IAS Prelims 1998
A consumer is said to be in equilibrium, if
(a) **he is able to fulfil his need with a given level of income** (b) he is able to live in full comforts with a given level of income (c) he can fulfil his needs without consumption of certain items (d) he is able to locate new sources of income

Indifference curve

When a consumer consumes various goods and services, then there are some combinations (bundles) which give him same satisfaction. The graphical representation of such combinations is termed as indifference curve.

Marginal rate of substitution

Marginal rate of substitution refers to the rate at which consumer is willing to give up amount of other good to obtain one extra unit of the good in question without affecting total satisfaction. So, the rate of substitution of one commodity for another is called marginal rate of substitution.

Marginal Utility

Marginal utility is the **addition** to the total utility derived from the consumption of an additional unit of a commodity

Law of diminishing marginal utility

When we get more and more units of a commodity, the intensity of our desire for that commodity tends to diminish. The law of diminishing marginal utility also explains the same thing. It states that 'as more and more units of a commodity are consumed, marginal utility derived from each successive unit goes on diminishing.'

Suppose, a thirsty man drinks water. The first glass of water he drinks will give him maximum satisfaction (utility). Second glass of water will also fetch him utility but not as much as the first one because a part of his thirst is satisfied by drinking the first glass of water. It is just possible that he may get zero utility from the third glass because his thirst has now been satisfied.

There will be negative utility from the fourth glass of water. Any rational consumer will not consume additional glass of water when it gives disutility or negative utility.

CDS 2018

According to the law of diminishing marginal utility, as the amount of a good consumed increases, the marginal utility of that good tends to (a) improve (b) **diminish** (c) remain constant (d) first diminish and then improve

Marginal propensity to Consume (MPC)

MPC is the ratio of change in consumption to change in income between two time Periods.

Marginal propensity to save (MPS)

MPS is defined as the ratio of change in saving to change in income between two time Periods

Paradox of Thrift

If all the people of the economy increase the proportion of income they save (i.e. if the mps of the economy increases) the total value of savings in the economy will not increase – it will either decline or remain unchanged. This result is known as the Paradox of Thrift – which states that as people become more thrifty they end up saving less or same as before.

Increase in saving leads to a decrease in aggregate demand and thus a decrease in gross output which will in turn lower total saving.