Sample Paper
Class 11
Economics
Set 1

Time Allowed : 3 hours   **Maximum Marks : 80**

General Instructions:

All questions are compulsory.

Marks for questions are indicated against each question.

Q. No. 1 to 10 and 18 to 27 are Objective Type Questions / Multiple Choice Questions carrying 1 mark each.

Q. No. 11 to 12 and 28 to 29 are Short Answer Type Questions I carrying 3 marks each.

Q. No. 13 to 15 and 30 to 32 are Short Answer Type Questions II carrying 4 marks each.

Q. No. 16 to 17 and 33 to 34 are Long Answer Type Questions carrying 6 marks each.

Section – A

Question 1.

Which of the following facts is statistics? [1]

(A) Ram secured 66% marks in English.

(B) Ram secured 80% marks in Mathematics.

(C) Ram secured 90% marks in Economics.

(D) Ram secured 90% marks in Economics, this year, whereas he secured 80% marks in Economics previous year.

Answer:

Option (D) is correct

Explanation:

A fact to be called a statistics needs to be comparable.

Question 2.

An investigator has collected required information by personal interview with the informants. What type of data it is? [1]

(A) Primary

(B) Secondary

(C) Tertiary

(D) None of these

Answer:

Option (A) is correct

Explanation:

As the investigator has used personal interview to collect the data, it is a type of primary – data.

Question 3.

Statistics word is used in: [1]

(A) Singular sense

(B) Plural sense

(C) Both (A) and (B)

(D) Neither (A) nor (B)

Answer:

Option (C) is correct

Explanation:

In the plural sense, statistics refers to quantitative data which are collected systematically. In the singular sense, statistics means science of statistics or statistical methods. It refers to techniques or methods relating to collection, classification, presentation, analysis and with interpretation of quantitative data.

Question 4.
A graph showing a time series is called: [1]
(A) Pie chart
(B) Histogram
(C) Ogive
(D) All of the above
Answer:
Option (B) is correct

Explanation:
Pie chart shows the breakage of a certain whole sample space. Ogive shows the cumulative frequencies; histogram shows the value of a continuous data; time series.

Question 5.
Read the following Assertion (A) and Reason (R) and choose the correct alternative: [1]
Assertion (A): The Class Interval needs to be continuous while drawing a Histogram.
Reason (R): Histogram is a rectangular diagram using frequency distribution which are joined to one another.
Alternative:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Answer:
Option (B) is correct

Explanation:
To prepare a Histogram the series needs to be continuous.

Question 6.
An index number, which accounts for the relative importance of the item is known as: [1]
(A) Simple Index Number
(B) Weighted Index Number
(C) Aggregate Index Number
(D) Average Index Number
Answer:
Option (B) is correct
OR
Option (B) is correct

Read the following passage and answer questions 7 to 10 that follows:
Happiness is considered as a kind of positive emotion which has a significant impact on the physical, cognitive and psychological mechanisms and improves human performance in different fields. This research aims to study the correlation between happiness and death anxiety in health personnel of Zareh hospital of city of Sari. The current research is a descriptive cross-sectional and correlative study. The population includes all of the health personnel of Zareh hospital located in the city of Sari and they are 226 individuals. Two questionnaires of Oxford Happiness Questionnaire and Templer's Death Anxiety Questionnaire were completed and surveyed by 144 individuals (97 females and 47 males) of health personnel chosen by simple random sampling. In order to analyze data, the inferential and descriptive statistics including simultaneous equation regression model, Pearson's correlation coefficient, cut-point, and t-test were used for two independent groups. Research results showed that for each one unit of

increase in the variable of happiness 0.27 is decreased from the personnel's' death anxiety. Thus, there is a significant and inverse correlation between two variables of personnel's happiness and death anxiety. Also another part of the result showed that the difference between females' happiness and males' happiness was not significant.

