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▶ Summary: - Personal Budgeting & Opportunity Cost:

→ Scarcity and constraints → individuals face limited income and cannot buy everything they want. A budget line shows the trade-offs between two goods when all available income is spent.

Example Scenario:-

Monthly allowance: $100.
Goods - Gas ($2/gallon) and DVDs ($10 each)

Different combinations of gas and DVDs can be purchased, forming the budget line.

→ Budget Line features:-

- Points on line = full income spent on 2 goods
- Points below line = affordable, with money left over.
- Points above the line = unattainable with current income.

- Changes in income shift the budget line outward (higher income) or inward (lower income).

- Changes in price shift the line depending on affordability: lower price shift it outwards, higher prices inward.

→ Opportunity Cost:-

Defined as the value of the next best alternative forgone.
In the example:-

1 DVD = 5 gallons of gas (since $10 can buy 5 gallons at $2 each).

1 gallon of gas = 1/5 DVD.

Even if both prices rise proportionally, the opportunity cost ratio stays the same.

Impact of Inflation:-
Inflation reduces the purchasing power of fixed income, shifting the budget line inward & limiting consumer choices.