Past-paper walk-through

Indifference curves and budget lines ▪ 7.2

eXercise

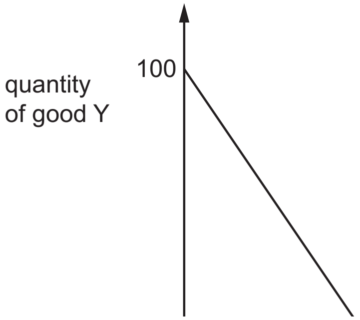
Questions in this set

- 9708/32 N25 Q2 ▪ 1 mark
- 9708/34 N25 Q2 ▪ 1 mark

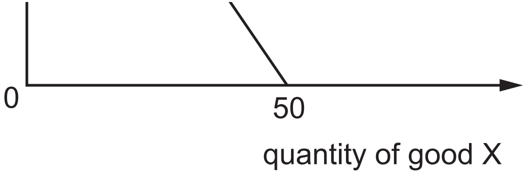
Question 2

9708/32 N25 ▪ Q2 ▪ 1 mark

2 The diagram shows a consumer's budget line.



Question 2



What determines the slope of the budget line?

A the marginal rate of substitution of good X for good Y

B the price of good X multiplied by the price of good Y

C the ratio of the price of good X to the income of the consumer

Question 2

D the ratio of the price of good X to the price of good Y

Solution 2

Answer: **D**

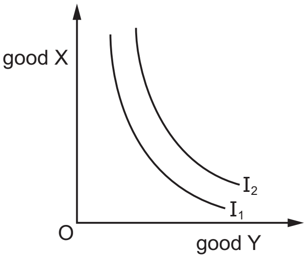
Why

- The budget line's slope is set by the *relative prices* of the two goods.
- It shows how much of Y must be given up to buy one more X at market prices.
- The marginal rate of substitution is the slope of the *indifference curve*, not the budget line.

Question 2

9708/34 N25 ▪ Q2 ▪ 1 mark

2 The diagram shows two indifference curves.



What do indifference curves indicate?

Question 2

A Consumers get more satisfaction on curve I_1 from consuming more of X and less of Y.

B Consumers get more satisfaction on curve I_2 from consuming less of X and more of Y.

C Each point on the curve represents the marginal rate of substitution of good X for good Y.

D Movement from I_1 to I_2 cannot be made unless the indifference curves cross.

Solution 2

Answer: **C**

Why

- Every point on one indifference curve gives the same total satisfaction.
- A curve further from the origin represents a higher level of satisfaction.
- So the curves show combinations between which the consumer is indifferent, and their ranking.