Understanding a Change in the Budget Constraint

A change in a consumer's income causes the budget constraint to shift parallel to itself.

A change in the price of one of the goods causes the budget constraint to pivot from one of the end points.

Assume that the consumer's income falls to $6. The budget constraint shifts inward parallel to the original. The shift means that the consumer can buy exactly half the quantity of each good that he or she previously bought.

The slope or opportunity cost, however, has not changed.

If the consumer's income were to double to $24, the budget constraint would shift outward parallel to itself, and the consumer's choices would double.

Now assume that the price of toys falls to $1.50. The consumer can now buy more toys and the same number of snacks with the budget of $12.

The budget constraint pivots outward from the vertical axis to indicate more possibilities in toys. The slope or opportunity cost has changed.

If the price of toys were to increase, the budget constraint would pivot inward from the vertical axis. The consumer could afford fewer toys and the same number of snacks.

The box on the left summarizes shifts and pivots in the budget constraint.

A change in income is represented by a shift in the budget constraint.

A change in the price of one of the goods is represented by a pivot in the budget constraint.