7 Consumer choice and efficiency – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
indifference curve			
budget line			
consumer equilibrium			
productive efficiency			
allocative efficiency			

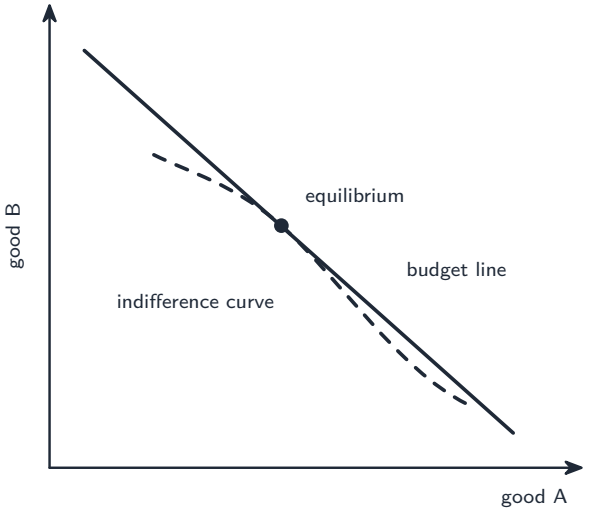
Recall

A consumer has a limited income. How do they spend it to get the most satisfaction?

New ideas

Read these first, then do the Practice.

1 Consumer equilibrium



- an **indifference curve** shows combinations of two goods giving the *same* total utility;
- a **budget line** shows what the consumer can just afford;
- **consumer equilibrium** is the best they can do – where the budget line just touches the highest reachable indifference curve.

2 Two kinds of efficiency

productive efficiency *making goods at the lowest possible cost*	allocative efficiency *making the goods people most want*

- **productive efficiency** – making goods at the lowest possible cost;
- **allocative efficiency** – making the goods people most want.

Watch out: consumer equilibrium is where the budget line just *touches* the highest reachable indifference curve. Productive efficiency = lowest *cost*; allocative efficiency = making what people most *want* – don't confuse the two.

Practice

Try these in order.

7.6 What does an *indifference curve* show? [1]

7.7 What does a *budget line* show? [1]

7.8 Where is *consumer equilibrium*? [1]

7.9 What is *productive efficiency*? [1]

7.10 What is *allocative efficiency*? [1]

7.11 Challenge. A factory makes goods at the lowest possible cost, but they are products almost nobody wants. Is it productively efficient, allocatively efficient, both or neither? Explain. [2]