Microeconomics

Chapter 2

Consumer Behaviour

Budget line

Define:

A budget line shows all the combination of Two good like x and y which a consumer can buy at given prices of good, using up all income he wants to spend.

Explanation:

To draw a budget, we need Two kind of information.

1 **Income**

To be spent on x and y goods.

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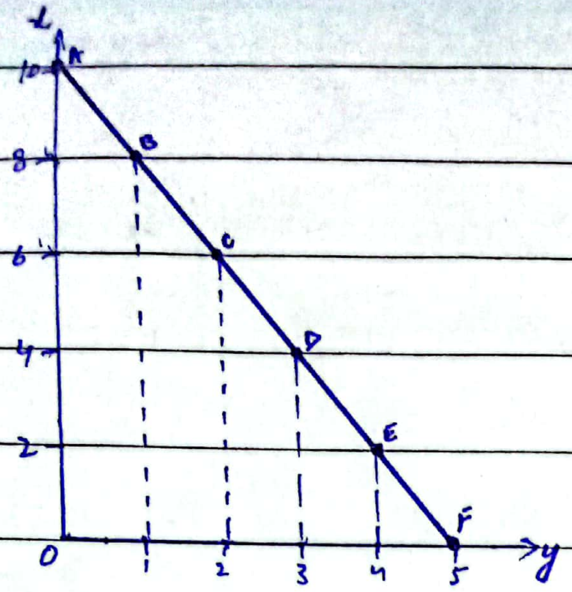
2 **Price**

Price of x and price of y.
The position of budget line depend on income and price. If there is any increase or decrease in either income or price, budget line with change.

Example:

Suppose a consumer has a budget of Rs. 100.
Price of x is 20Rs.
while price of y is Rs. 10.
Consumer can buy according to the following different combination.

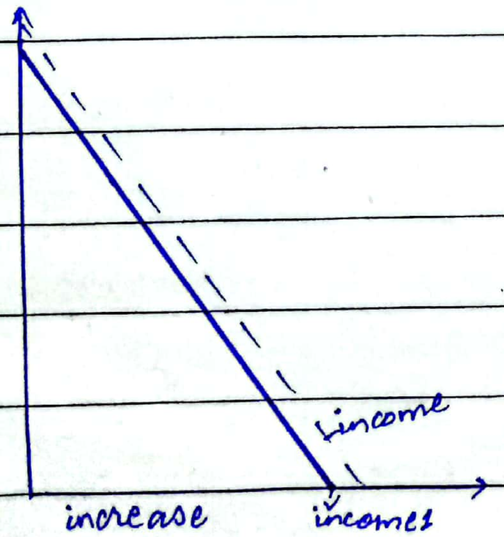
x	y	amount
0	10	100
1	8	100
2	6	100
3	4	100
4	2	100
5	0	100

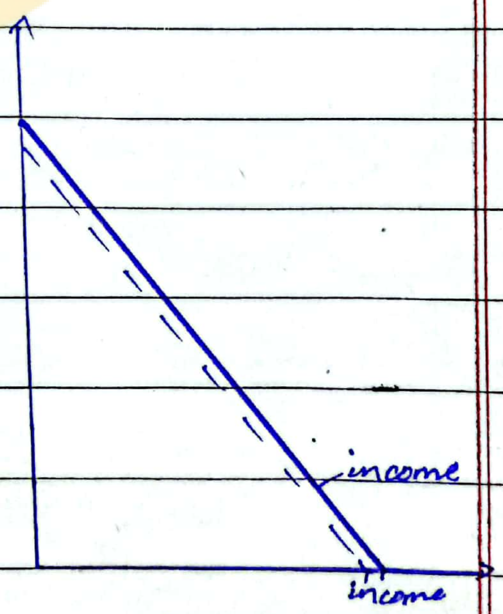


The consumer can afford anyone from the above combination a, b, c, d and e. However he will choose that are which gives highest satisfaction.

