

# Handouts A and B Answer Key

## Handout A: The Economic Problem

1. Students' answers will vary. Possible answers might range from:
  - a. Sell it to her. (Follow up asking, "How they would determine a price? What is the advantage of accepting money rather than trading?")
  - b. Share it. (Follow up asking, "How would they determine how they would do this? What benefits and what costs are there to sharing as opposed to selling or trading it?")
  - c. Trade it for something else. (Follow up asking, "How would the two of you determine how and what to trade? How might selling the shirt actually be better for you than trade?")
  - d. Give it to her. (What costs and benefits do you receive from giving it to her? What would the likelihood be of everyone giving everything they own away? Why do you believe this?)
2. Answers include:
  - a. No. If you purchase the cell phone, you cannot pay for prom.
  - b. One must make a choice, and every choice requires a cost.
  - c. One must give up both the explicit (money) cost of the cell phone (\$250) and the implicit (opportunity) cost of not going to the prom, including the lost fun and experiences that come with going to the prom.
3. The costs include the explicit costs of the \$15 you would have paid (which are balanced by the \$30 you earn babysitting) and the implicit costs of missing the enjoyment of the film and not spending valuable time with your friends.
4. Answers include:
  - a. Potentially, some people might receive a better level of care than they would otherwise have received, but others would, by definition, would receive less (and worse) care. Resources are finite. Also, if government makes health care decisions, an individual or group must determine who will receive care and what they will receive.
  - b. If healthcare were truly "free", individuals would demand the highest possible amount and quality of service. Given that quality health care is inherently limited, this would stretch resources, and require that (scarce) quality health care somehow be distributed in a manner other than price.
  - c. The largest problem would be sorting patients according to who had the greatest need and whose treatment had the greatest cost. If no price were clearly associated with these, it would

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make the process difficult and doctors would spend more time on minor cases than on those more critical cases that demanded their attention. Prices solve these problems.

d. Because not every procedure is vital or essential, the physician would charge prices for each procedure in order to differentiate those that are most important from those that are more routine.

e. If healthcare were truly “free”, it would be impossible to determine which procedure was the most vital, because there is no price system allocating resources. Too many valuable healthcare resources would be allocated to low priority needs.

5. Answers include:

- a. Not scarce, not desirable.
- b. Scarce, desirable.
- c. Scarce, desirable...depending on major.
- d. Not scarce, not desirable to most people.
- e. Scarce, desirable.
- f. Less scarce than other majors, less desirable.
- g. Largely scarce and desirable. Depends on situation.
- h. Not scarce, not desirable.

6. Prices, which are established by millions—even billions—of people interacting with each other in markets, ensure the distribution of goods and services in an economy. Prices coordinate the desires of consumers and the needs of suppliers. Prices are the ultimate signals for production and consumption because they simultaneously represent the desires of consumers and producers.

### Handout B: Opportunity Costs

1. Student answers may vary. Emphasize the implicit (non-money) the costs of the decision.

- a. Explicit cost: You must pay \$15 for the evening.
- b. Implicit costs:
  - i. You could have earned \$30 by working for the evening.
  - ii. You do not get the Saturdays off.
  - iii. You lost several hours of time that you could have used to write your American History paper.
  - iv. You lost the opportunity to help out a colleague.
  - v. You lost the opportunity to win your boss’s gratitude.
  - vi. You lost work experience and the joy of interacting with the customers at Cheezy Burger.

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2. Student answers may vary. Emphasize the implicit (non-money) the costs of the decision.

a. Tuition (\$50,000) and books (\$6,000) = \$56,000.

b. Answers may include: Income lost: \$140,000; savings lost: \$1,000; loss of four years of valuable work experience; loss of the life experience of living on your own; loss of potential friends and experiences that you might have had as an independent adult.

c. Clothes, housing, and transportation are not opportunity costs because you must pay them regardless of your decision. Your starting salary is not a cost, because you chose to go to college, so you will earn it. Your starting salary and potential income after a college education is significantly higher than if you had not gone to college. You gain the benefit of education and skills that you otherwise would not have had. You will have friends and valuable life experiences that you otherwise would not have had.