

## Indifference Curves



## Utility Functions

- Individuals have utility functions  $U(A,B)$

## Utility Functions

- If  $U(A_1, B_1) > U(A_2, B_2)$   
 *$(A_1, B_1)$  is preferred to  $(A_2, B_2)$*
- If  $U(A_1, B_1) = U(A_2, B_2)$   
*The consumer is indifferent between  $(A_1, B_1)$  &  $(A_2, B_2)$*

## Utility Functions

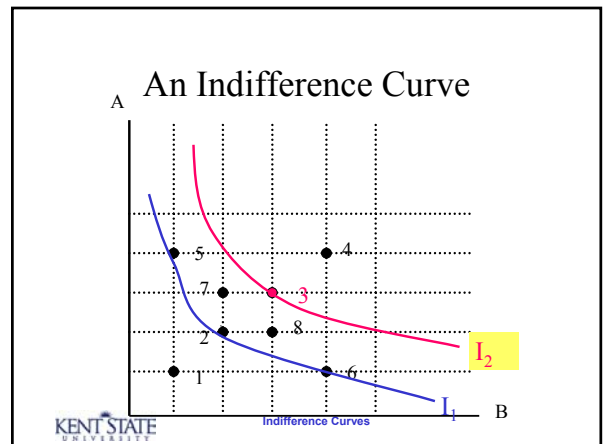
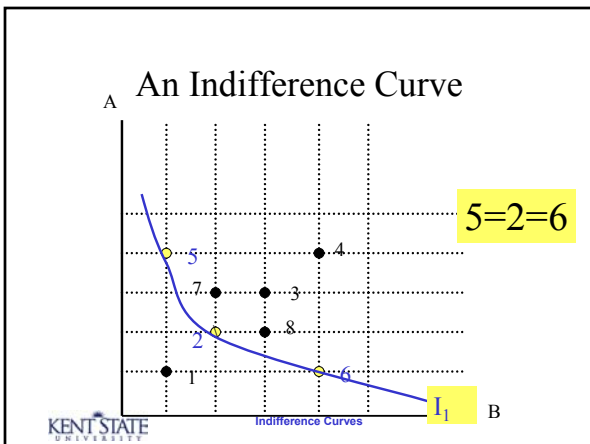
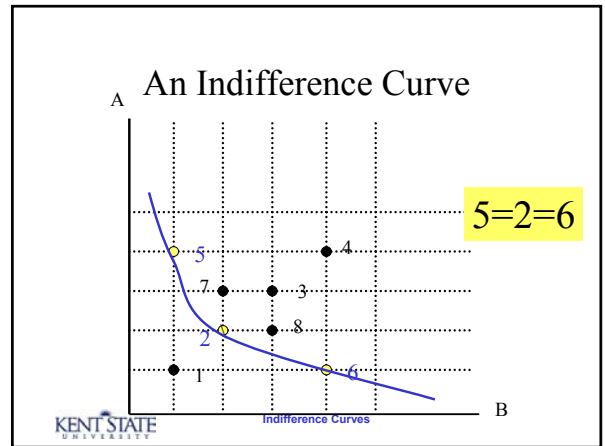
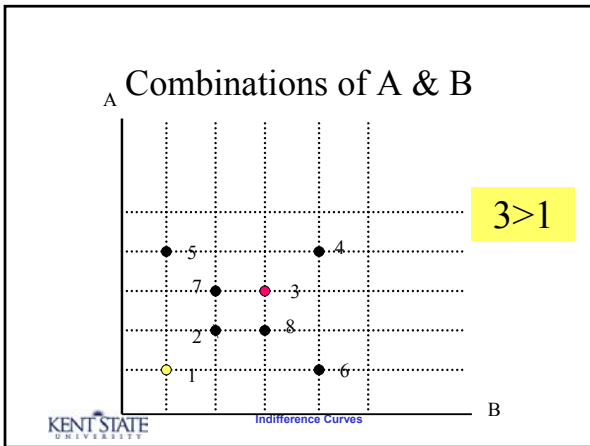
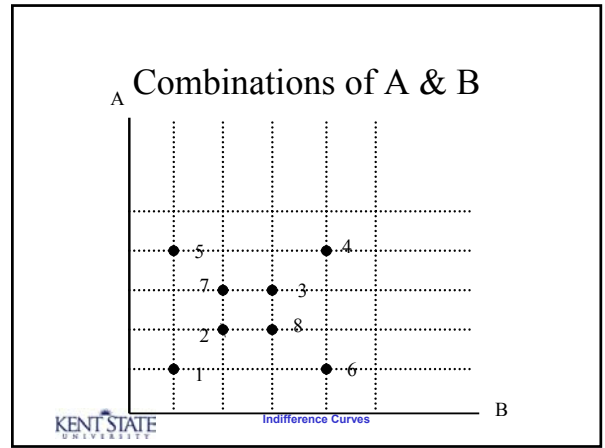
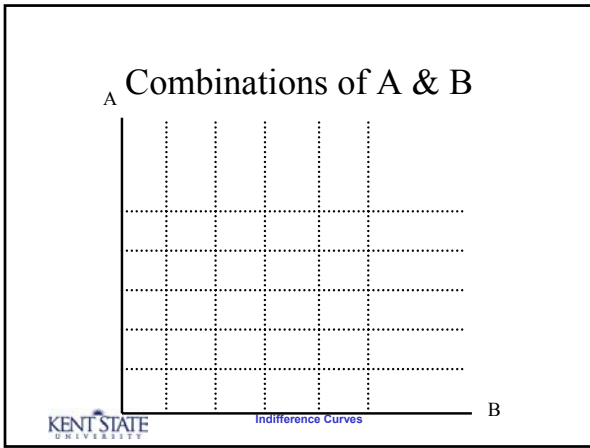
- $(A_1, B_1)$  is preferred to  $(A_2, B_2)$   
– Then  $U(A_1, B_1) > U(A_2, B_2)$

