



CONSUMER BEHAVIOR: BUDGET CONSTRAINT



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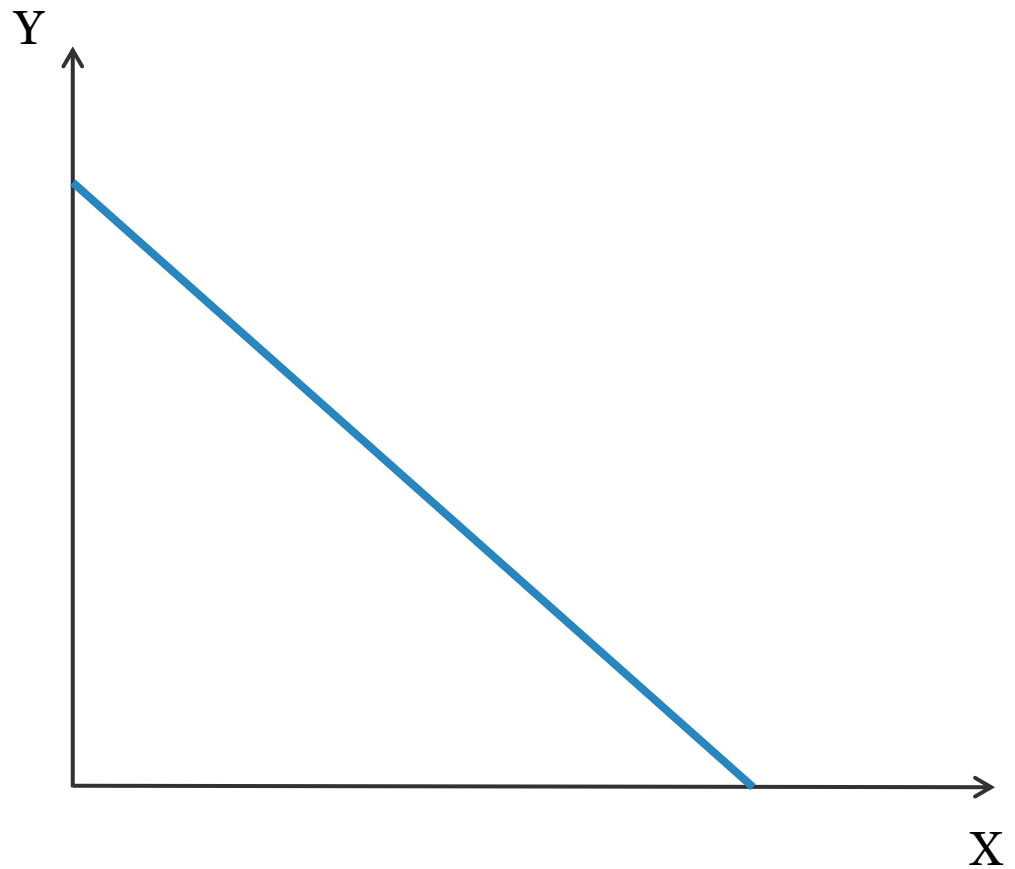
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BUDGET CONSTRAINT



- Budget constraint refers to our affordability.
- $I = P_x \times x + P_y \times y$

