B.A. Part I (Economics Honours)
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Indifference Curve Analysis: Concept and Assumption

In microeconomics, indifference curve is an important tool of analysis in the study of consumer behavior. The concept of indifference curve analysis was first propounded by British economist Francis Ysidro Edgeworth and was put into use by Italian economist Vilfredo Pareto during the early 20th century. However, it was brought into extensive use by economists J.R. Hicks and R.G.D Allen.

Hicks and Allen criticized Marshallian cardinal approach of utility and developed indifference curve theory of consumer's demand. Thus, this theory is also known as ordinal approach.

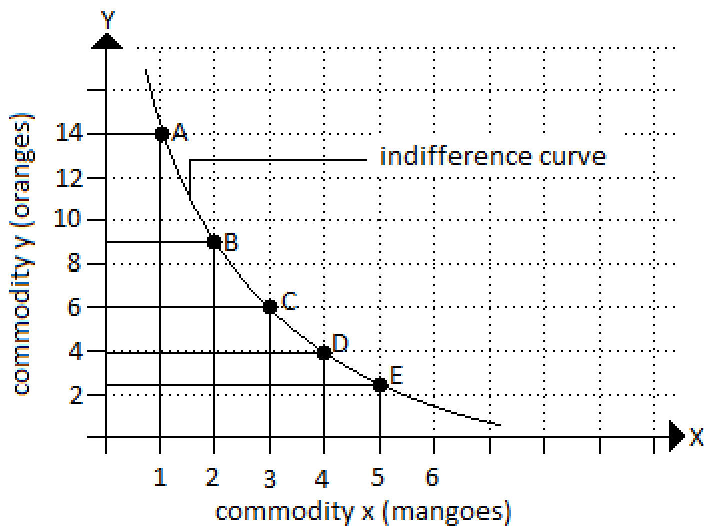
Indifference curve

An indifference curve is a locus of all combinations of two goods which yield the same level of satisfaction (utility) to the consumers.
Since any combination of the two goods on an indifference curve gives equal level of satisfaction, the consumer is indifferent to any combination he consumes.
Thus, an indifference curve is also known as 'equal satisfaction curve' or 'iso-utility curve'.

On a graph, an indifference curve is a link between the combinations of quantities which the consumer regards to yield equal utility. Simply, an indifference curve is a graphical representation of indifference schedule.

The table given below is an example of indifference schedule and the graph that follows is the illustration of that schedule.

Combination	Mango	Orange
A	1	14
B	2	9
C	3	6
D	4	4
E	5	2.5



Assumptions of indifference curve

The indifference curve theory is based on few assumptions. These assumptions are: -

1. **Two commodities**

It is assumed that the consumer has fixed amount of money, all of which is to be spent only on two goods. It is also assumed that prices of both the commodities are constant.

2. **Non satiety**

Satiety means saturation. And, indifference curve theory assumes that the consumer has not reached the point of satiety. It implies that the consumer still has the willingness to consume more of both the goods. The consumer always tends to move to a higher indifference curve seeking for higher satisfaction.

3. **Ordinal utility**

According to this theory, utility is a psychological phenomenon and thus it is unquantifiable. However, the theory assumes that a consumer can express utility in terms of rank. Consumer can rank his/her preferences on the basis of satisfaction yielded from each combination of goods.

4. **Diminishing marginal rate of substitution**

Marginal rate of substitution may be defined as the amount of a commodity that a consumer is willing to trade off for another commodity, as long as the second commodity provides same level of utility as the first one.

And, diminishing marginal rate of substitution states that the rate by which a person substitutes X for Y diminishes more and more with each successive substitution of X for Y.

As indifference curve theory is based on the concept of diminishing marginal rate of substitution, an indifference curve is convex to the origin.

5. **Rational consumers**

According to this theory, a consumer always behaves in a rational manner, i.e. a consumer always aims to maximize his total satisfaction or total utility.