

Personal Budgeting and the Opportunity Cost of Choices

1. Answer the questions based on the given text.

- 1) What does the budget line represent in terms of consumer choices when income and prices are fixed?
- 2) How does an increase in income affect the position of the budget line?
3. What happens to the budget line if the price of one of the goods changes while income remains constant?
- 4) Why are some combinations of goods above or below the budget line considered unattainable or inefficient?
- 5) Why does a budget line slope downward?
- 6) How can understanding the slope of the budget line help consumers make decisions about purchasing two different goods?

2. Complete the following task.

Mary spends all of her income on books and bread. The price of a loaf of bread is \$2, and the price of a book is \$10. Mary's weekly income is \$100. Draw Mary's budget line.

What is the opportunity cost of a book? bread? Would the opportunity cost of book change if the prices of book and bread doubled?