

* Consumer Equilibrium :

Consumer Equilibrium shows a situation in which the consumer purchases such a combination of the commodities that he gets the maximum satisfaction from his given income and with given prices of the commodities. The point of equilibrium is such that he does not want a change from it.

* Definition :

* Assumption :

- Prices of the commodities are given to the consumer.
- Consumer's income is also given.
- The consumer knows the prices of the commodities and the possible combinations of the two commodities which he can choose.
- The consumer can spend his income in small amounts also.
- The consumer is rational and wants to obtain the maximum satisfaction.
- The consumer knows the combinations among which he is indifferent. He knows his indifference map fully.
- There is a perfect competition in the market from where he is purchasing the commodities.
- The commodities he is purchasing are divisible enough to form different combinations acceptable to the consumer.

★ Condition for Consumer Equilibrium:

∴ There are three conditions for consumer's equilibrium:

1) The Budget line should be Tangent to the Indifference curve. Give these assumption, the consumer can buy 5 units of X by spending the entire sum of ₹10 on good X or on 10 units of Y. This table show some possible combinations on which ₹10 can be allocated.

Combination	Good X	Good Y
O	5	0
N	4	2
T	3	4
S	2.5	5
K	1.5	7
R	1	8
P	0	10

2.) At the point of Equilibrium the slope of the Indifference curve and the Budget line should be the same. At S, the slope of the indifference curve is, in fact, the marginal rate of substitution of X for Y and on the budget line it is the ratio of the price of X to the price of Y. The slope of the budget line.

3.) Indifference curve should be convex to the origin. Therefore, the last conditions are that at the of equilibrium, the be stable marginal rate

substitution of X and Y must be falling for equilibrium stable. It means that the indifference curve must be convex to the origin at the equilibrium point. If the indifference curve is concave to the origin, the MRS_{xy} point increases.

★ Advantages of indifference curve :->

1. It dispenses with cardinal measurement of utility :

The entire utility analysis assumes that utility is a cardinally measurable quantity which can be assigned weights called 'utils'. If the utility of an apple is 10 utils, of a banana 20 utils and of a cherry 40 utils, then the utility of a banana is twice that of an apple and of a cherry four times that of an apple and twice that of a banana.

2. It studies combination of two goods instead of one good :

The utility approaches a single-commodity analysis in which the utility of one commodity is regarded independent of the other. Marshall avoided the discussion of substitutes and complementary goods by grouping them together as one commodity.

3. It provides a better classification of goods into substitutes and complements :

The earlier economists explained substitutes and complements in terms of cross elasticity of demand. Hicks consider this inadequate and explain them after making compensating variation in income. He thus overcomes the ambiguity to be found in the traditional classification of substitutes and complements.

4. It explain the Dual effect of the price effect :

One of the main defects in the Marshallian utility analysis is that it fails to analyse the income and substitution effects of a price change. In the indifference curve technique when the price of a good falls, the real income of the consumer increases. This is the income effect. Secondly, with the fall in price, the good becomes cheaper.

5. It Rehabilitates the concept of consumer's surplus :

Hicks have explained the concept of consumer's surplus by dispensing with the unrealistic assumption of the marginal utility of money.

He regards consumer's surplus "as a means of expressing, in terms of money income, the gain which accrues to the consumer as a result of a fall in price". Thus the doctrine of consumer's surplus is no longer a 'mathematical puzzle' and has been freed from the introspective cardinalism of the utility theory.