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शक्तिउत्थानआश्रमलखीसरायबिहार

Class 11 commerce Sub. ECO/A Date 24.11.2020

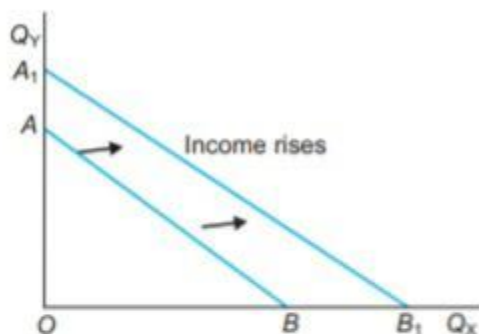
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Elasticity of Demand(H.W)

(Question 5, 6 and 7 are related to question 4)

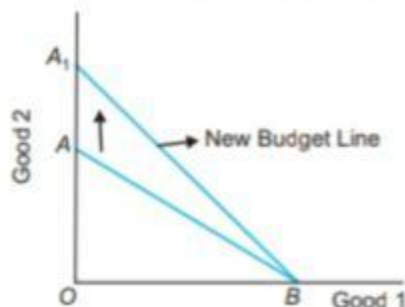
Q5. How does the budget line change if the consumer's income increases to ₹ 40 but the prices remain unchanged?

Ans. If consumer's income increases to ₹ 40, then the consumer can buy more of both goods X and Y . There will be parallel rightward shift in the budget line AB to A_1B_1 .



Q6. How does the budget line change if the price of good 2 decreases by a rupee but the price of good 1 and the consumer's income remain unchanged?

Ans. If price of good 2 (shown on y -axis) decreases consumer can buy more of good 2. The budget line AB will pivot at B and rotate upwards to A_1B .



Q7. What happens to the budget set if both the prices as well as the income doubles?

Ans. There will be no change in the budget line.

Q8. Suppose a consumer can afford to buy 6 units of good 1 and 8 units of good 2 if she spends her entire income. The prices of the two goods are ₹ 6 and ₹ 8 respectively. How much is the consumer's income?

Ans. Budget equation is given as:

$$P_X \cdot X + P_Y \cdot Y = M$$

Let good 1 be X

and good 2 be Y

Putting the values, we get:

$$(6) \cdot (6) + (8) \cdot (8) = 36 + 64 = ₹ 100$$