CHAPTER-2 | Theory Of Consumer Behaviour

QUIZ PART-04

1. **A consumer's budget consists of**
   A. Income and expenditure on a single commodity
   B. Income and expenditure on multiple commodities
   C. Savings and expenditure on a single commodity
   D. Income and savings only (B)

Explanation : A consumer's budget refers to income and expenditure across multiple commodities, not just one.

2. **The budget line represents**
   A. All possible combinations of two commodities that a consumer can buy, given income and prices
   B. The total income of the consumer
   C. The total expenditure of the consumer
   D. The indifference curve of the consumer (A)

Explanation : The budget line shows affordable bundles that exactly exhaust the consumer's income at given prices.

3. **The equation of a budget line is**
   A. Px + Py = M
   B. P1X1 + P2X2 = M
   C. TU = ΣMU
   D. MUx / Px = MUy / Py (B)

Explanation : The budget line equation expresses the relationship between prices, quantities, and consumer income.

4. **The slope of the budget line is downward sloping because**
   A. Income is unlimited
   B. Increasing one good requires reducing consumption of another
   C. Prices of goods remain constant
   D. The indifference curve touches the budget line (D)

Explanation : With fixed income, more of one good can be consumed only by sacrificing some of another.

5. **Bundles lying below the budget line represent**
   A. Overspending
   B. . Under-spending or affordable combinations
   C. Exactly full income expenditure
   D. Unattainable bundles (B)

Explanation : Points below the budget line mean the consumer is not using the full income.

6. **The budget line shifts outward when**
   A. Income decreases, prices constant
   B. Income increases, prices constant
   C. Income constant, prices increase
   D. Income constant, prices decrease (B)

Explanation : A rise in income shifts the budget line outward in parallel, expanding affordable choices.

7. **The budget line becomes steeper when**
   A. Price of good X increases
   B. Price of good Y decreases
   C. Price of both goods decrease
   D. Income increases (A)

Explanation : An increase in the price of one commodity pivots the budget line, making it steeper.

8. **The optimal choice of the consumer occurs when**
   A. MUx = MUy
   B. Px = Py
   C. MRSxy = Px / Py
   D. TU is maximum (C)

Explanation : Consumer optimum is reached when the slope of the indifference curve (MRS) equals the slope of the budget line (price ratio).

9. **The point where the indifference curve touches the budget line is called**
   A. Indifference Point
   B. Optimal Point
   C. Budget Set Point
   D. Income–Expenditure Point (B)

Explanation : At this point, the consumer attains maximum satisfaction within the budget, hence it's called the optimum point.

10. **Which of the following bundles is unattainable for a consumer?**
    A. Bundles on the budget line
    B. Bundles inside the budget line
    C. Bundles outside the budget line
    D. Bundles below the budget line (C)

Explanation : Bundles outside the budget line cost more than the consumer's income and hence are unattainable.