

**A. Key Terms and Concepts**

**Directions:** Complete each statement with the correct term from this section.

1. Giving up one benefit in order to gain a greater benefit is a(n) \_\_\_\_\_.
2. The most desirable alternative given up as a result of a decision is the \_\_\_\_\_.
3. The extra cost of adding one unit is the \_\_\_\_\_.
4. Deciding by thinking at the margin is called \_\_\_\_\_.
5. A(n) \_\_\_\_\_ is a visual way of examining opportunity costs.
6. The idea that a government must decide to produce more or less military or consumer goods is called \_\_\_\_\_.

**B. Main Ideas**

**Directions:** Write the letter of the correct answer in the blank provided.

- \_\_\_\_\_ 7. If you choose between two summer jobs, the one you do not choose is the \_\_\_\_\_ of your decision.
  - a. trade-off
  - b. opportunity cost
  - c. decision at the margin
  - d. opportunity at the margin
- \_\_\_\_\_ 8. Making a decision at the margin is possible only in situations where
  - a. the available opportunity costs are unclear or complicated.
  - b. the available alternatives can be divided into increments.
  - c. there are more than three different types of alternatives to consider.
  - d. there are differences in the amount of time each alternative will consume.
- \_\_\_\_\_ 9. Every decision involves trade-offs because
  - a. everyone has to make decisions.
  - b. everyone's resources are limited.
  - c. some people have more money than others.
  - d. some decisions are made for business, others for society.
- \_\_\_\_\_ 10. A decision is made at the margin when each alternative considers
  - a. a different trade-off than the others.
  - b. where the most costly alternative will be.
  - c. what the "all or nothing" alternative will be.
  - d. cost and benefit ranked in progressive units.

# 1. WHAT IS ECONOMICS?

Name \_\_\_\_\_ Date \_\_\_\_\_

## ECONOMIC SKILLS LAB WHEN OPPORTUNITY COST KNOCKS-APPLYING CONCEPTS

We all face scarcity, so we all make choices. Whenever we do, we decide to have more of one thing and less of another. The opportunity cost of any decision is the value of the best alternative given up.

### Opportunity Costs in Your Life

1. Money is an important measure of opportunity costs in a market economy. For example, if you spend \$80 for new clothes, you are likely to say that the clothes cost you \$80. But the money you spend is not the real cost of the new clothes. Describe what the real cost—your opportunity cost—would be if you spent \$80 on new clothes.

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2. What was your last major purchase? What was its opportunity cost? Explain.

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3. If you watch television for two hours, you don't spend any money. Does this mean you bear no opportunity cost for watching TV? Explain.

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### Opportunity Costs of Going to School

4. A college education has many benefits, such as higher earnings. Acquiring a college education also has many costs. A big part of those costs is the amount of money spent for room and board, books, and tuition. But there is another cost that is often much higher. What is this cost? (Hint: What would be the cost of college if you didn't go and went to work instead?)

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5. Suppose you decide to get a job after high school instead of going to college. Is there an opportunity cost of making this choice? Explain.

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## Business Costs

6. Another example of opportunity cost is a company's cost of capital. Suppose a manufacturer wants to add microwave ovens to its product line. To do this, it must invest \$500,000 in new equipment.

Besides the original investment, the company estimates it would spend \$200,000 per year on production costs like labor and materials. It also estimates that it could sell about \$225,000-worth of ovens each year. Would it pay the firm to manufacture the microwave ovens if it could earn 10-percent interest by purchasing U.S. Treasury bonds with the \$500,000? Explain your answer.

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## Environmental Costs

We all recognize the benefits of a cleaner environment. But our choices to have these benefits also create opportunity costs. For example, resources used to obey government regulations cannot be used to produce other things.

7. Suppose a company uses wood pulp (ground, chemically processed wood) instead of recycled materials to make paper. What is the opportunity cost of the company's choice?

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8. Suppose a company uses recycled materials instead of wood pulp to make paper. What is the opportunity cost of the company's choice? (Hint: Resources are used when sorting, transporting, and processing old paper.)

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9. From the information given, can you know which method of making paper would use fewer scarce resources? Explain.

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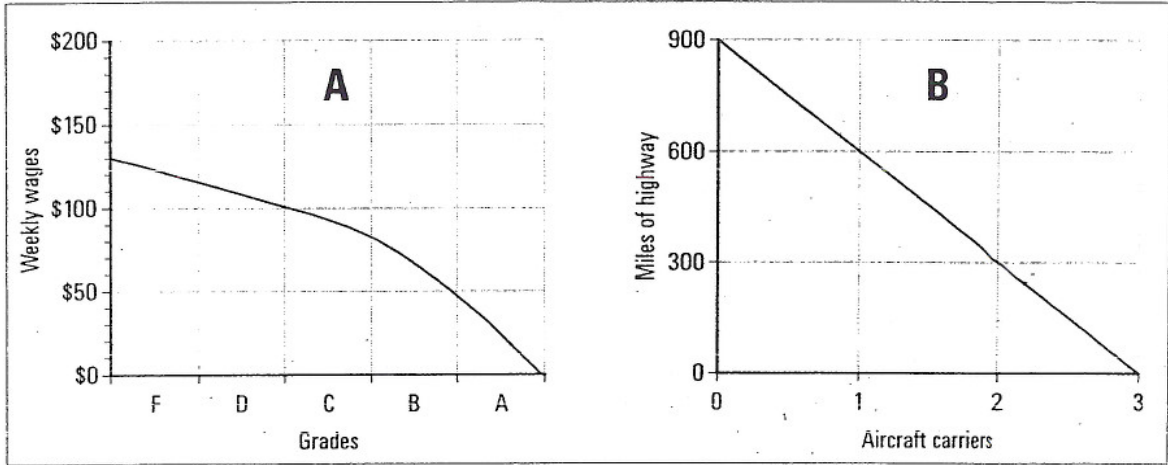
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# 1. WHAT IS ECONOMICS?

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## ECONOMIC SKILLS LAB INTERPRETING A PRODUCTION-POSSIBILITIES CURVE

Businesses, nations, and individuals make decisions about how to use their resources. Often these decisions can be understood better by plotting a graph showing the "production possibilities" resulting from different combinations of resources.



1. Maria has four hours of free time each day. She can spend it studying or working at the Wang's Chinese Kitchen for \$6.50 per hour. Curve A illustrates the trade-off between school grades and the wages Maria could earn.

- What are the maximum wages Maria could earn if she works five days a week? \_\_\_\_\_
- What grades can she expect if she works 10 hours each week? \_\_\_\_\_
- What advice would you give Maria if she were earning \$50 each week and making Ds?

\_\_\_\_\_

- What advice would you give Maria if she were interested in becoming a pharmacist? A restaurant owner/manager?

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2. The United States Congress must approve the federal budget. This involves many difficult choices. For example, the Congress can decide to spend money on national defense, health insurance programs, roads and highways, education, and many other worthwhile causes. Curve B illustrates a hypothetical trade-off between spending for defense and highways.

- What is the opportunity cost of one aircraft carrier? \_\_\_\_\_
- What is the opportunity cost of 300 miles of highway? \_\_\_\_\_
- What other information would you need to decide on the best combination of defense spending and highway construction? \_\_\_\_\_

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