

Unaffordable Comb

This Text explains The concept of a budget line using an example of a student with a \$100 monthly allowance to spend on only two goods:

- Gasoline (at \$2 Per gallon)

- DVDs (at \$10 each)

Key Points:

- The budget line shows all possible combination of gas and DVDs that can be bought if the entire \$100 is spent.

- Example combinations (From The Table):

- C-1: 50 gallons of gas, 0 DVDs

- C-5: 0 gallons of gas, 10 DVDs

- Other Points like C-2, C-3, C-4 lie between these extremes.

- Inside The budget line (e.g., 25 gallons + 2 DVDs = \$70 Total): means not all income is spent, leaving money to save or spend elsewhere.

- outside The budget line (e.g., 25 gallons + 10 DVDs = \$150 Total):

- is unattainable because it exceeds The \$100 income. The budget line illustrates spending limits based on income and prices, separating affordable combinations from unaffordable ones.

Graphing a Budget

A Budget Line

Points on the budget line give all the combinations of

two goods that can be purchased given income and

the price of the two goods, assuming that all income is spent.

Consumption

Good	C ₁	C ₂	C ₃	C ₄	C ₅
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Gasoline (gallons)	50	40	25	15	0
DVDs (number)	0	2	5	7	10

DVDs (number)

Total monthly

expenditure \$100 \$100 \$100 \$100 \$100

Monthly possible consumption of gas and DVDs

when monthly income is \$100, the price of gas is \$2

per gallon, and the price of each DVD is \$10.

Gasoline
per month
(gallons)

