economics
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NAME: ______________________________

OPPORTUNITY COSTS

The following conversation occurs somewhere in Cypresswood on a Monday night in the spring.

"Hey, Jeff, do you want to go see the new Harrison Ford movie? It closes after tonight."

"I'd like to, but I can't. We've got an economics test tomorrow, and I'll flunk if I don't cram some notes."

"Forget it. You can borrow my note cards in your study hall tomorrow. An hour with the cards right before class is a B for sure."

"Well -- trouble is, the Rockets and Spurs are on TV tonight and I'd rather watch the game if I don't have to study."

"We'll go at six and be back for the tip-off."

"All right. Just let me see how much money I've go -- five, six, seven, eight dollars -- to last until I get paid on Thursday. And I'm out of meal tickets!"

"Eat peanut butter sandwiches! I thought you wanted to see the movie."

"I do. O.K., I'll let my stomach shrink until Thursday. Should we leave at quarter to six?"

The real cost of any action (going to a movie, buying a pair of jeans, manufacturing a lawnmower, moving to Halifax, raising beef cattle, building a hardware store, playing on the football team, joining a club, becoming an A student) **is the value of the alternative opportunity that must be sacrificed in order to take the action[1].**

The cost for Jeff of going to the movie was at first calculated as a passing grade (given up!) in economics. When his friend showed him how to reduce the cost, Jeff looked at the next most valuable opportunity he would have to sacrifice if he went to the movie: watching the Rockets game. His friend eliminated that cost for him, and Jeff turned to the money cost.

But **MONEY WASN'T THE REAL COST**. The real costs that dollars and cents represent are the opportunities given up when the money is spent in one way rather than another. The four or five dollars Jeff will spend for the movie represent meals he would have liked to eat but is willing to sacrifice in order to see the film.

OPPORTUNITY COSTS AS THE ONLY REAL COSTS!

Any action you take, for example, taking this summer school course in economics, involves lost opportunities. You could be making money during these hours, money that you could use to have fun or to pay for college. Or you could be doing fun things. The **ECONOMIC WAY OF THINKING** asserts that you will only take this course if the cost of taking the course (what you've given up) is less than the cost of not taking the course (the value of the opportunities foregone by taking it during the fall or spring).

[1] This is one good definition of opportunity cost. But definitions tend to be tricky in economics; they don't make sense in all circumstances. You should focus on recognizing opportunity costs in specific situations.