for textbooks
3. Demand for cars
4. Demand for milk

**Answer:**

(1) The demand for petrol is moderately elastic as when the cost of petrol rises, the customers will decrease the use of it.

(2) The demand for textbooks is inelastic because even if the price rises the demand will never change.

(3) The demand for cars is elastic as it is a luxury good so when the price of a car goes up, the demand for it comes down

(4) The demand for milk is elastic because when the price of the milk increases the consumer starts taking less quantity of milk.

### Question 19

Explain four determinants of demand for a commodity.

**Answer:** The four determinants of demand for a commodity are mentioned below.

- **Price of Commodity-** When the cost of the good increases the demands of it decreases and vice-versa.
- **Income of the consumer-** When the income of a customer increases, the demand for normal goods also increases and vice-versa.
- **Price of related goods-** In a complementary product, demand increases with the decrease in the price of complementary goods. In terms of a substitute, the demand for goods decreases with the fall in the price of other substitute goods.
- **Taste and preference of customer-** With the change in people's taste and liking demand increases and with the decrease in taste demand decreases.

### Question 20

Describe the assumption which is made to determine the consumer's equilibrium position.

**Answer:** The assumption which is made to determine the consumer's equilibrium position are mentioned below.

- **Rationality-** The consumer has a rational behavior, they want to consume maximum from his given income and price
- **Utility in Ordinal- It is assumed that the** consumer ranks his performances according to that satisfaction from each combination of products.
- **The Consistency of Choice-** It is also assumed that the customer's choices are consistent.
- **Perfect Competition-** The perfect competition in the market is from where the customers are purchasing the goods from.
- **Total Utility-** This depends on the total quantities of product consumed by the consumer.