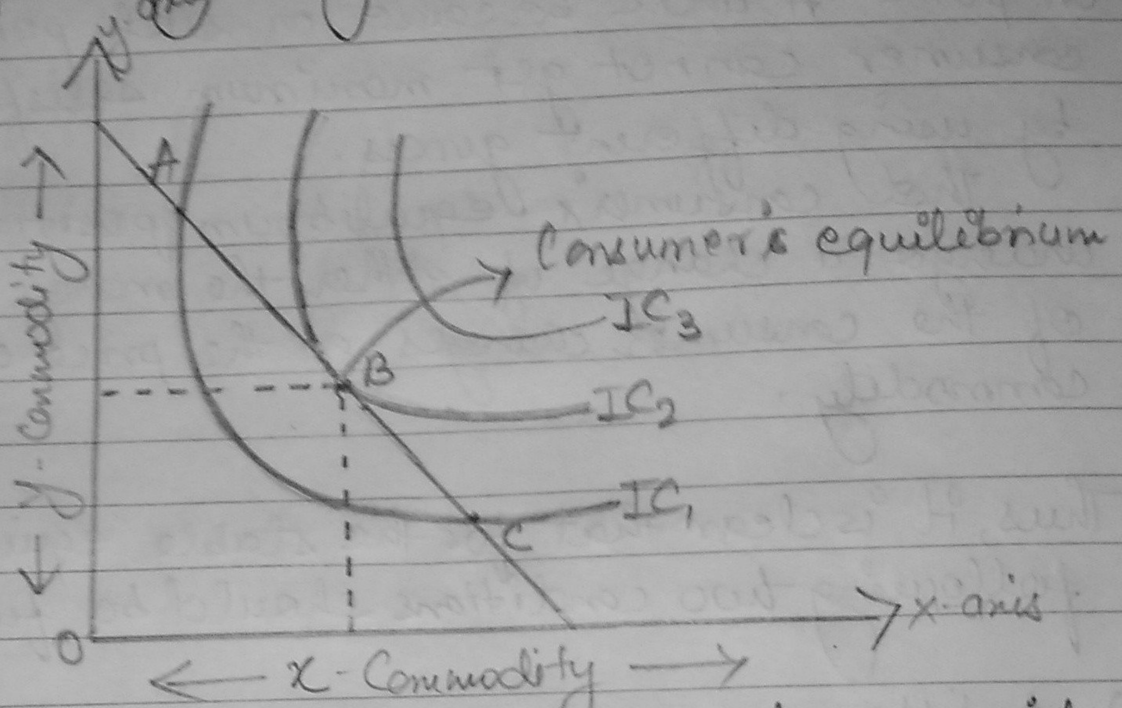
Consumer's Equilibrium
(Indifference Curve approach)

The consumer will be in equilibrium at the point where indifference curve will equal (touch) the budget line. It can be show from the following diagram.



The slope of indifference curve at any point shows the marginal rate of substitution. MRS refers to the sacrifice of one commodity for the other. On the other hand the slope of the price line shows the ratio of two different commodity. Thus, the point of equilibrium is there were

$$MRS_{XY} = \frac{MU_X}{MU_Y} = \frac{P_X}{P_Y}$$

In the above diagram the consumer's reaches the points of equilibrium when he buys the

combination of commodity X & Y with his given income that gives him maximum satisfaction this is the point where the budget line tangent to an indifference curve. We can not go beyond for this equilibrium.

This equilibrium will not be maintained on point A and C because on such point consumer cannot get maximum satisfaction by using different goods.

The consumer's equilibrium position goods undergo a change if either the money income of the consumer changes on the price of the commodity.

Thus, it is clear that for the stable equilibrium following two conditions should be fulfilled :-

(I) Indifference curve should be tangent to the price line and

(II) Indifference curve should be convex to the origin of axis at the point of equilibrium.