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L&W

A Budget Line (Summary)

- Personal Budgeting reflects the economic concepts of Scarcity, trade off's and oppurtunity cost. Individuals face limited income and must choose how to allocate it among competing wants. Using the example of student with a $ 100 monthly allowance to spend only on gas ($ 2 per gallon) and DVD's ($ 10 each), the document shows how different Spending Choices create a budget line:
- The budget line illustrates all possible combination of gas and DVD's that can be purchased with the available income spending all on one item place you at one endpoint, while other points along the line represent mixed combinations choices below the line are affordable but leave unused income while choice above the line are unattainable
- The budget line shifts depending on income & prices
- Higher income or lower prices shift it outward
- lower income or higher prices shifts it inward (fewer choices)
- Inflation reduces purchasing power & opportunity

★ In conclusion, the budget line demonstrates the limits of income, the trade off consumers face & the oppurtunity costs that guide rational decision making