MBA- I semester, paper- Managerial Economics, MB 102, TOPIC- BUDGET LINE

BUDGET LINE

The concept of budget line is required for attempting a consumer's equilibrium that maximizes his satisfaction. It deals with the various buying options available to a consumer from the given money income at his disposal and at the given prices of the two products. A budget function, in case of two products, can be written as,

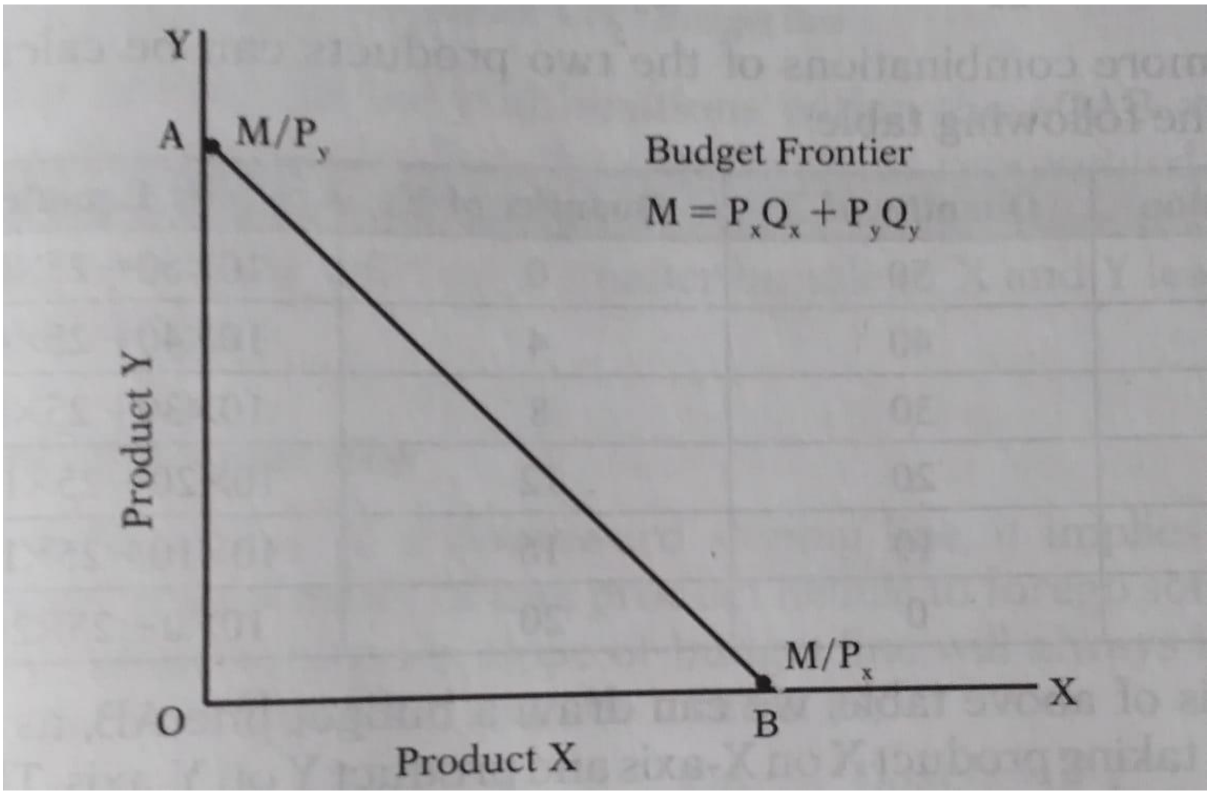
$$M \geq PQ+PQ$$

Where M is money income of the consumer, P_X and P_Y are the prices of the products X and Y and, Q_X and Q_Y are the quantities of the same two products, respectively. In this relationship, Q, and Q, are variable while M and P, are constant and given.

When the consumer consumes his entire money income, the budget function becomes,

$$M=P_X\, Q_X + P_Y\, Q_Y$$

Based on the budget function, a budget line can be constructed which will show the different combinations of the two products that a consumer can purchase from his given money income and at the given prices of the products. The consumer can opt for any point on or under the line. A budget line can, thus, be defined as a line indicating all the combinations of the two products which a consumer can purchase by spending his entire money income at the given market prices. It is also called as price income line or consumption possibility line. A general form of such a budget line (AB) is presented in Figure.



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