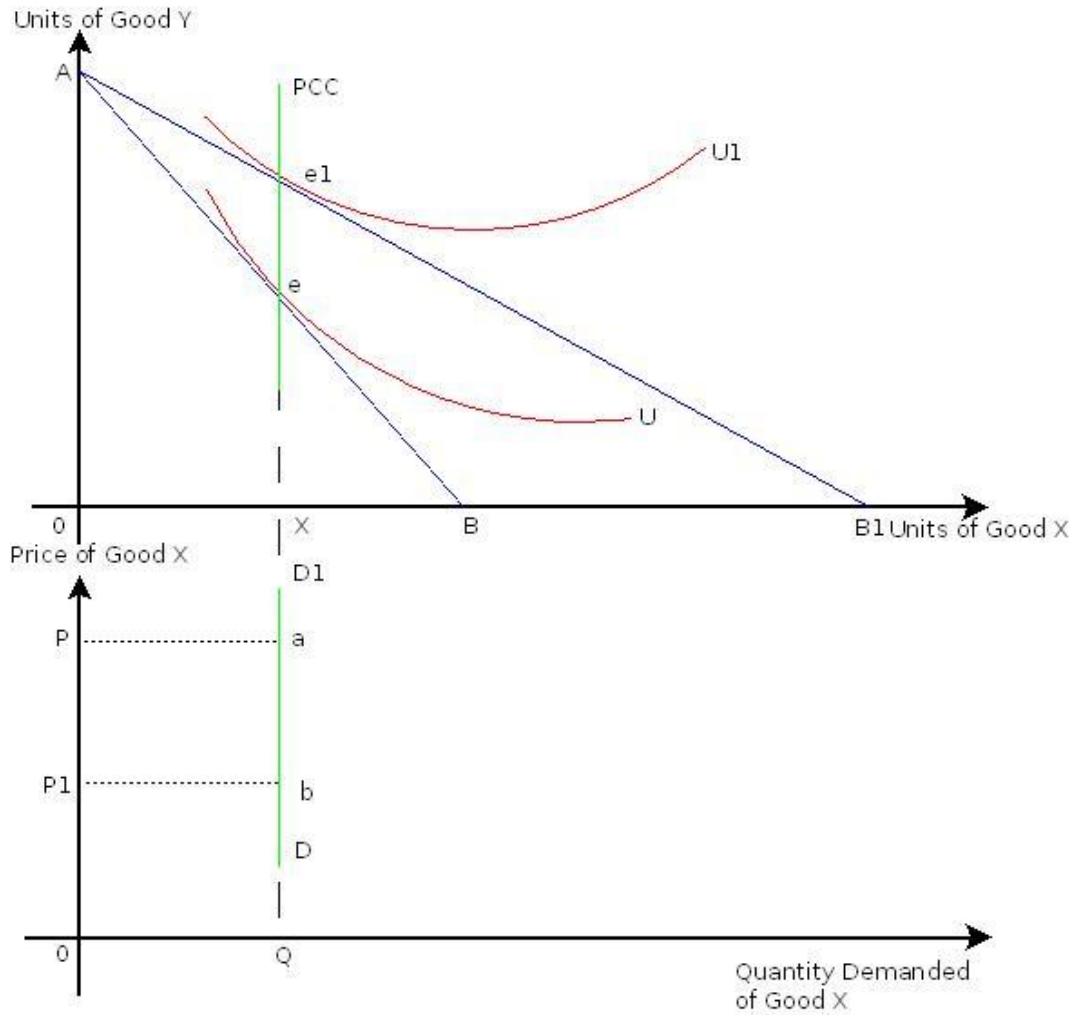


Derivation of the Consumer's Demand Curve: Neutral Goods

Question #28498 Economics, Microeconomics

Question: How does the indifference curve and budget line for a neutral good look like?

Answer: The figure shows derivation of the consumer's demand curve from the price consumption curve where good X is a neutral good.



The upper panel of this figure shows price effect where good X is a neutral good. AB is the initial price line. Suppose the initial price of good X (P_x) is OP. e is the initial optimal consumption combination on indifference curve U. The consumer buys OX units of good X. When price of X (P_x) falls, to say OP_1 , the budget constraint shift to AB_1 . The optimal consumption combination is e_1 on indifference curve U_1 at which the consumer buys same OX units of good X as it is a neutral good.