Question 7.
(Correlation/Regression/Index number) between happiness and death anxiety is being studied. [1]
Answer:
Correlation

Question 8.
(Questionnaire/Interview/Survey) was completed by surveying 144 individuals. [1]
Answer:
Questionnaire

Question 9.
What type of correlation is present between happiness and death anxiety? [1]
(A) Positive
(B) Negative
(C) Neutral
(D) Cannot be determined
Answer:
Option (B) is correct

Explanation:
A person cannot be happy during death anxiety.

Question 10.
Read the following statements -Assertion (A) and Reason (R).
Assertion (A): There is a significant and inverse correlation between two variables of personnel's happiness and death anxiety.
Reason (R): Happiness is considered as a kind of positive emotion which has a significant impact on the physical, cognitive and psychological mechanisms and improves human performance in different fields.
Select the correct alternative from the following: [1]
(A) Both Assertion (A) and Reason (R) are true.
(B) Both Assertion (A) and Reason (R) are false.
(C) Only Assertion (A) is true.
(D) Only Reason (R) is true.
Answer:
Option (A) is correct

Question 11.
In how many groups, different commodities have been divided while constructing Wholesale Price Index in India? [3]
Answer:
In India for the construction of Wholesale Price Index, goods are mainly classified into the following three groups:
(i) Primary Articles
(ii) Energy Articles
(iii) Manufacturing

Question 12.
Calculate mean from the following series: [3]

Class-Interval	Frequency
0 – 2	2
2 – 4	4
4 – 6	6
6 – 8	4
8 – 10	2
10 – 12	6

OR

An inquiry into the budget of the middle class families in a certain city gave the following information:

Expenses on Items	Food 35%	Fuel 10%	Clothing 20%	Rent 15%	Miscellaneous 20%
Price(in ₹) in 2004	1,500	250	750	300	400
Price(in ₹) in 1995	1,400	200	500	200	250

What is the cost of living index of 2004 as compared with 1995?

Answer:

Size	M.V. (x)	(f)	$d = x - A$	fd
0 – 2	1	2	– 6	– 12
2 – 4	3	4	– 4	– 16
4 – 6	5	6	– 2	– 12
6 – 8	7	4	0	0
8 – 10	9	2	+ 2	+ 4
10 – 12	11	6	+ 4	+ 24
		$\Sigma f = 24$		$\Sigma fd = -12$

Let A = 7

Mean = $A + \frac{\Sigma fd}{\Sigma f}$

= $7 + (\frac{-12}{24})$

= 7 – 0.5

= 6.5

OR

Items	Expenses in Percentage (W)	Price (in ₹) in 1995 (P_0)	Price (in ₹) in 2004 (P_1)	$R = \frac{P_1}{P_0} \times 100$	WR
Food	35	1,400	1,500	107.14	3,750
Fuel	10	200	250	125.00	1,250
Clothing	20	500	750	150.00	3,000
Rent	15	200	300	150.00	2,250
Miscellaneous	20	250	400	160.00	3,200
	Σ 100				$\Sigma WR = 13,450$

Cost of living Index = $\frac{\Sigma WR}{\Sigma W} = \frac{13450}{100}$

= 134.50

Question 13.
Construct a pie-diagram to represent the cost of construction of a house in Delhi:

| Items	Expenditure %
Labour	25
Bricks	15
Cement	20
Steel	15
Timber	10
Supervision	15

OR
The following table gives absolute values (in lakh of tonne) of food grains production in India:

Year	Food Grains production (in lakhs of tonnes)
2002 – 03	1994
2003 – 04	1923
2004-05	2030
2005 – 06	1091

Represent the data by an appropriate bar diagram.
Answer:

Items	Percent %	Degrees
Labour	25	90°
Bricks	15	54°
Cement	20	72°
Steel	15	54°
Timber	10	36°
Supervision	15	54°
	100	360°
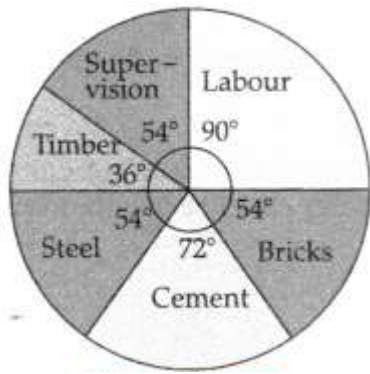
OR

