Personal Budgeting and Opportunity Cost

Individuals face limited income and resources, meaning they cannot satisfy all their wants. For example with a $100 monthyl allowance for gas and DVDs, a person must choose how to allocate their spending between these two items.

The budget line represents all possible combinations of goods that can be purchased with a given income at current prices. Points on the line show full use of income, points below the line leave some money unspent, and points above the line are unattainable. Changes in income or prices shift the budget line: higher income or lower prices shift it outward, while lower income or higher prices shift it inward.

The opportunity cost measures what is sacrificied to obtain another good. Moving along the budget line, buying one more DVD reduces the amount of gas that can be bought. The opportunity cost depends on the relative prices of the goods. For instance, if a DVD costs $10 and gas $2 per gallon, each DVD costs 5 gallons of gas. This ratio remains the same ~~are~~ even if prices increase proportionally.

Key points :

- Budget lines illustrate spending possibilities.
- Opportunity cost is the value of the next best alternative foregone.

DATE / /

- changes in income or prices affect purchasing options.
- Scarcity forces trade-offs between goods and services.