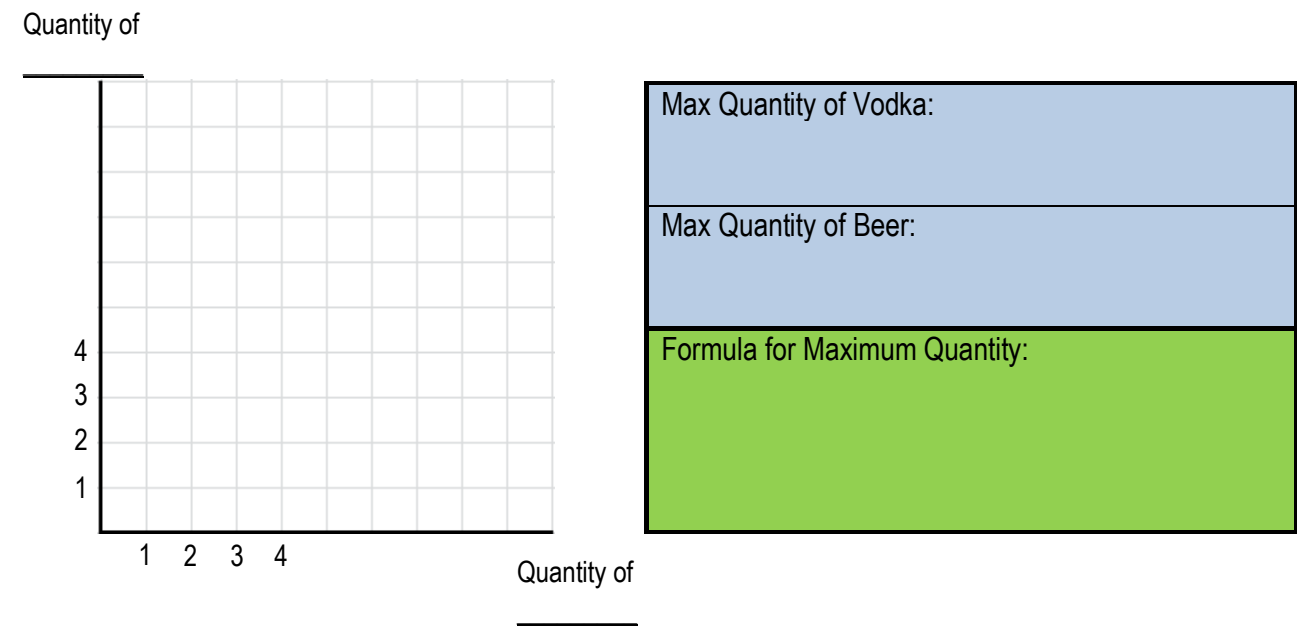


CONCEPT: BUDGET CONSTRAINT

• A **budget constraint** shows the limitations on what you can _____

- ☐ **Income** – The _____ amount of money available to spend
- ☐ Choose between various combinations of _____ goods that you can _____

EXAMPLE: Party Boy Paul spends all of his income, \$18, on two goods: Vodka and Beer. Vodka sells for \$6 and Beer sells for \$3. Complete the table and show PBP’s budget constraint on the graph.



Affordable: ____ Vodka and ____ Beer	Unaffordable: ____ Vodka and ____ Beer
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PRACTICE: The Amazing Andy spends all of his \$1,200 income on magic tricks. If card tricks cost \$50 and wand tricks cost \$300, which of the following consumption bundles lies upon Amazing Andy’s budget constraint?

- a) 10 card tricks and 2 wand tricks
- b) 8 card tricks and 3 wand tricks
- c) 24 card tricks and 4 wand tricks
- d) 18 card tricks and 1 wand trick

CONCEPT: BUDGET CONSTRAINT – CHANGE IN INCOME

- If income changes, the budget constraint shifts:

☐ Income increase → _____

☐ Income decrease → _____

EXAMPLE: Party Boy Paul spends all of his income, **\$24**, on two goods: Vodka and Beer. Vodka sells for \$6 and Beer sells for \$3. Complete the table and show PBP's budget constraint on the graph.

Quantity of



Formula for Maximum Quantity:

Max Quantity of Vodka:

Max Quantity of Beer:

PRACTICE: An increase in income will:

- Increase the slope of the budget constraint
- Decrease the slope of the budget constraint
- Shift the budget constraint inward
- Shift the budget constraint outward

CONCEPT: BUDGET CONSTRAINT – CHANGE IN PRICE OF A GOOD

- If the price of a good changes, the _____ for _____ that good shifts:

☐ Price increase → _____

☐ Price decrease → _____

EXAMPLE: Party Boy Paul spends all of his income, \$24, on two goods: Vodka and Beer. Vodka sells for \$6 and Beer sells for \$4. Complete the table and show PBP's budget constraint on the graph.

Quantity of _____



Formula for Maximum Quantity:

Max Quantity of Vodka:

Max Quantity of Beer:

PRACTICE: A change in the price of one good will:

- Affect the slope of the budget constraint
- Not affect the slope of the budget constraint
- Shift the budget constraint inward
- Shift the budget constraint outward

PRACTICE: A consumption bundle inside the budget line

- a) Is unaffordable
- b) Implies a situation where the consumer spends all of his income on both goods
- c) Implies a situation where the consumer purchases only one good
- d) Is affordable and all available income has been spent
- e) Is affordable but has some unspent income

PRACTICE: Lil Kiddo just got \$10 for his allowance. He has big dreams for that money and plans to buy out the toy store, slapping down the tenner at the cash register. Disillusioned, he decides to buy pogs for \$0.50 each and action figures for \$2 each. Which consumption bundle is unaffordable to Lil Kiddo?

- a) 0 pogs and 0 action figures
- b) 8 pogs and 3 action figures
- c) 5 pogs and 4 action figures
- d) 10 pogs and 2 action figures

PRACTICE: Campin' Sam buys firewood and ice. When the price of firewood decreases, the maximum number of firewood she can purchase _____ and the maximum number of ice she can purchase _____

- a) Increases; increases
- b) Increases; decreases
- c) Decreases; increases
- d) Increases; remains constant
- e) Remains constant; remains constant