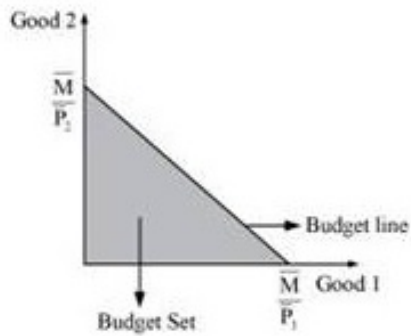




Q1. What do you mean by the budget set of a consumer?

Ans: It refers to the set of consumption bundles that are available to or affordable by the consumer; while being aware of his/her income level and the existing market prices.



Q2. What is budget line?

Ans: A budget line represents the different combinations of two goods that are affordable and are available to a consumer; while being aware of his/her income level and market prices of both the goods.

Let x_1 be the amount of good 1.

x_2 be the amount of good 2.

p_1 be the price of good 1.

p_2 be the price of good 2.

p_1x_1 = Total money spent on good 1.

p_2x_2 = Total money spent on good 2.

Then, the budget line will be:

$$p_1x_1 + p_2x_2 = M$$

All the consumption bundles on the budget line cost the consumer exactly the equivalent of his/her income.

***** END *****