The bar diagram of given data is shown below:
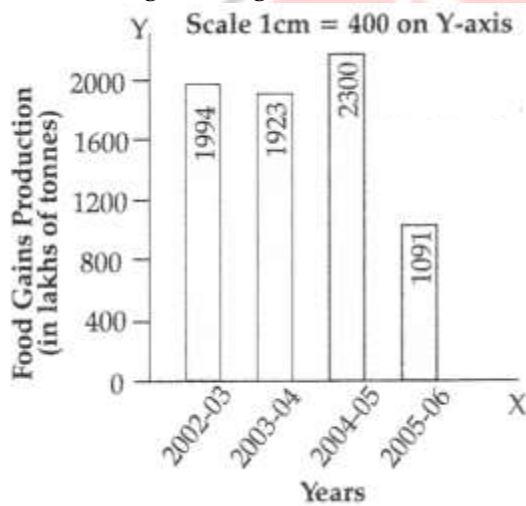
Question 14.
Find out Median value of the following distribution:

Wages	No. of Workers
0-10	22
10-20	38
20-30	46
30-40	35
40-50	20

Answer:

Wages	No. of Workers	C.F.
0-10	22	22
10-20	38	60
20-30	46	106
30-40	35	141

40-50	20	161

M = Size of (N2)th item

= Size of (1612)th item

= Size of 80.5 th item

which lies in 20-30 wage group By Interpolation:

M = l1 + l2−l1f(m – c)

⇒ M = 20 + 30−2046 (805 60)

⇒ M = 20 + 1046(20.5)

⇒ M = 20 + 20546

⇒ M = 20+ 4.456

⇒ M = 24.456 or 24.5

Question 15.

Calculate Mode from the following data:

Marks	No. of students
0-10	5
10-20	12
20-30	14
30-40	10
40-50	8
50-60	6

Answer:

Marks	f
0-10	5
10-20	12 – fo
20-30	14 – f1
30-40	10 – f2
40-50	8
50-60	6

Mode lies in 20-30 group

⇒ Z = l1 + f1−f02f1−f0−f2

⇒ Z = 20 + 14−122×14−12−10 × 10
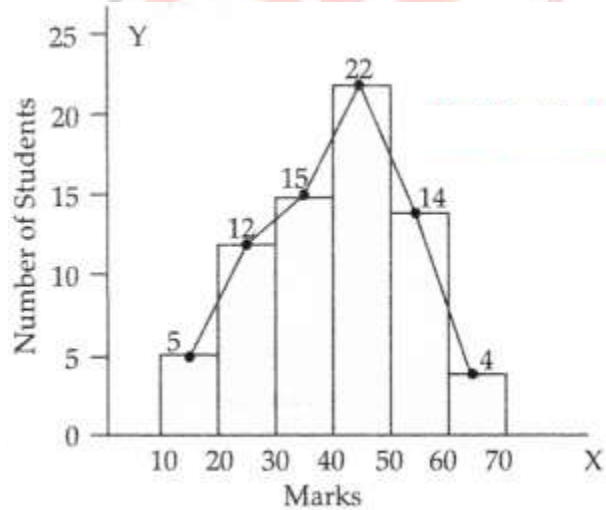
⇒ Z = 20 + 228−22 × 10

⇒ Z = 2 + 206 = 20 + 3.33 = 23.33

∴ Z = 23.3

Question 16.
Draw a frequency polygon of the following distribution of the students obtaining marks in Economics:

Marks	No. of Students
10-20	5
20-30	12
30-40	15
40-50	22
50-60	14
60-70	4

Answer:

Commonly Made Error
Many students get confused between frequency * polygon and ogive.

Answering Tip:
Ogive is a cumulative frequency polygon curve.