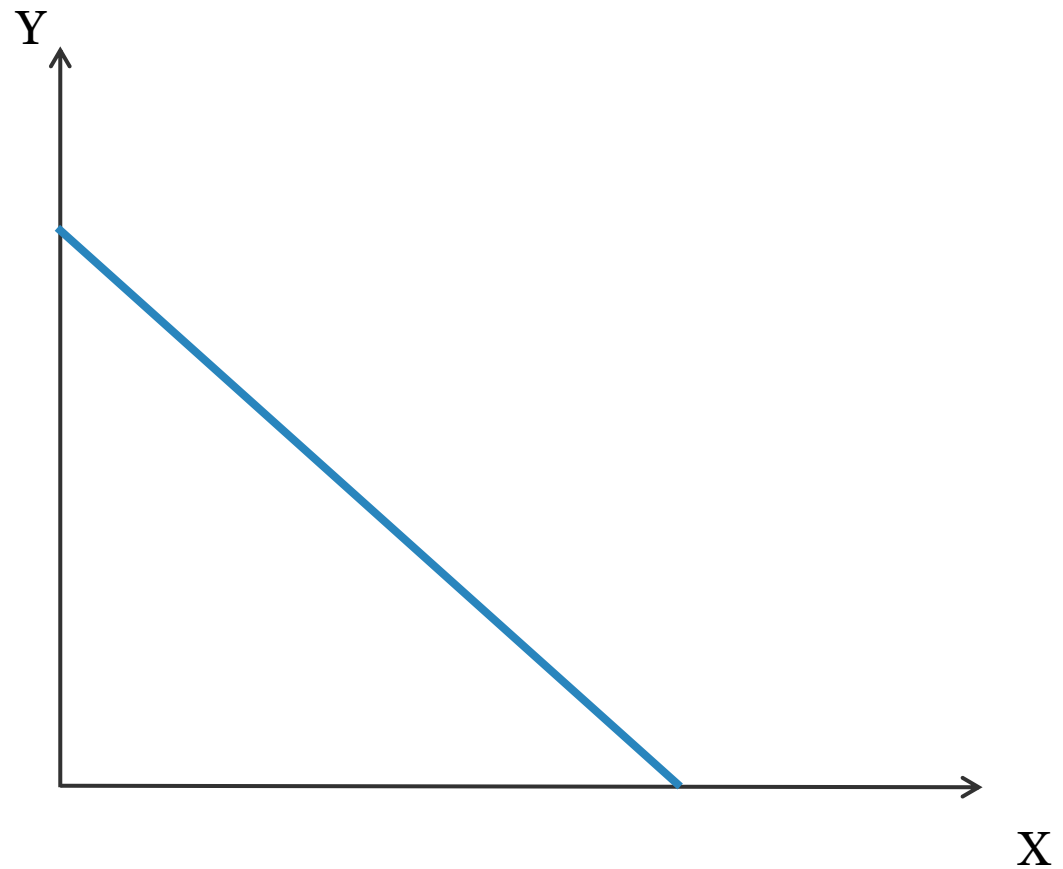




CHANGE IN INCOME



- A parallel shift if the budget constraint
- Slope does not change because prices of x and y don't change

