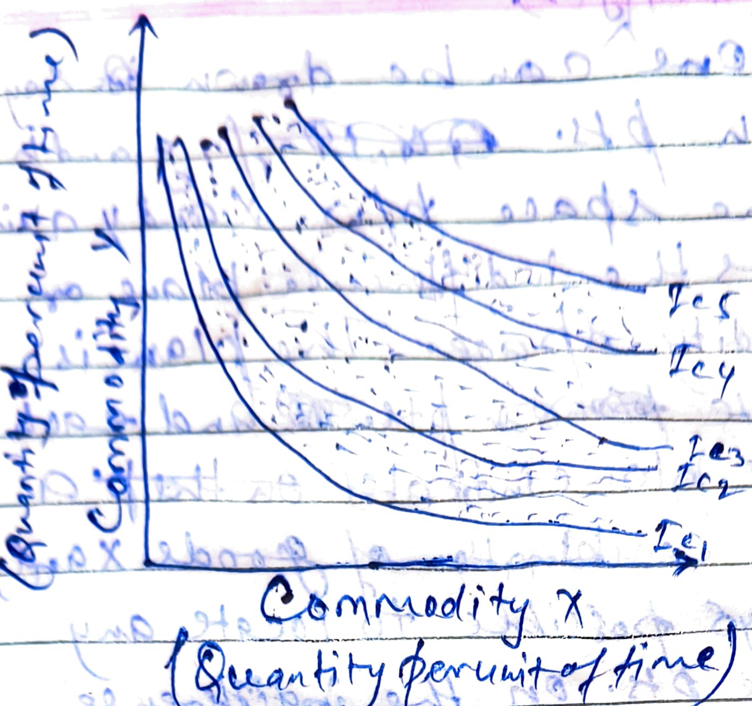

Marginal rate of Substitution (MRS)

An indifference curve is formed by Substituting one goods for another. The MRS is the rate at which one commodity can be substituted for another. The level of ~~satisf~~ satisfaction remaining the same. The MRS b/w two commodities x and y may be defined as the quantity of x which is required to replace one unit of y or quantity of y required to replace one unit of x. In the combination of two goods so that the total utility remains the same. This implies that the utility of x given up is equal to the utility of additional unit of y added to the

Combinations.

Why does MRS diminished?

The MRS diminishes along the Ic curve because in most cases no two goods perfect substitutes for one another in case any two goods are perfect substitutes the indifference curve will be a straight line having negative slope showing constant MRS. Since goods are not perfect substitutes. The subjective value attached to the additional quantity decreases fast in relation to the other commodity whose total quantity is decreases. Therefore when the quantity of one commodity increases and that of the other decreases the subjective marginal utility of y increases and that of x decreases. Therefore the consumer becomes increasingly ~~unk~~ unwillingness to sacrifice more unit of y for one unit of x. But if, if it required to sacrifice additional unit of y it will demand increasing unit of x to maintain the level of ~~this~~ its satisfaction. As a result the MRS decreases.