Review Notes – Consumer Budget Constraints

- What does a consumer know?
  - Observes a large number (N) of goods that he could buy.
  - Each good has a price.
  - The consumer has a limited income.
  - He chooses an allocation of goods for each of the N goods.

- The simple two good model

- Budget constraint
  - \( p_1X_1 + p_2X_2 \leq M \)
  - meaning? graphically?

- Budget Line
  - \( p_1X_1 + p_2X_2 = M \)
  - meaning? graphically?
  - intercepts of the BL?
  - opportunity cost of the two goods?

- Slope of the budget line
  - How do we know what the slope equals?
    - The budget line in slope intercept form
    - Algebraically

- Shifts in the budget line
  - Changes in prices
  - Changes in income

- What does the budget line look like with:
  - Taxes
  - Subsidies
  - Rationing
  - A black market