Question 17.
Calculate median from the following data:

Size	Frequency
0-10	1
10-20	2
20-30	4
30-40	1
40-50	2

OR
Calculate the coefficient of correlation between the price and quantity demand:

Price	Demand
5	40
10	35
15	30
20	25
25	20

Answer:

X	Frequency (f)	C f
0-10	1	1
10-20	2	3
20-30	4	7
30-40	1	8
40-50	2	10
	N = 10	

Median M = Size of (N2)th item

= Size of (102)th item

= Size of 5th item

Which lies in 20-30 group

By Interpolation

$\Rightarrow$ M = l1 + (102)th (m – c)

$\Rightarrow$ M = 20 + 30−204(5 – 3)

$\Rightarrow$ M = 20 + 104(2)

$\Rightarrow$ M = 20 + 204

$\Rightarrow$ M = 20 + 5

$\Rightarrow$ M = 25

OR

Calculation of Coefficient of Correlation

Price (X)	$(X-\bar{X})$	$(X-\bar{X})^2$	Demand (Y)	$(Y-\bar{Y})$	$(Y-\bar{Y})^2$	$(X-\bar{X})$ $(Y-\bar{Y})$
5	– 10	100	40	+ 10	100	– 100
10	– 5	25	35	+ 5	25	– 25
15	0	0	30	0	0	0
20	+ 5	25	25	– 5	25	– 25
25	+ 10	100	20	– 10	100	– 100
		250			250	–250

$$r = \frac{\left(X-\bar{X}\right)\left(Y-\bar{Y}\right)}{\sqrt{\left(X-\bar{X}\right)^2\left(Y-\bar{Y}\right)^2}} = \frac{-250}{\sqrt{250}\sqrt{250}} = \frac{-250}{250} = -1$$

Section – B

Question 18.
Identify the correct pair of items from the following Columns I and II:

Column I	Column II
A. Utility	1. Bread and butter
B. Normal Goods	2. Rise in price
C. Contraction in demand	3. Capacity of a commodity to satisfy human wants
D. Complementary goods	4. Positively related

Alternatives:
(A) A –
(B) B – 2
(C) C – 3
(D) D – 4
OR
Read the following Assertion (A) and Reason (R) and choose the correct alternative: [1]
Assertion (A): If due to fall in the price of good X, demand for good Y rises, the two goods are complementary.
Reason (R): There is an inverse relationship between the demand for the good and the price of its complements.
Alternative:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Answer:
Option (D) is correct
OR
Option (D) is correct

Explanation:
If due to the fall in the price of good X, demand for good Y rises, the two goods are called complementary.

Question 19.
Total utility is _____ at the point of satiety. [1]
(A) Minimum
(B) Maximum
(C) Zero
(D) None of these
Answer:
Option (B) is correct

Explanation:
At the point of satiety, the total utility is maximum beyond which it starts decreasing.

Question 20.
Which of the following has elastic demand? [1]
(A) Matchbox
(B) Water
(C) Medicine
(D) Air conditioners
Answer:
Option (D) is correct

Explanation:
Air conditioner are luxury goods, so the demand is elastic.

Question 21.
Law of demand states the relationship between price and quantity demanded. [1]
(A) Direct
(B) Inverse
(C) Proportional
(D) None of the above
Answer:
Option (B) is correct

Explanation:
The law of demand states that when the price of a commodity increases the quantity demanded decreases and vice versa. Thus, it shows the inverse relationship between price and quantity demanded.

Question 22.
Read the following Assertion (A) and Reason (R) and choose the correct alternative: [1]
Assertion (A): Demand for salt is inelastic.
Reason (R): In case of elastic demand, percentage change in price of a commodity causes relatively less than percentage change in quantity demanded.
Alternative:
(A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is true, but Reason (R) is false.
(D) Assertion (A) is false, but Reason (R) is true.
Answer:
Option (C) is correct

Explanation:
In case of elastic demand the percentage change in the price of a commodity causes the quantity demanded to increase many folds as the elasticity of demand in such case is more than 1.

