Summary

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2-54

→ **Personal Budgeting and Scarcity :—**

- Just as the economy faces constraints, individuals also face limits due to scarcity of resources and time.
- Most students operate on tight budgets and can only satisfy a fraction of their desires.
- Eg:— A student receives a $100 monthly allowance (with a room and board already covered).
    - Only two goods are considered: gas and DVDs
    - The simplification allows us to examine how choices are constrained by income.

→ **Constructing the budget line**

* Prices :
  → Gas : $2 per gallon
  → DVDs: $ 10 each

* With $100, possible consumption bundles include :
  C_1 : 50 gallons of gas, 0 DVDs
  C_5 : 0 gallons of gas, 10 DVDs
  C_2, C_3, C_4 : Intermediate trade off

→ **Shift in budget line :—**

- Increase in income shift the line outward.
- Decrease in income or higher prices shift it inward.
- Lower prices also shift it outward, even if income stays the same.
- Inflation reduces consumer opportunity.

→ Opportunity Cost

- Defined as what must be given up to obtain something else.
- Eg:- At current prices, 1 DVD = 5 gallons of gas.
- Even if both prices rice, the relative tradeoff is same.
- Similarily, each gallon of gas cost 1/5 of a DVD in terms of opportunity gas.