CONCEPT: INDIFFERENCE CURVES

- The ***budget constraint*** show consumption bundles that we can _____ with our income.
- An ***indifference curve*** shows consumption bundles that give the same amount of _____

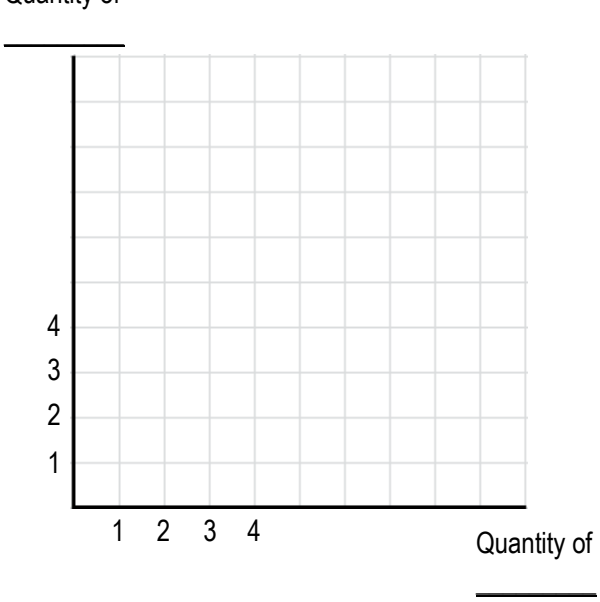
  □ ***Utility*** – the _____ one receives from _____ of goods

  - ***Util*** – the unit of measurement for utility

  - ***Marginal Utility*** – the _____ satisfaction from consuming _____ of a good

    - Follows the law of _____ returns!

EXAMPLE: Party Boy Paul's gains the same amount of utility from the consumption bundles shown in the table. Graph the indifference curve for PBP's consumption of Vodka and Beer.



Utility = 500 utils		
Bundle	Vodka Quantity	Beer Quantity
A	1	9
B	2	4
C	4	2
D	7	1

Utility = 750 utils		
Bundle	Vodka Quantity	Beer Quantity
E	2	9
F	3	5
G	5	3
H	8	2

Indifference Curve Map – a _____ of indifference curves representing a consumer's utility function

Marginal Rate of Substitution (MRS) – amount of a good the consumer is willing to give up for _____ unit of another

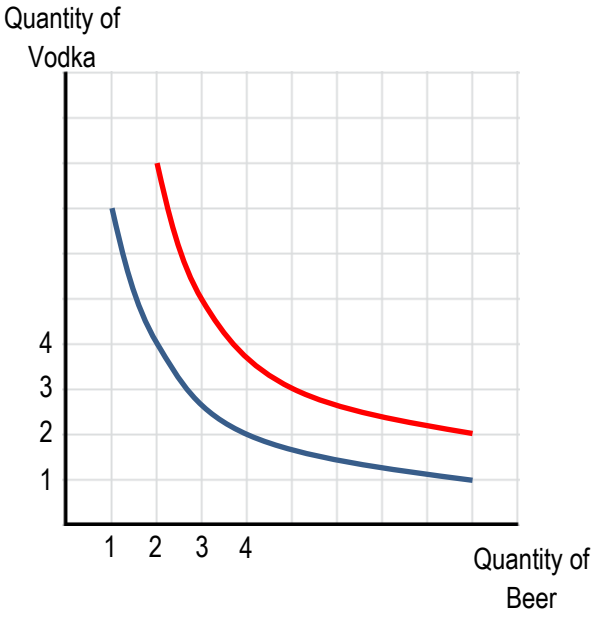
□ The MRS is the _____ of the indifference curve at a point

$$Slope = \frac{\Delta y}{\Delta x} = \frac{Rise}{Run}$$

Utility = 500 utils		
MRS when consuming 7 Vodka:	MRS when consuming 4 Vodka:	MRS when consuming 2 Vodka:

CONCEPT: PROPERTIES OF INDIFFERENCE CURVES

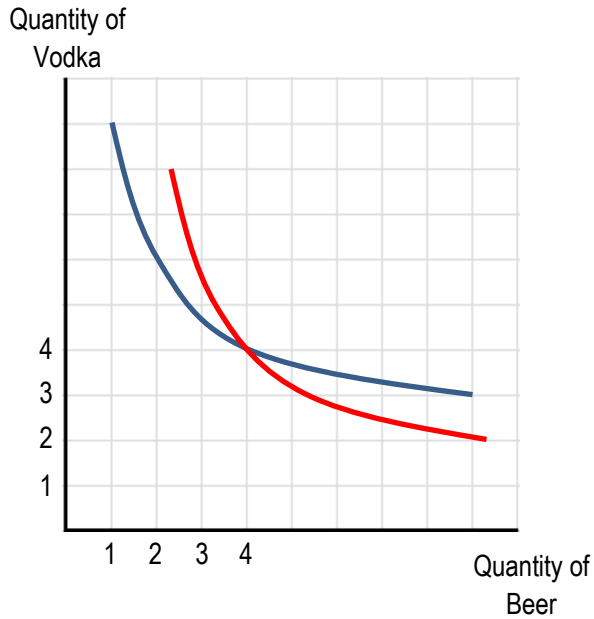
- ***Property 1***: _____ indifference curves are preferred to _____ indifference curves.



- People prefer to consume _____ → _____ utility
- Higher indifference curves result in _____ consumption

- ***Property 2***: Indifference curves are _____ and _____
  - □ Consumers like both goods. If one quantity is decreased, the other must be increased to remain _____
  - □ When consumption of one good is _____, we are willing to give up _____ of the other good.

- ***Property 3***: Indifference curves _____ cross



- An intersecting point means that the _____ level of consumption results in _____ levels of utility. Impossible!

PRACTICE: Which of the following is true about indifference curves?

a) Indifference curves shift outward as income increases
b) When a consumer has more of one good, they are less willing to exchange it for a unit of another good
c) Indifference curves show all combinations of goods that result in the same level of utility
d) Both (a) and (c)

PRACTICE: At different points along an indifference curve,

a) The marginal rate of substitution remains constant
b) The marginal rate of substitution is zero
c) A consumer prefers the consumption points that are further from the origin
d) A consumer does not prefer one consumption level over another

PRACTICE: If the marginal rate of substitution is equal to 2 at a point on an indifference curve, then the consumer would:

a) Give up 1 units of the “y-axis” good for 2 units of the “x-axis” good
b) Give up 2 units of the “y-axis” good for 1 unit of the “x-axis” good
c) Pay an additional $2 for one unit of the “y-axis” good
d) Pay an additional $2 for one unit of the “x-axis” good