

Opportunity Cost & Trade-Offs



As a Young Economist, I will be able to...

- Identify why every decision involves trade-offs.
- Explain the concept of opportunity cost.
- Describe how people make decisions by thinking at the margin.

Make Decisions

Think on it! You have a long day at school & when you get home, you decide not to brush your teeth before bed. Worth it?

You've been studying all week for a test, but your friends want to go see a movie. You decide to stay home & study. Worth it?

Trade-Off- Act of giving up one benefit to gain another, greater benefit

Trade-Offs may involve values & may not be easy to measure such as job satisfaction



Decisions

Individual- Decisions that only affect you such as jobs or extra-curricular activities

Business- Business decisions on how to use resources such as land, labor, & capital

Government- Government policies that balance trade-offs for national, local, & state governments

Guns or Butter- Choice between spending money on military or domestic needs

Opportunity Cost

The most desirable alternative given up as the result of a decision

Lets talk some examples!

Sometimes making a decision-making grid will help you determine choices

Think of it this way, “choosing is refusing”



Thinking at the Margin

When you decide how much more or less to do on a situation or thing

You essentially add or subtract a “unit” to help drive decisions

Lets Pack a Bag!



Costs & Benefits

Cost/Benefit Analysis- Decision-making process to compare the opportunities & sacrifices

Marginal Cost- Extra cost of adding one unit
example: adding food or adding more video game time

Marginal Benefit- The extra benefit of adding the same unit. Example: study time or taking up a second job

One way to help explore this is to make a graph to decide things on a margin!

