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P1 The Budget Line :-> A graph showing the maximum possible combinations of two goods (like gas and DVDs) you can buy with a limited income. It is a visual representation of scarcity.

P2 Eg. Scenario

* Income: $100 monthly Allowance
* Goods: Gasoline and DVD's
* Prices: Gas is $2 per gallon; DVD's are $10 each.

1 DVD ~ 5 gallons of gas
regardless of whether price ~ ($10 & $2) / ($20 & $4)
Because price ratio => $10/$2 = 5 remains the same.

3 Key Concepts Illustrated by the Budget Line

* Unattainable Combinations: Any point above the budget line is impossible with the current income and prices because it would exceed the budget (e.g, point C_7)
* Attainable Combinations: Any point on or below the budget line is feasible. Points below the line mean the consumer has money left over to save or spend on other items (e.g. point C_6).

4 Changes and Movements of Budget Line :-> Change in Income: An increase in income shifts the entire budget
increase set attain combinations

Change in Prices: An increase and decrease in prices has a similar effect for goods. will shift the line outwards and increase goods inwards. Inflation harms consumers on fixed income by shifting the budget line inward.

(P5) The Main Lesson :⇒ Opportunity Cost

- The Opportunity cost is calculated by moving along the budget line. In this example, moving from one point to another to buy 1 more DVD requires 5 gallons of Gas.

- Opportunity Cost of 1 DVD = (Price of DVD) / (Price of Gas) = $10 / $2 = 5 gallons of gas.

- Opportunity Cost of 1 gallon of gas = (Price of Gas) / (Price of DVD) = $2 / $10 = 1/5 of a DVD.