

Economics, Book 1

Lesson 2

Opportunity Cost: Decisions, Decision, Decisions

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Lesson 2

Opportunity Cost: Decisions, Decisions, Decisions

Objectives

- To define opportunity cost
- To identify the opportunity cost of various daily activities

Notes to the Teacher

Opportunity cost is a basic economic concept which students have experienced throughout their lives. Opportunity cost is what is given up in order to obtain a desired goal.

The lesson's activity is primarily a homework assignment which students begin in class. They should enjoy doing it since they are describing what they do in their lives outside of school. It is best to give this assignment on a Friday or over a brief holiday so students have some time to think about their leisure activities.

Students complete a self-inventory activity chart and discuss its implications.

PREREQUISITE: Have students read textbook material that discusses opportunity cost.

TERMS: Economic choices, opportunity cost

Procedure

1. Distribute **Handout 2** and read aloud the first paragraph. Write the question, "What is opportunity cost?" on the board and have students answer it (*What one has to give up when one makes a choice*). Establish the requirements of the assignment and its due date. Allow students to begin the assignment in class.
2. Start class on the due date by asking students what activities they engaged in for the longest period of time. What did they give up? List their responses on the board, noting any recurring responses.
3. Ask what the list suggests about group attitudes or values. What do you prefer? What are you willing to give up to get it?

4. Ask students to think about the following questions: Was what I did worth what I had to give up to do it? Would it be better if some authority told me what I ought to do?

(Most students will probably reply "yes" to the first question and a vehement "no" to the second.) Point out that we have the freedom to choose in our society. Our choices have economic consequences for ourselves and others.

5. Conclude by asking students what opportunity cost is involved with obtaining a college education. (*Life-career work and making big purchases such as buying a home would probably be postponed. However, in return, the same person can earn more in a future career than would be earned with only a high school diploma.*) Have students list other situations which they see as involving opportunity costs on a national and international scale.

Opportunity Cost: Decisions, Decisions, Decisions

All activities involve choice. All choices involve costs of some kind. One kind of cost is the *real cost*—how much money did you pay, how much time did you spend? The other type of cost is what is given up in order to do what was done—ten dollars spent on a cassette tape is ten dollars that cannot be spent going to the movies. That which is given up is called the *opportunity cost*. In the illustration above the real cost of the tape is ten dollars. The opportunity cost is not getting to go to the movies. This activity will help you see some of the opportunity costs of the choices you make.

Select any waking four-hour period, not including school hours, and complete the following charts for that period.

Date _____ Time of Day _____

- Fill in the chart for each activity you engaged in for more than fifteen minutes at a time.

Activity	Amount of time spent	Opportunity cost of that activity (What would you have done if not this?)
Example: Watch TV	$\frac{1}{2}$ hour	gone to bed $\frac{1}{2}$ hour earlier
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		

Name _____

Date _____

If we assume that human beings as a rule do the things which are most valuable to them *at that time*, what activity did you value most (engage in longest)? What did you give up to do that?

2. List any financial transactions during this period, whether money spent or money earned. (For purposes of this assignment do not include deposits to or withdrawals from a bank account.)

Amount of money	Spent or earned	If spent, on what? If earned, doing what?	Opportunity cost of this transaction
Example: \$20.00	spent	bought shirt	cassette tapes
1.			
2.			
3.			
4.			
5.			

What do you consider your most valuable (not necessarily your most expensive) transaction?

What did you give up in order to make it?

3. In retrospect, could any of your alternate activities in questions 1 or 2 have been more beneficial than the one actually chosen? Why or why not?