Question 23.
Identify the correct pair of items from the following Columns I and II: [1]

Column I	Column II
A. Unitary elastic supply curve	1. U shaped Supply Curve
B. Relatively elastic supply curve	2. Vertical line parallel to Y-Axis
C. Perfectly elastic supply curve	3. Horizontal line parallel to X-axis
D. Perfectly inelastic supply curve	4. Downward sloping supply curve

Alternatives:
(A) A – 1
(B) B – 2
(C) C – 3
(D) D – 4
Answer:
Option (C) is correct.

Read the extract given below and answer questions 24 to 27 that follows: [1]
Agricultural Development Bank of Pakistan uses the production function approach for measuring bank outputs and costs. A trans log cost function is estimated to provide an assessment of the bank's scale and scope efficiency, and to quantify the extent to which its production costs are sensitive to size and output mix. Results shows that the bank enjoys both overall and product-specific economies of scale and, therefore, there exists scope for the bank to expand its operations at declining average cost. Even though bank branches in all size categories enjoy economies of scale, the extent of such economies is larger for branches operating at a smaller scale of production. This implies that as the bank branches grow larger in size in terms of both loan and deposit accounts, they move closer to attaining increasing returns to a factor. It is also shown that the marginal costs of servicing both loan and deposit accounts decline as bank branches grow larger in size in terms of either the number of loans or the number of deposits. This confirms that branches operating at a larger scale of production have attained greater cost efficiency in terms of servicing the loan and deposit accounts.

Question 24.
Agricultural Development Bank of Pakistan uses the _____ (production/cost/utility) function approach. [1]
Answer:
production

Question 25.
Economies of scale is larger for which type of bank? [1]
(A) Larger branches
(B) Smaller branches
(C) Medium Branches
(D) None of the above
Answer:
Option (A) is correct.

Question 26.
When the banks grow in size, they move closer in achieving _____ (increasing/decreasing/ constant) returns to scale. [1]
Answer:
increasing

Question 27.
The increasing returns to scale in larger branches is due to [1]
(A) Increase in loans
(B) Increase in deposits
(C) Both (A) and (B)
(D) None of them
Answer:
Option (C) is correct.

Question 28.
Under which market form a firm is called a 'price taker' and why? [3]
OR
Explain the implications of the feature "homogeneous product" in a perfectly competitive market. [3]
Answer:
A firm is said to be a price taker when it has no option but to accept the market determined price. It happens in a perfectly competitive market. The price in the market is determined by the industry and no individual firm has significant share in the market as to influence the price.
OR
A product being perfectly homogeneous implies that all units of a commodity are identical in size, quality, shape, colour, weight, etc. In a state of perfect competition, a perfectly homogeneous product is sold in the market at a uniform price. If ever an individual firm tries to charge higher price, it would lose all its buyers to a large number of other sellers in the market. In a perfectly competitive environment, homogeneous product does not allow a firm any control over its price. Accordingly, firm's demand curve (under perfect competition) becomes a horizontal straight line.

Question 29.
What are the characteristics of a perfectly competitive market? [3]
Answer:
Perfect Competition: This type of market structure refers to the market that consists of a large number of buyers and also a large number of sellers. No individual seller is able to influence the price of an existing product in the market. All sellers in a perfect competition produce homogenous outputs, i.e., the outputs of all the sellers are similar to each other and the products are uniformly priced.

Characteristics of Perfectly Competitive Market:
(i) A large number of buyers and sellers: There exist a large number of buyers and sellers in a perfectly competitive market. The number of sellers is so large that no individual firm owns the control over the market price of a commodity. Due to the large number of sellers in the market, there exists a perfect and free competition. A firm acts as a price taker while the price is determined by the 'invisible hands of market', i.e., by 'demand for' and 'supply of goods'. Thus, we can conclude that, under perfectly competitive market, an individual firm is a price taker and not a price maker.

