

Price Line or Budget Line

- A consumer is governed by the factors —
 - (i) Income level
 - (ii) Prices of Consumed goods.

It has been already explained that a higher indifference curve shows a higher level of satisfaction than a lower one. A rational consumer will, therefore, try to reach the highest possible indifference curve in order to obtain the highest possible satisfaction. In this pursuit, consumer will be governed by the amount of money or income, he has to spend on goods and the prices of goods in the market. The line drawn from the limit consumer's income and prices of related goods is known as price line or budget line.

According to Fergusson, "The price line shows the combination of goods that can be purchased if the entire money income is spent".

- slope of Price line :-

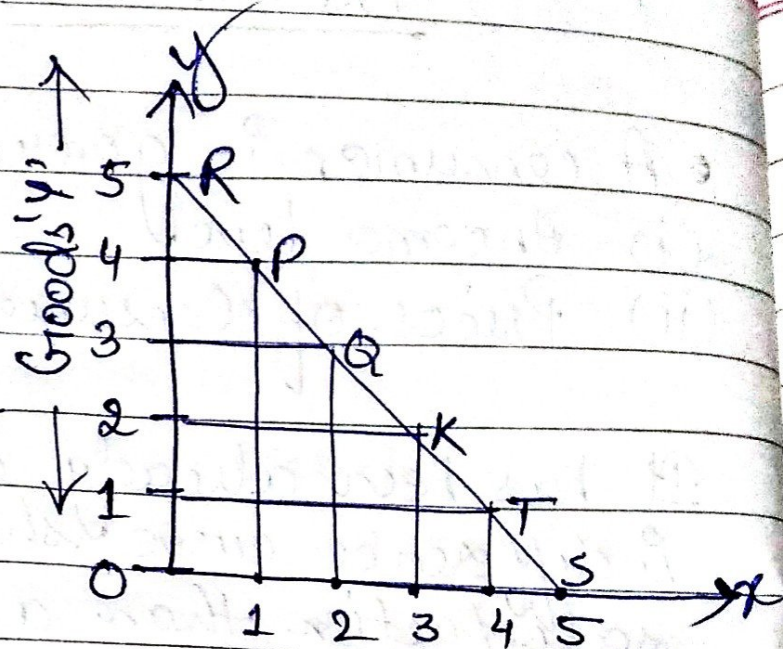
The slope of the price line can be described mathematically also.

$$\begin{aligned}\text{Slope of Price line } \bar{Z} &= \tan \text{ of } \angle RSX \\ &= \tan \text{ of } \angle (180^\circ - RSO) \\ &= -\tan \text{ of } \angle RSO\end{aligned}$$

$$= \frac{OR}{OS}$$

because $\tan \theta = \frac{\text{length}}{\text{base}}$

$$= \frac{\text{Income} / P_y}{\text{Income} / P_x}$$



In Fig. 15

$$OR = 5 = \frac{\text{Income}}{P_y} = \frac{50}{10} \leftarrow \text{Goods 'y'}$$

$$OS = 10 = \frac{\text{Income}}{P_x} = \frac{50}{5}$$

Thus,

$$\text{slope of the Price line} = \frac{P_x}{P_y}$$