Summary

· personal budgetting and opportunity costs using a simple eg of a student with a $100 monthly allowance to spend on gas and DVDs.
The price are $2 per gallon of gas and $10 per DVD.

→ A graphical representation of the possible combination of gas and DVDs that can be purchased with the $100 allowance, given the prices.

→ The costs of choosing one option is the value of the alternative forgone. In this case, buying more DVDs means sacrifising gallons of gas.

→ The oppourtunity cost of an item depends on its price relative to the price on the alternative item. For example :- The opportunity cost the of each DVD is 5 gallon of gas, regardless of the absolute prices.

→ An increase in income / an increase in prices shifts it inward.

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→ inflation reduces the purchasing power of consumers with fixed money income, shifting the budget line inward.

Takeaways :-

→ Individuals face scarcity and must make choices about how to allocate their limited income

→ opportunity costs are inherent in every choice and understanding them helps individual make informed decisions

→ Budget lines can be used to visualize the trade-offs involve in making choices.