1. Budget Constraint:

Individuals face limited income and must make choices on how to spend it.

Example: \$100 monthly allowance to spend on gas (\$2/gal) and DVDs (\$10 each).

Only certain combinations of gas and DVDs are affordable, shown as points on a budget line (C1 to C5).

2. Budget Line:

Represents all possible combinations of two goods you can buy with your full income.

Points on or below the line are attainable; points above (e.g., C7) are unattainable.

Changes in income or prices shift the budget

Income increase: (ine shifts outward \rightarrow more goods can be bought.



Price decrease: line shifts outward \rightarrow greater quantity affordable.

Inflation or price increase: line shifts inward \rightarrow fewer goods affordable.

3. Opportunity Cost:

Moving along the budget line shows trade-offs.

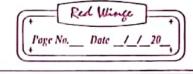
Example: Moving from C1 to C5, buying 1 extra DVD costs \$10, which could have been spent on 5 gallons of gas.

Opportunity cost of each extra DVD = 5 gallons of gas.

Opportunity cost depends on price of the goods and quantity of the alternative item forgone, not just money.

4. General Insight:

Opportunity cost helps quantify the sacrifice



	Page No Date _/_/_20,
	made for each choice.
	Even if prices change, the physical trade-off in
	terms of goods (e.g., DVDs vs gas) may remain
	Understanding this helps in efficient allocation of
	(imited resorce
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