

Budget Line

The budget line is a straight line with a downward slope indicating the different combination of two commodities. These two commodities are purchased by a consumer by the given market price with income allocation. It is also termed as a budget constraint. Income acts as a major constraint because there is only a particular height which may be reached in the indifference curve, given the income. It is this budgetary constraint that is exhibited in the budget line equation below.

$$P_X \times Q_X + P_Y \times Q_Y = S$$

Here,

P_X = Price of commodity X

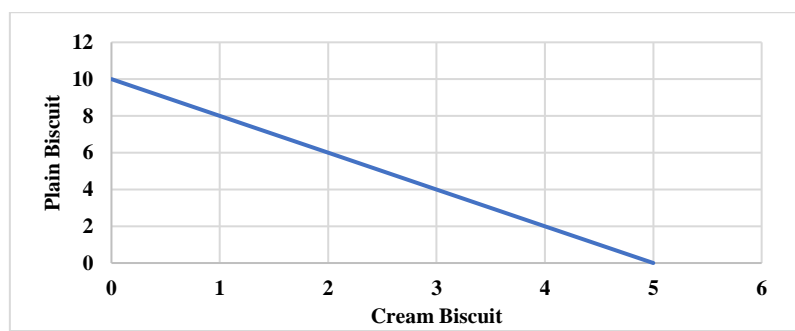
P_Y = Price of commodity Y

Q_X = Quantity of commodity X

Q_Y = Quantity of commodity Y

S = Consumer income

Combination	Budget schedule		Budget allocation (Rs. 50)
	Cream biscuit (@ ₹10 per packet)	Plain biscuit (@ ₹5 per packet)	
A	0	10	$10 \times 0 + 5 \times 10 = 50$
B	1	8	$10 \times 1 + 5 \times 8 = 50$
C	2	6	$10 \times 2 + 5 \times 6 = 50$
D	3	4	$10 \times 3 + 5 \times 4 = 50$
E	4	2	$10 \times 4 + 5 \times 2 = 50$
F	5	0	$10 \times 5 + 5 \times 0 = 50$



References:

Dwivedi D N, Managerial Economics, Vikas Publishing House Pvt. Ltd, 2006

Samuelson, Paul A; Nordhaus, William D.(2014).Economics. Boston, Mass: Irwin McGraw-Hill.