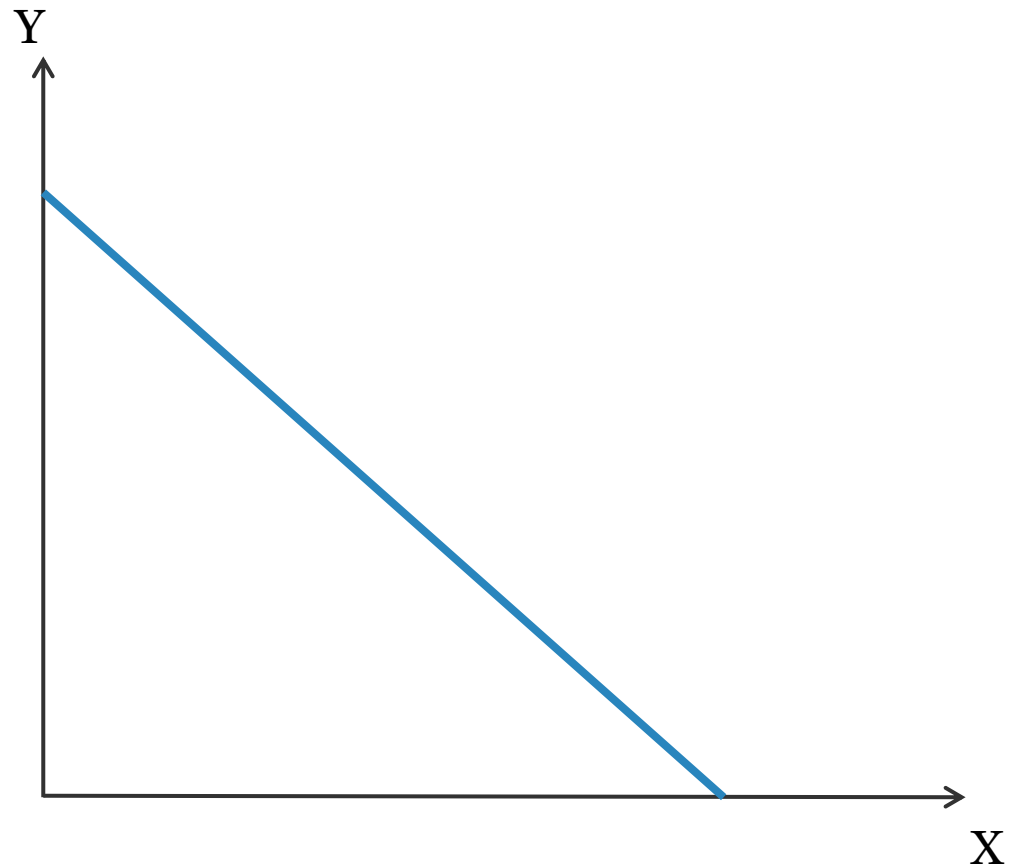




CHANGE IN P_X



- Budget line pivots around the y-intercept
- Slope changes

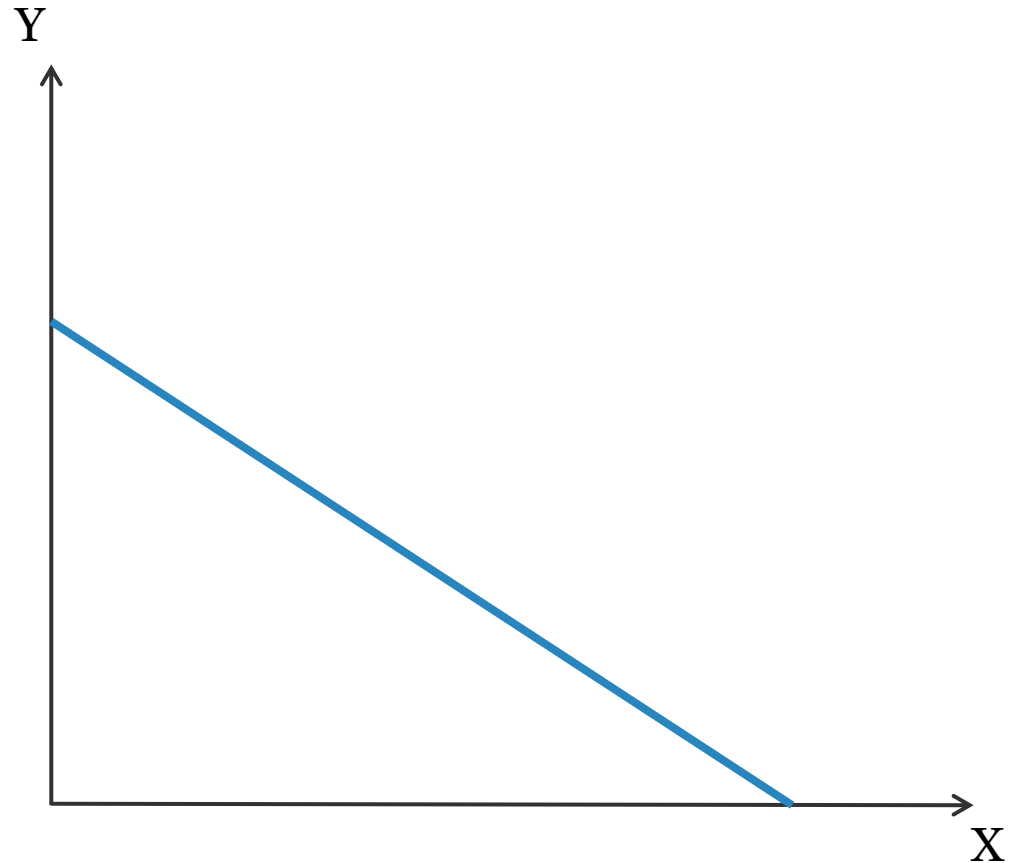




CHANGE IN P_Y



- Budget line pivots around the x-intercept
- Slope changes

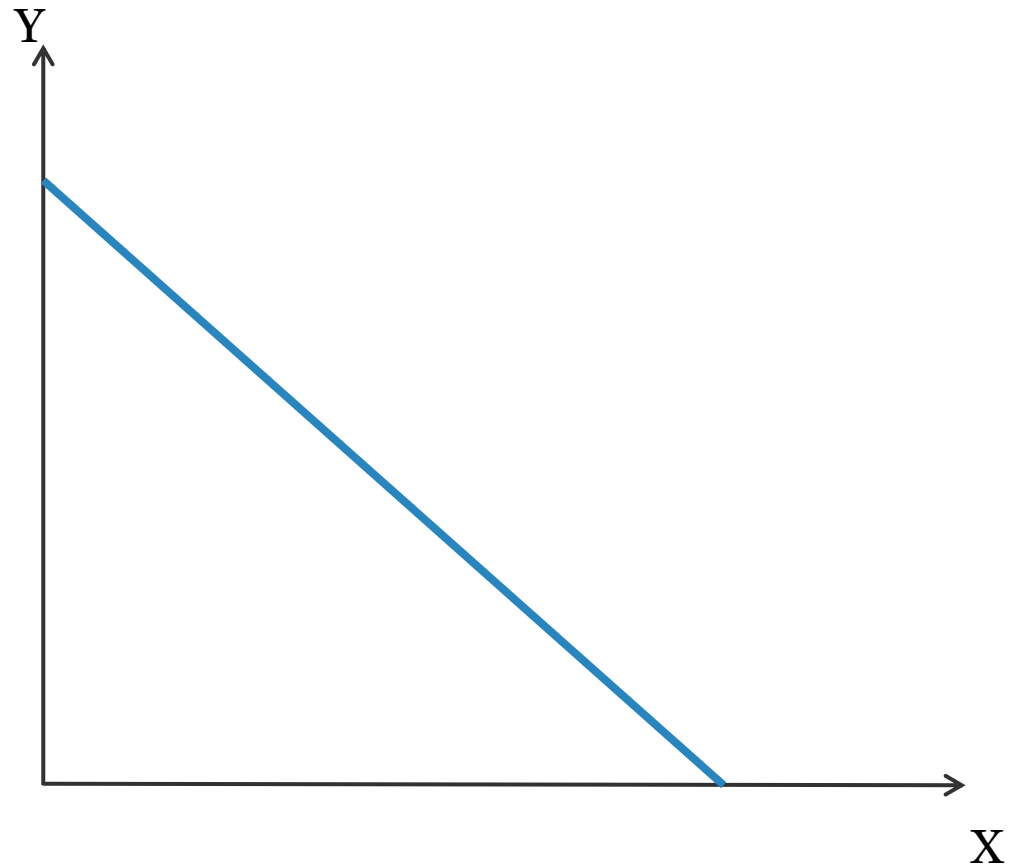




EXAMPLE



- Suppose $I = \$100$
