

Handout B: Opportunity Costs

Directions: Sitting in groups of four or five, students will brainstorm answers to the following questions. One student will serve as the recorder and will write down the groups' responses. Another student will report the groups' outcomes to the rest of the class at the end of the time your teacher designates for brainstorming.

Opportunity costs: The next-best alternative you have for a given decision. Because of the reality of scarcity, every decision we make has a cost. We must give up something to get something else.

But what exactly is it that we give up? Economists recognize that costs of making decisions are not merely in terms of money—what they call “explicit costs”—but are also in terms of what we could have otherwise done or had—what they call “implicit costs”. They refer to these explicit and implicit costs.

Consider the situations below and determine what the opportunity costs of making each choice are.

1. Several friends have asked you to go to a movie tonight. It will cost \$15 and take the entire evening.

On the other hand, your boss at Cheezy Burger has asked if you can fill in for a sick colleague tonight. If you choose to, you will be paid \$30 and he would so grateful if you could come in that he will give you the next two Saturdays off. You could use this time, because you have a paper due for your American History class in two weeks.

You choose to go to the movies. You tell your friend who takes economics that you are glad you did so, because it really didn't cost you very much. She disagrees, and says you actually had to give up quite a bit, and your opportunity costs of not going to work were quite high. What did she mean? In other words, what were the true costs of your choice?

- a. What were your explicit costs of going to the movies?
 - b. What were your implicit costs of going to the movies?
2. Like many young people, you are faced with the choice of going to college/tech school or going straight to work. Let's say that the following are your annual potential money costs/gains over the next four years. Assume that the costs of food, clothes, housing, and transportation are the same whether you choose to go to college or to work.

Food: \$5,000

Clothes: \$1,500

Housing: \$6,000

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Transportation: \$2,500

Annual income if you work: \$25,000

Tuition if you go to college: \$12,500

Costs of books and supplies: \$1,500

Starting salary if you go to college: \$35,000

You choose to go to college for four years. Now, determine the opportunity cost of this decision.

- a. What are the explicit costs of this decision?
- b. What are the implicit costs of this decision? (Remember, this includes all of the non-money costs of choosing not to go to college!)
- c. Why did you not include all of the above categories in your decision? If it costs so much to go to college, why would you make the decision to do so?