

# Tangency Condition

- ▶ **Tangency Condition:** All baskets where the slope of the indifference curves are equal to the slope of the budget line.

- ▶ Negative Slope of Indifference Curve:

$$MRS_{x,y} = \frac{MU_x}{MU_y}$$

- ▶ Negative Slope of Budget Line:

$$\frac{P_x}{P_y}$$

- ▶ Tangency Condition:

$$\frac{MU_x}{MU_y} = \frac{p_x}{p_y}$$

Example:  $I = 120$       $P_x = 1$

$$U(x, y) = xy \quad P_y = 2$$

