Chapter 8

Indifference Curve Analysis (Ordinal)

Alfred Marshall's Demand Analysis on the basis of marginal utility is based on the Cardinal System of measuring the utility contained in the commodity purchased. This Cardinal approach is defective in many respects, as utility is purely a mental phenomenon and it cannot be quantified. We had studied already the defects of cardinal system of analysis. Further, Marshall's analysis had created a lot of confusion due to unrealistic assumptions. Hence, modern economists have evolved the ***Indifference Curve*** approach, based on the ***Ordinal System*** to explain the behaviour of the consumer. The Indifference Curve approach was first outlined by Pareto, an Italian economist. Later on, it was developed by the Russian economist Slutsky in 1915. It was presented in detail and popularised by J.R. Hicks and R.G.D. Allen in "A Reconsideration of Theory of Value" in 1934. Later on in 1939, J.R.Hicks in his famous work "Value and Capital" offered a detailed treatment of this new analysis.

Approach to Indifference Curve Analysis

This method does not attempt to measure the utility contained in a commodity. It is based on the 'Scale of Preference' which dispenses with the measurement of utility. For purposes of analysis, it is not necessary to know what 'utility' a particular commodity gives to the consumer. The economist wants to know whether a particular combination of goods has the same significance to the consumer as another combination of goods. The human mind may not be capable of precisely measuring utility derived from a commodity. But it is definitely capable of finding out at any given time whether one commodity is preferable to the other or one combination of goods is as desirable as another combination. The consumer can rank his preference very easily and say which is better than the other. Suppose a consumer has with him a five-rupee note to spend on two commodities, say, a book and a pen. If he spends that amount in the purchase of a pen,