

Opportunity Cost and Trade-offs

Economic Decisions

When making economic decisions, limited resources force individuals, businesses, and nations to make trade-offs. **Trade-offs** result in giving up something of value to get what is most wanted. Sometimes the choice can involve the resource of time, for example, choosing to volunteer at an animal shelter instead of going with friends to the local mall. At other times, the choice may involve money—buy the newest music CD or save for a cell phone?



Opportunity Cost

Every time an economic decision is made, there is the risk of not selecting the best choice. The **opportunity cost** of a decision is what is given up when the alternative choice is not selected. For example, the opportunity cost of deciding to spend one hour studying for a math test is the lost opportunity to spend time with friends. The risk is whether the extra time studying will result in a higher test score.

In business, entrepreneurs make economic decisions hoping the payoff will be profits. The opportunity cost of making a profit includes the entrepreneur limiting the investment of money in advertising, remodeling, or higher wages for workers.

In government, economic decisions are made concerning how to best provide citizens with goods and services they are not able to provide for themselves. The opportunity cost of decisions includes sacrificing funding to other budget items. For example, fully funding national defense might result in a decrease in funding for services such as transportation or education.

Steps In The Economic Decision-Making Process

Economic decision: How to spend Saturday afternoon?			
Step One:	List criteria for making the decision. • Example—earning money; outdoor activity		
Step Two:	List all the choices to consider. • Example—skateboarding with friends; going to the movies; earning money mowing lawns		
Step Three:	Consider the advantages and disadvantages of each choice, then rank.		
	<i>Choice</i>	<i>Rank</i>	<i>Disadvantage</i>
	Skateboarding with friends	2	not earning money
	Going to the movies	3	spending money, not earning money
	Earning money mowing lawns	1	earning money
Step Four:	Identify the choice and the opportunity cost of the decision. • Example—The choice is earning money by mowing the lawn. The opportunity cost of the decision is not skateboarding with friends, since it is the next-highest-ranked alternative.		

Name: _____ Date: _____

Assessment

Fill in the Blank

1. Limited resources force individuals, businesses, and nations to make _____.
2. _____ result in giving up something of value to get what is wanted most.
3. The _____ of a decision is what is given up when the alternative choice is not selected.
4. In business, _____ make economic decisions.
5. The opportunity costs of making a profit include the entrepreneur limiting the investment of money in _____, _____, or _____.

Constructed Response

You have an economic decision to make. You have \$50.00 to spend. Should you purchase sports equipment to use at home, a ticket to attend a professional sporting event, or sports memorabilia for your football collection?

Steps In The Economic Decision-Making Process

Economic decision:			
Step One: List criteria for making the decision.			
Step Two: List all the choices to consider.			
Step Three: Consider the advantages and disadvantages of each choice, then rank.			
Choice	Rank	Advantage	Disadvantage
Step Four: Identify the choice and the opportunity cost of the decision.			