Activity 1 – What is an indifference curve?

As has already been mentioned, economists are unable to quantify the utility that individuals gain from their consumption choices in a single measure. However, what *is* possible is to identify the choices that individuals *could* make, examining which of these choices gives an individual more, less, or the same level of utility.

The use of indifference curves provides a graphical representation of the set of choices that individuals have at their disposal. By including multiple indifference curves, we can even show graphically which bundles are the most or least preferred!

For your first introduction to a set of indifference curves, see **Figure 1** below.

For this example, let us consider the preferences of Harry, a rational economist who is a utility maximiser. That is, he makes his consumption choices in a way that he believes will maximise his own well-being. Given that Harry is an econ, he makes these decisions in the presence of complete information, so his choices *will* maximise his utility!

The three curves you see are ***indifference curves,*** each representing a ***particular level of utility.*** In this example, the curves represent Harry's preferences for the trade-off between two goods: apples and oranges.

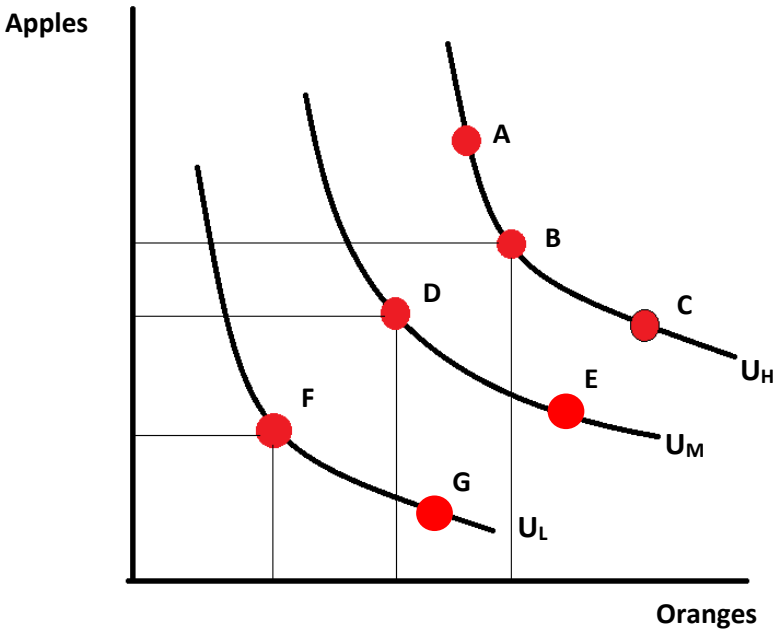

Figure 1

- ***Higher*** indifference curves represent bundles that provide a ***greater level of utility.*** This means that in the graph above, Harry would prefer to consume the bundle D over bundle F, because it gives him more utility.

- For any combination of apple-orange bundles along a ***particular*** indifference curve, Harry receives the ***same level of utility*** for each bundle. This is, Harry would be willing to give up some oranges in exchange for some more apples or give up some apples in exchange for some more oranges.
- Bundles A, B and C along the highest indifference curve $\mathbf{U_H}$ all give the same level of utility to Harry. Because he is equally happy with any of these three bundles, we can say that he is *indifferent* between them. This is why indifference curves are called indifference curves!
- Similarly, bundles D and E (F and G) along indifference curve U_M (U_L) give Harry the same level of utility!