PRINCIPLES OF ECONOMICS

B.Com Hons Part-I

TOPIC - Assumptions of Indifference Curve Analysis

By - DEEPA KUMARI
P.G. Dept. of commerce & BUSINESS MANAGEMENT
H.D. JAIN COLLEGE, Ara, Bhojpur, Bihar - 802301

Assumptions of the indifference Curve Analysis

Indifference curve analysis is based on the following assumptions:-

① **Rationality** ÷
The consumer is assumed to be rational. He aims at maximizing his benefits from consumption, given his income and price of the goods.

② **Weak ordering** ÷
Consumer shows weak ordering in his choice. It means that consumer can be indifferent in selection between two combination of goods but he can not express the superiority of one combination over the above.

③ **Diminishing Marginal rate of substitution** :-
The marginal rate of substitution is the rate at which a consumer is willing to substitute one commodity (X) for another commodity (Y) so that his total satisfaction remains the same. This rate ~~of~~ is given by $\left(\frac{\Delta Y}{\Delta X}\right)$. The assumption is that $\left(\frac{\Delta Y}{\Delta X}\right)$ goes on decreasing when a consumer continues to substitute X for Y.

④ Ordinality :-
utility is expected satisfaction that a consumer gets from given market - basket. In indifference curve analysis, utility is an ordinal concept. Consumer can order or rank the subjective utilities derived from the commodities.

⑤ Homogenous and divisible goods :-
An indifference curve is smooth and continuous which means the two goods are highly divisible and homogenous and that levels of satisfaction also change in a continuous manner.

⑥ Non-satiety :-
It is also assumed that the consumer is not over supplied with goods in question. That is, he has not reached the point of saturation in case of any commodity. Therefore, a consumer always prefers a reasonable quantity of all goods.

⑦ Transitivity :-
Consumer's choice is assumed to be transitive. Transitivity of choice means that if a consumer prefers A to B and B to C, he must prefer A to C. Or if he treats A = B and B = C, he must treat A = C.