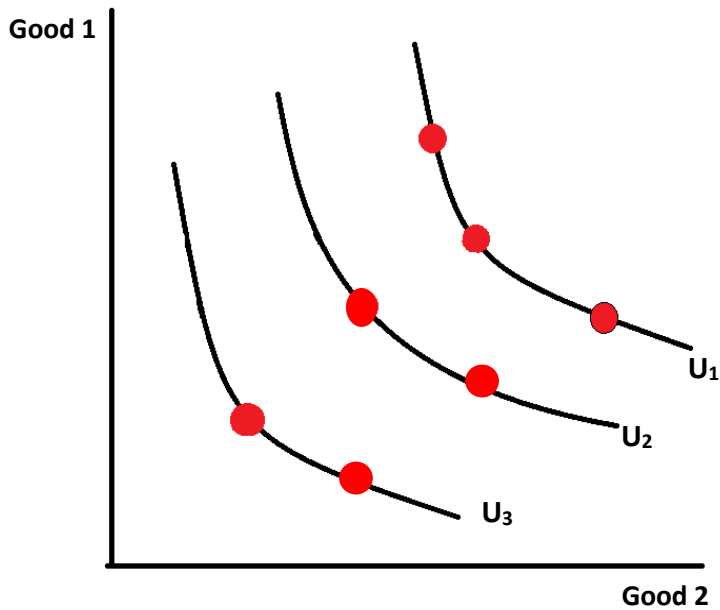




Activity 5 - Exercises

1. Which of the following indifference curve for consumption choices of two goods provides the **highest** level of utility, U_1 , U_2 or U_3 ? Does the level of utility along an indifference curve increase or decrease moving diagonally away from the origin?



2. Sam has a choice over a number of consumption bundles of two goods the indifference curves of which are illustrated below. Sam has decided to select consumption bundle A, arguing that because this bundle is on his budget line, it must be the choice that maximises his utility. Is Sam correct?

