Zulaikha Hanny Areesa, Group 251

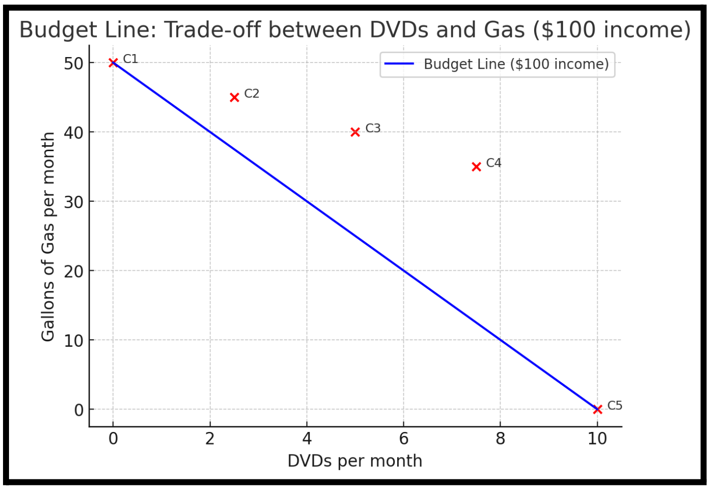
Summary: Personal Budgeting and the Budget Line

1. Individual Constraints and Scarcity
   - Just like the economy, individuals face constraints due to limited income and resources.
   - Most people cannot buy everything they want each month, so choices must be made.
   - Example: A student with a $100 monthly allowance who can only spend it on gasoline and DVDs.
2. The Budget Line Concept
   - A budget line shows the different combinations of two goods that a consumer can buy if they spend all their income at current prices.
     In the example:
     - Gas = $2 per gallon
     - DVD = $10 each
   - If all income is spent on gas, the student can buy 50 gallons but 0 DVDs (point C1).
   - If all income is spent on DVDs, the student can buy 10 DVDs but 0 gallons of gas (point C5).
   - Other combinations (C2, C3, C4) fall along the line, representing trade-offs.
3. Feasible, Infeasible, and Below-the-Line Choices
   - Any combination on or below the line is affordable.
   - Points below the line mean some income is left unspent (e.g., 25 gallons + 2 DVDs costs only $70, leaving $30).
   - Points above the line are unattainable with the current income (e.g., 25 gallons + 10 DVDs costs $150, which exceeds the $100 income).
4. Shifts in the Budget Line
   - Increase in income → budget line shifts outward (more of both goods can be bought).
   - Decrease in income → budget line shifts inward.
   - Decrease in prices of goods → outward shift, since more goods can be bought with the same income.
   - Increase in prices → inward shift, reducing purchasing power.
   - Inflation reduces the real opportunities available to consumers.

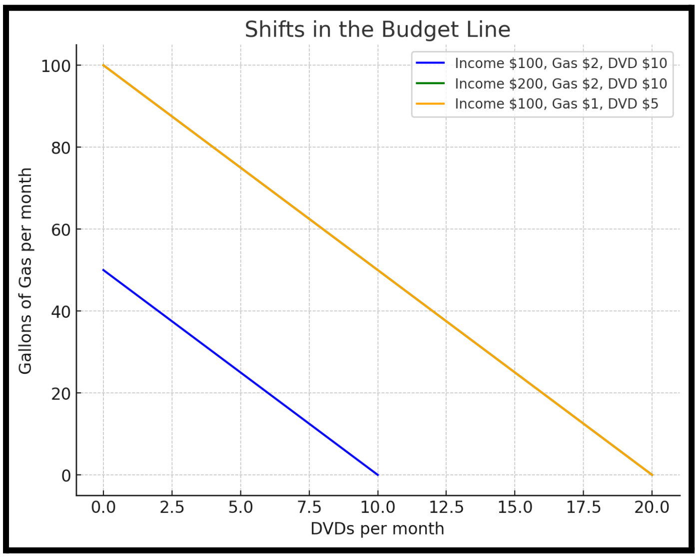
5. Opportunity Cost

   ○ Moving along the budget line shows the trade-offs: choosing more of one good requires giving up some of the other.
   ○ Example: Each DVD costs $10, equal to the cost of 5 gallons of gas ($2 each).
      ■ Thus, opportunity cost of 1 DVD = 5 gallons of gas.
      ■ Conversely, opportunity cost of 1 gallon of gas = 1/5 of a DVD.
   ○ The opportunity cost depends on relative prices, not just money value.
   ○ Even if both prices rise proportionally, the opportunity cost (ratio of trade-off) remains the same.

✅ In essence: The budget line illustrates how limited income forces consumers to make trade-offs between goods. It highlights attainable versus unattainable consumption choices, the effects of income/price changes, and the concept of opportunity cost as the sacrifice of one good when choosing another.



Here's the diagram of the budget line, showing the trade-off between DVDs and gas when income is $100.



Here you can see how the budget line shifts:

- Blue line → Original case ($100 income, Gas $2, DVD $10).
- Green line → When income doubles to $200 (line shifts outward, parallel).
- Orange line → When prices fall (Gas $1, DVD $5), the line also shifts outward because more of both goods can be bought with the same $100.