

Answer on Question #67232 – Economics - Microeconomics

Question

Do two budget lines intersect?

Answer

Two budget lines can intersect if relative price of two good changes. Suppose P_a – price for good A, P_b – price for good B. Budget constraints 1 and 2 are parallel because P_a/P_b (slope of the line) is the same for both. However, if P_a rises and P_b falls, the slope of budget constrain changes and line 3 intersects line 1.

