

## Time is Money

One Saturday morning, a father and his daughter sat watching the news. A CNN newscaster was outlining the severe economic crisis occurring in Zimbabwe. According to the report, inflation in the country stood around 11,000,000%. Some Zimbabweans had even started turning to livestock as a more stable and valuable form of currency than the Zimbabwean dollar.

The girl furrowed her brows in thought. To her, money in itself seemed unreliable, wont to change in value and power due to fluctuations in the stock market, government idiocies, or unforeseeable shifts in consumer mentality. How was it that a country's inflation could reach so unbelievably high?

She asked her father for answers. "Why don't people just did the things they are good at and barter among themselves for mutual benefit, so that, in monetary terms, everything is free? No one would have to worry about inflation, and everyone would be happy. After all, isn't the objective of rational individuals to maximize happiness?" the daughter asked.

"Be careful," replied the father. "While such cooperatives do exist, they tend to be highly inefficient, and you are oversimplifying circumstances. Money is merely a means of exchange, and in reality, nothing that can be exchanged is truly free. Nothing that a firm supplies and a consumer wants can be without costs. Take this satellite TV programming, for example. The dish was advertised as free, but look how much we've ended up paying for the service!"

The daughter thought harder. She did not want to believe that her idea of freeness wouldn't work. It seemed to her that people would be genuinely willing to cooperate if they had the right incentives. "Your explanation is based on the premise that consumers and firms must be mutually exclusive, unable to work together," she challenged her father. "Also, suppliers don't always have insidious motives in trying to sell their goods."

"True, but it's very difficult for suppliers to cover the costs they incur if they do not assign a price to their goods. As the great economist Milton Friedman said, there's no such thing as a free lunch."

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The daughter pondered over the famous quotation throughout the morning. There had to be some way to get around what Friedman and her father saw as inevitable. If the supplier were willing to cooperate, couldn't he or she manipulate circumstances so that there could be such thing as a free lunch, without a net loss for any party involved? Slowly, the glimmer of an idea came to her. She would devise a system to test her father's grim assertions. She presented her plan to him.

"What if I create a firm," she said, "that does not charge for its services? Rather, it provides a high quality of good to secure its customers, and then looks to these very customers to provide the inputs needed to sustain the business?" she began.

Her father looked skeptical, but she continued. "Everyone on our block knows that I am great at making lemonade. I do it for free all the time. What if I turned my skills into a business? I could set up a stand for a day using inputs that people have at their homes. These could be considered sunk costs that people have already incurred and thus, cannot recover. The incentive to provide me with the inputs would be the promise of delicious, free lemonade; the benefit to me would be the enjoyment I gain from making lemonade for my neighbors."

Her father smiled, intrigued. "How altruistic. You seem to have set up some artificial conditions and a convenient limit on the amount of time this business runs, but I will overlook those for the purpose of experimentation. Why don't you try your idea? I can even become an investor and supply you with a table and chair for the stand. Unfortunately, I still don't think you have considered *all* costs in your enterprise, but I challenge you to prove me wrong."

Taking this as her cue, the girl ran off excitedly to begin her preparations. She visited all her neighbors, asking them if they had any lemons, sugar, water or spare paper cups that they would be willing to provide. These were not donations, she stressed, but resources that would be used to create a product even more desirable to her customers. Everyone was happy to supply her, in large part out of curiosity about how her plan would unfold.

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On Sunday afternoon, she assembled all her supplies and made her first jug of lemonade. Her neighbors all came out to claim their drinks, and the delectable lemonade did not disappoint. Excited children started making posters and signs to advertise for the stand. Everyone wanted to be a part of the movement for free lemonade. When the last jug was finished, each customer had drunk his fill and happily retreated to his home.

"My plan worked!" the girl gleefully told her father. "Even though the business only ran for a few hours, I think my idea was essentially sound. Neither my consumers nor I accrued any loss, even though the lemonade was free." The girl went to bed, happy that she had made her point.

The next day, she came home from school with a troubled expression on her face. Her father asked her what was wrong.

"I got a D today on my spelling test!" she lamented. "I was so busy with my lemonade stand yesterday that I did not have enough time to study."

"I see," said the father. "So do you think the time you could have spend studying was perhaps an opportunity cost of your business?"

"Maybe," The daughter said. "But why is that important?"

"I'm afraid in your efforts to devise a free system of exchange, you focused solely on 'free' in its monetary sense. You did not look at time as a form of capital, and the implicit costs associated with it. You could have earned a better grade by using your time to study rather than to run your lemonade stand. Your customers may have received free lemonade, but you incurred a net loss from an economic point of view."

The girl felt foolish for having overlooked such a simple concept in her planning. She realized that the enjoyment she had derived from providing free lemonade to her neighbors did not balance the sadness she now felt because of her poor grade, coupled with the annoyance of having to work extra diligently to bring up her average.

"I guess you were right," she conceded. "There really is no such thing as a free lunch."