(ii) Homogenous products: All the firms in a perfectly competitive market produce homogeneous products. This implies that the output of each firm is perfect substitute to others' output in terms of quantity, quality, colour, size, features, etc. This indicates that the buyers are indifferent to the output of different firms. Due to the homogenous nature of products, existence of uniform price is guaranteed.

(iii) Free exit and entry of firms: In the long-run, there is free entry and exit of firms However, in the short run some fixed factors obstruct the free entry and exit of firms. This ensures that all the firms in the long-run earn normal profit or zero economic profit that measures the opportunity cost of the firms either to continue production or to shut down. If there are abnormal profits, new firms will enter the market and if there are abnormal losses, a few existing firms will exit the market.

(iv) Perfect knowledge among buyers and sellers:
Both buyers and sellers are fully aware of the market conditions; such as price of a product at different places. The sellers are also aware of the prices at which the buyers are willing to buy the product. The implication of this feature is that if any individual firm is charging higher (or lower) price for a homogeneous product, the buyers will shift their purchase to other firms (or shift their purchase from the firm to other firms selling at lower price).

(v) No transport costs: This feature means that all the firms have equal access to the market. The goods are produced and sold locally. Therefore, there is no cost of transporting the product from one part of the market to other.

(vi) Perfect mobility of factors of production: There exists geographically and occupationally perfect mobility of factors of production. This implies that the factors of production can move from one place to other and can move from one job to another.

(vii) No promotional and selling costs: There are no advertisements and promotional costs incurred by the firms. The selling costs under perfectly competitive market are zero.

Commonly Made Error:
Most of the students did not write the 'heading' in the points thereby making the answer difficult to read.

Answering Tip
While cleaning; give special emphasis on the 'headings' points should start from the headings.

Question 30.
A consumer spends ₹ 1,000 on a good priced at ₹ 8 per unit. When price rises by 25 percent, the consumer continues to spend ₹ 1,000 on the good. Calculate price elasticity of demand by percentage method. [4]
Answer:
Given, P = ₹ 8, Total expenditure = ₹ 1,000.
If P increases by 25%, i.e., 25% of ₹ 8 would be ₹ 2
∴ New Price P1 = ₹ 8 + ₹ 2 = ₹ 10. Here again TE = ₹ 1,000

$$\therefore \quad Q = \frac{TE}{P} = \frac{₹1,000}{₹8} = 125$$

$$\text{and} \quad Q_1 = \frac{TE}{P_1} = \frac{₹1,000}{₹10} = 100$$

$$\therefore \quad \text{\% Change in Q.D.} = \frac{(-)25}{125} \times 100 = (-)20\%$$

$$\therefore \quad \text{\% Change in price} = \frac{2}{8} \times 100 = 25\%$$

$$\text{Now} \quad E_d = \frac{\text{\% Change in Q.D.}}{\text{\% Change in Price}}$$

$$\therefore \quad E_d = \frac{-20}{25} = -0.8$$

Question 31.
Complete the following table: [4]

Price (₹)	Output (Units)	Total Revenue (TR in ₹)	Marginal Revenue (MR in ₹)
—	1	6	—
4	—	—	2
—	3	6	—
1	—	—	(–) 2

OR

Giving reasons, state whether the following statements are true or false:
(i) Average product will increase only when marginal product increases.
(ii) With increase in level of output, average fixed cost goes on falling till it reaches zero.
(iii) Under diminishing returns to a factor, total product continues to increase till marginal product reaches zero.
(iv) When there are diminishing returns to a factor, total product always increases.
Answer:
Price = TRQ
Output = TR Price or TR Price
TR = AR × Q or ΣMR
$MR_n = TR_n - TR_{n-1}$
AR = TRQ

Price (₹)	Output (Units)	Total Revenue (TR in ₹)	Marginal Revenue (MR in ₹)
6	1	6	6
4	2	8	2
2	3	6	(–) 2
1	4	4	(–) 2

OR

(i) False. Average product will increase only when marginal product is greater than average product whether MP is rising or falling.
(ii) False. AFC = TFC/output. TFC is constant and positive. So with an increase in output AFC will fall but can never be zero.
(iii) True. Under diminishing returns MP falls. TP increases till MP is positive.
(iv) False. This is because in a situation of diminishing returns to a factor marginal product tends to fall. Falling MP implies that total product should be increasing, though at a diminishing rate. TP will increase till MP remains positive.