Effect of change of income.

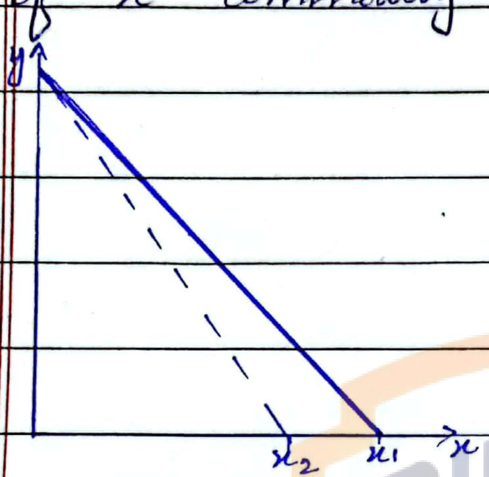
when income is increased, consumer can afford most of two commodities. when income decreases, budget line will shifted leftword.

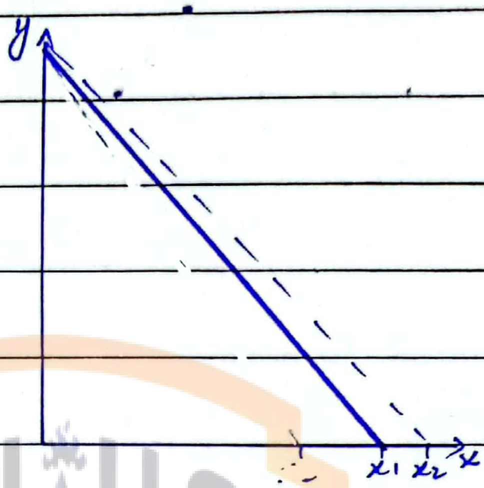




Effect of change of Prices

when px increase, the consumer connect buy more of x. when price of x decrease, consumer will buy more of x commodity.

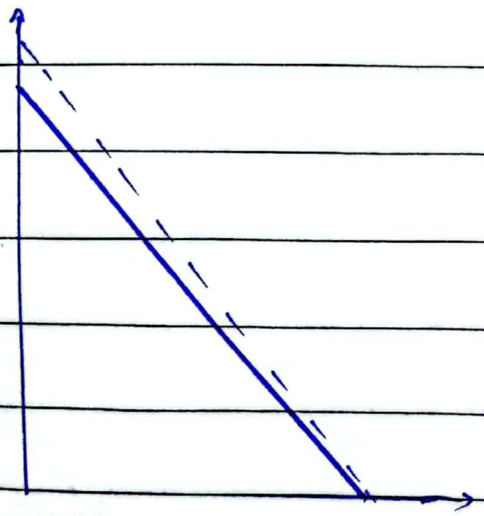


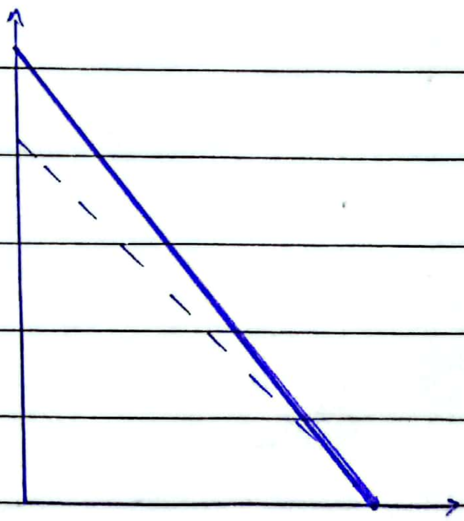


- Price increase
- x decrease

- Price decrease
- x increase

If py increase, then capacity to buy 'y' decrease. If Py decrease the consumer can buy more commodities.





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Equilibrium of consumer means that by spending all amounts, the consumer gets maximum possible satisfaction.