

Answer on Question #38214 – Economics – Microeconomics

If the two indifference curves are not tangent, then the two consumers have different marginal rates of substitution at that point - so (for example) the rate at which consumer 1 trades good 1 for good 2 while remaining indifferent is higher than the rate at which consumer 2 does - for example point A . If this were the case, it is clear that we could give consumer 1 less of good 2 and more of good 1, while doing the reverse to consumer 2, making them both better off - this is what happens when we move from point A to point C.