1) Budget line

- A Budget line illustrates all the possible combinations of two goods that a consumer can purchase with their income, given the prices of goods
- In the example, a student has a 100 Dollar monthly allowance to spend only on gasoline ($2 per gallon) and DVDs ($ 10 each)
- points on line represent combination where all income is spent. point below the line mean some income is left over, point above are unaffordable.

2) Opportunity Cost

Moving along the budget line shows trade offs. opportunity cost is determined by relative price of 2 goods not their absolute price.

3) Shifts in Budget Line:

Increase in income shift the budget line outward allowing more of both good to be purchased

Decrease in price of both goods also shift the line outward

Decrease in income / increase in price shifts the budget line inward, reducing purchasing power.

The budget line visually represent scarcity, trade offs, opportunity cost in everyday spending decisions

It emphasize that consumers must make choices based on limited resources and every choice has an implicit cost the next best alternative forgone.