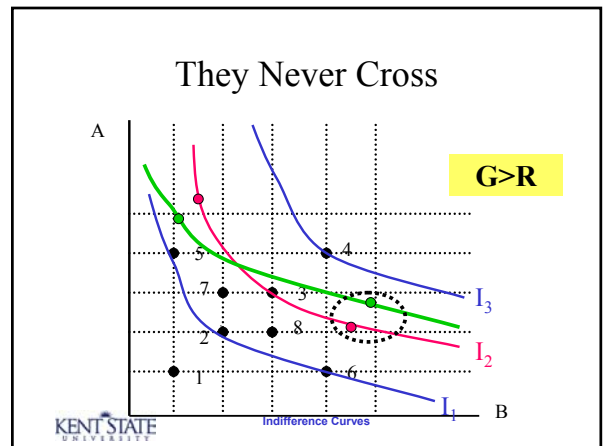
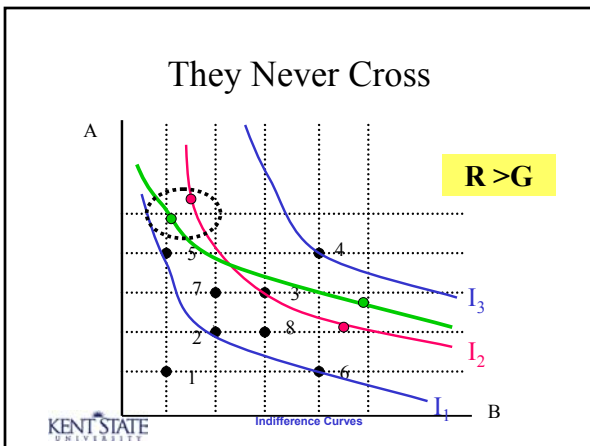
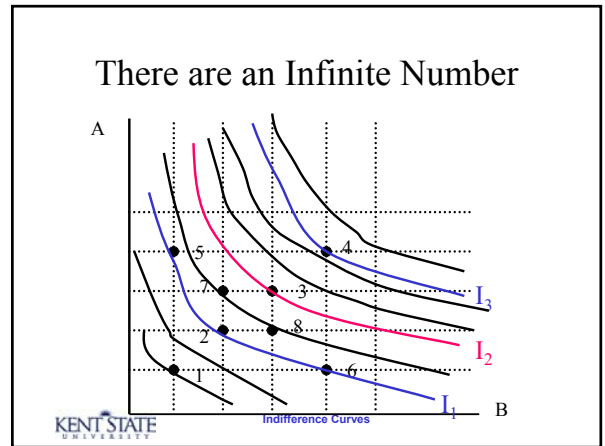
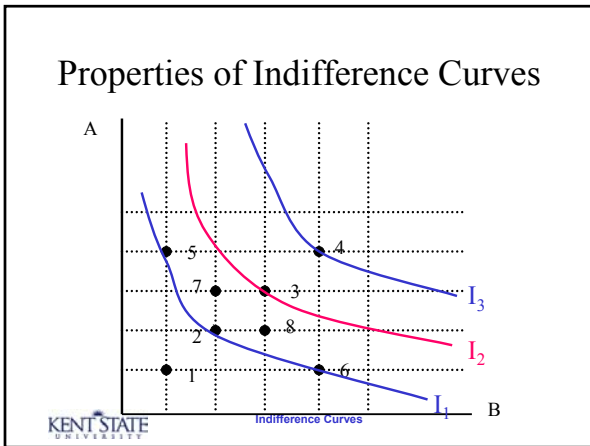
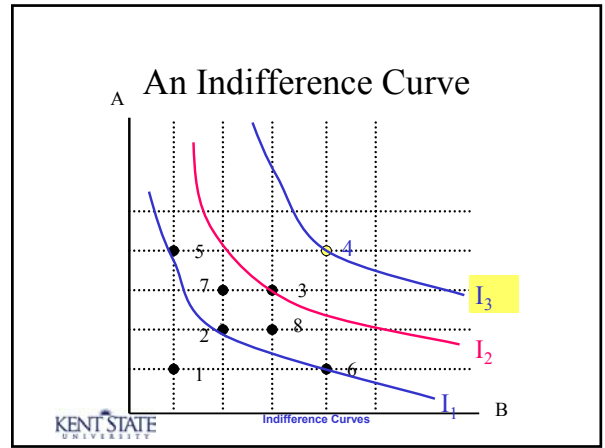
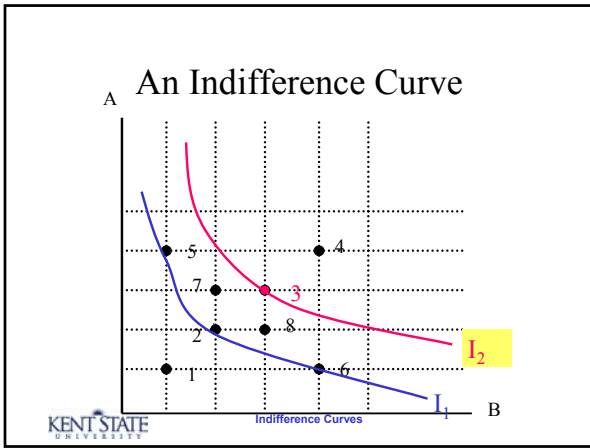
## Utility Functions

- $(A_1, B_1)$  is preferred to  $(A_2, B_2)$   
– Then  $U(A_1, B_1) > U(A_2, B_2)$
- The consumer is indifferent between  $(A_1, B_1)$  &  $(A_2, B_2)$   
– Then  $U(A_1, B_1) = U(A_2, B_2)$

## A Combinations of A & B

We represent an individual's preferences with indifference curves, plots of points representing equal utility





End

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