Question 32.
(i) Write three examples each of normative economics and positive economics. [2]
(ii) State three reasons which give rise to an economic problem. [2]
Answer:
(i) Examples of Normative Economics are:
(a) Government should invest in infrastructure to increase GDP
(b) Government should provide basic health-care to all citizens.
(c) Government should introduce ban on smoking.

Examples of Positive Economics are:
(a) Government-provided health care increases public expenditure.

(b) Decrease in prices of potatoes will rise the demand of it.
(c) The Indian stock market has boomed in recent years.

(ii) Reasons which give rise to an economic problem are:
(a) Wants of people are unlimited: It is due to unending circle of wants. After the satisfaction of one want, another gap want arises.
(b) Resources are limited: Problem of allocation of resources arises because resources are not enough to satisfy wants of every individual.
(c) Resources have alternative uses: Scarce resources have alternative uses. When an individual chooses to use a given resource for something, he/she is unable to use that resources for anything else.

Commonly Made Error
Sometime students state the economic problems rather than causes of economic problems.

Answering Tip
Specific answer should be given for these questions.

Question 33.
Explain the conditions of producer's equilibrium.
OR
Explain any three factors that determine supply of a commodity. [6]
Answer:
The two conditions of producer's equilibrium are:
(i) MC = MR
(ii) MC becomes greater than MR, if more is produced after the point of equilibrium.

Explanation:
(i) If MC is less than MR, it is profitable to produce more units till MC becomes equal to MR.
(ii) When MC becomes greater than MR after the
MR = MC condition, production of each new unit is sold at a loss, which leads to decline in profits.

OR

Factors Affecting Supply:
The various factors affecting supply of a commodity are:

Own Price of a Commodity (Px): There is a direct relationship between own price of a commodity and its quantity supplied. Higher the price, higher the quantity supplied and vice-versa.

Price of Related Goods (PR): The supply of a particular commodity is inversely related with the price of its substitute commodities, such as the supply of wheat will fall with rise in the price of rice, i.e., supply decreases and vice-versa. In case of complementary goods, supply is directly related with the price of complementary goods. With rise in price of petrol, supply of cars will rise, i.e., supply increases and vice-versa,

Goal of the Firm (G): The goal of the firm is to maximise profits. More quantity of the commodity will be offered only at a higher price. On the other hand, if goal of the firm is to maximise sales, more will be supplied even at the same price and same will be supplied even at a reduced price. Sales maximiser firm supplies greater quantity than a profit maximiser firm.

Question 34.
Explain the distinction between budget set and budget line. When can a budget line shift? [6]
Answer:
Budget Set: Budget set refers to the attainable combinations of a set of two goods, given prices of the goods and income of the consumer.

A budget set is based on the assumptions that income of the consumer and the prices of two goods (consumed by the consumer) remain unchanged. Accordingly, a change, either in prices or in consumer's income will lead to a change in the budget set.

Budget Line: A budget line is the line that shows the maximum amount of goods-X or of goods-Y (or the possible combinations of X and Y) that the consumer can buy, given his money income and the prices of the goods X and Y. It is also called Price Line, as it shows the price ratio between goods-X and goods-Y, or the rate at which one good can be exchanged for the other, given prices of the two goods in the market.

Position of the budget line depends on income of the consumer and prices of the two goods. If prices of two goods remain unchanged, then with an increase in income, budget line of the consumer shifts to the right. Similarly, if income of the consumer remains unchanged, the budget line will shift to the right when there is a proportionate fall in the prices of both goods X and Y. Thus, if the prices of both X and Y are reduced to half, the budget line will shift to the right showing twice the possible purchase of X and Y than before.