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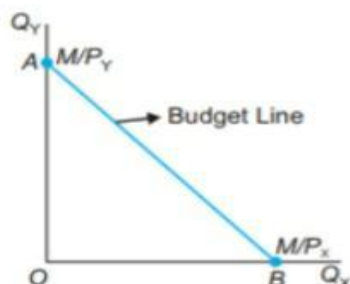
Elasticity of Demand(H.W)

NCERT Textual Questions with Answers

Unit 2: Consumer's Equilibrium and Demand

Q1. What do you mean by the budget set of a consumer?

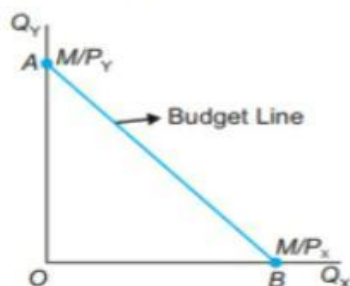
Ans. Budget set of a consumer consists of all bundles in the positive quadrant which are on or below the budget line.



ΔAOB formed by the budget line with the axis is called the budget set.

Q2. What is budget line?

Ans. Budget line shows all possible combinations of the two goods that a consumer can buy, given income and prices of commodities. It is also called consumption possibility line.



Q3. Explain why the budget line is downward sloping.

Ans. Budget line is downward sloping because if a consumer wants to buy more of one good, he has to buy less of the other good, given money income.

Q4. A consumer wants to consume two goods. The prices of the two goods are ₹ 4 and ₹ 5 respectively. The consumer's income is ₹ 20.

(i) Write down the equation of the budget line.

(ii) How much of good 1 can the consumer consume if she spends her entire income on that good?

(iii) How much of good 2 can she consume if she spends her entire income on that good?

(iv) What is the slope of the budget line?

Ans. (i) Let the two goods be X and Y . We are given $P_X = ₹ 4$, $P_Y = ₹ 5$, Consumer's income (M) = ₹ 20.

Budget line equation is: $P_X \cdot X + P_Y \cdot Y = M$

or $\Rightarrow 4X + 5Y = 20$

(ii) If quantity consumed of good $Y = 0$,

Budget equation becomes:

$$P_X \cdot X + \text{zero} = M \Rightarrow 4 \cdot X = 20 \Rightarrow X = \frac{20}{4} = 5 \text{ units}$$

(iii) If quantity consumed of good $X = 0$,

Budget equation becomes: zero + $P_Y \cdot Y = M$

$$\text{or } \Rightarrow 5Y = 20 \Rightarrow Y = \frac{20}{5} = 4 \text{ units}$$

(iv) Slope of budget line = $\frac{P_X}{P_Y} = \frac{4}{5} = 0.8$