- $P_x = \$1$ and $P_y = \$2$

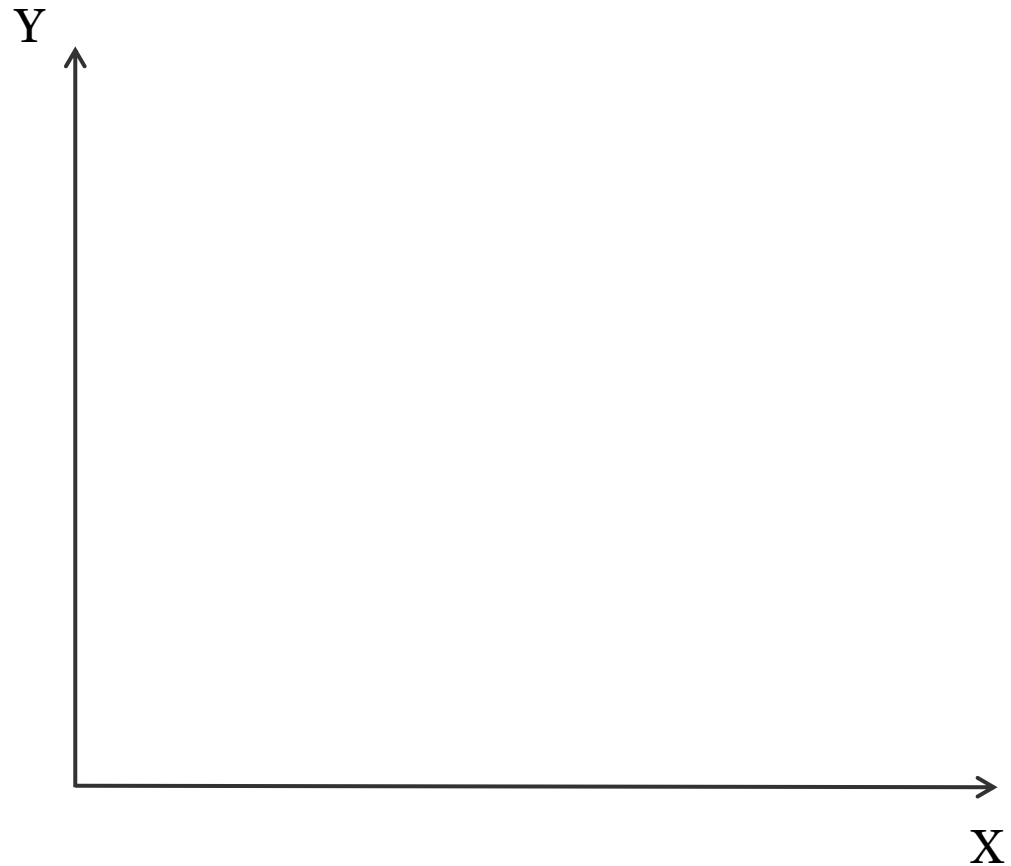




KINKED BUDGET CONSTRAINT



- Suppose we have two goods, food and face masks.
- $I = \$10$, price of food = $\$2$
- Price of face masks is $\$1$ if you buy two masks for less, and $\$2$ otherwise.





THANK YOU!



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