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01/10/25

Topic - Personal Budgeting & Opportunity cost

Individuals face contraints when deciding how to spend limited income. In the ex: a student receives \$100 per month to spend on gas (\$2 per gallon) & DVDs (\$10 each) The combination of these two goods that can be purchased are shown on a budget line, which represents all possible ways of spending the full income

On the budget line: you spend all \$100 on gas & DVDs

Below the budget line: you spend less than \$100, leaving money for savings or other items

Above the budget line: combinations are unattainable with the current income

Changes in income or prices shift the budget line:
Higher income → shifts outward (more goods affordable)
Lower income or Higher prices → shifts inward (fewer good aff.)
Lower price (with same income) → shifts outward (more goods affor)

Opportunity cost is the value of alternative you give up
At current prices, each DVD (\$10) costs the opportunity of 5 gallons of gas (\$2 each)
Conversely, each gallon of gas costs one-fifth of a DVD

opportunity cost depends on relative prices, not just money prices. Even if prices rise equally (eg: DVD's $30 & gas $4), the trade-off remains the same (1 DVD = 5 gallons of gas).