

NAME: _____



Think some more.

1. The acres of grass surrounding the Taj Mahal in Agra, India, are often cut by young women who slice off handfuls with short kitchen blades. Is this a low- or high-cost way to keep a lawn mowed?

It depends. It depends on what else these people could be doing with their time. In Agra it is a low cost way. We know that because that's the way they do it. So obviously these women have very poor job opportunities.

2. Flying from Houston to Dallas takes one hour; the bus trip is five hours. Which is the cheaper mode of transportation?

It depends. It depends on the opportunity cost of time. Flying will be cheaper for most Americans because their time is more valuable than the difference between the tickets.

3. Before declaring bankruptcy in May 1994, Commodore built computers in plants in Pennsylvania, Ontario, Scotland and Singapore. They paid workers in Singapore less than the others. Is this unjust?

Almost certainly no. In any country the company has to outbid the opportunity cost of potential workers. They did so here. The Singaporean workers work for less because they have fewer job opportunities.

Why did the Pennsylvanians complain most?

The Pennsylvanians want to force Commodore to raise overseas pay so that overseas workers are less competition than they are at such a cheap rate.

4. Henrietta George bought her large, old house 48 years ago for \$3,000. She could get \$300,000 for it today. What is it costing her to live in that large, old house?

\$300,000, because that's how much she gets if she stops living in it and sells it. [The \$3,000 is, of course, sunk long ago.]

5. "In the Middle Ages people believed in a just price for goods, not determined by supply and demand, but by the cost of raw material and labor." What's wrong with that statement?

Supply and demand determine the cost of raw material and labor.