Consumer behaviour theory(Hicks)

The problem of the consumer is to choose the best commodity bundle he can afford.
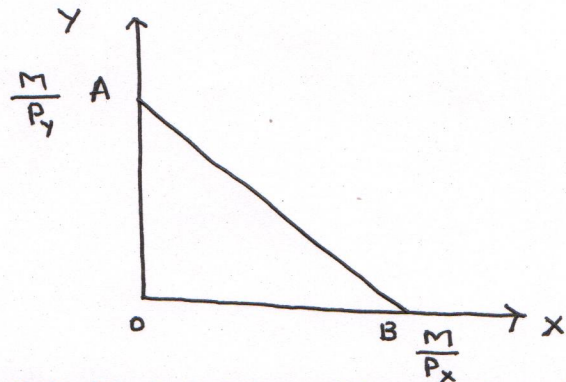
Budget constraint,

M= P_xX+P_yY.....Budget line.
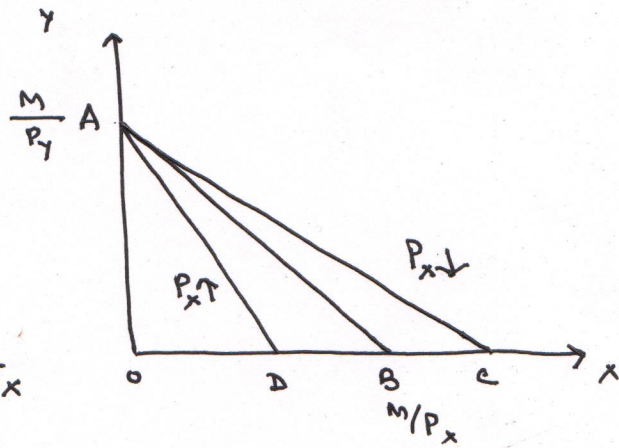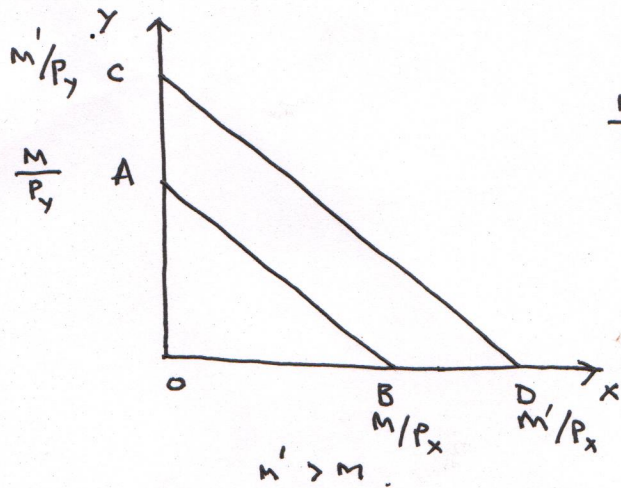
$$P_y Y = M - P_x \cdot X$$
$$Y = \frac{M}{P_y} - \frac{P_x}{P_y} \cdot X$$

Slope = - $\dfrac{P_x}{P_y}$.

Shift of the budget line and change in slope of the budget line

$M' > M$.

Effect of Tax and subsidy on the budet line

Unit tax

Ad - valorem tax