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# Opportunity Cost

Each time we make a choice, we give up something. This next best alternative (or second favorite choice) is the opportunity cost.

# OPPORTUNITY COST

## Definition/Background

Because we cannot have everything we want (scarcity), we must make choices. Each time we make a choice, we give something up. There is always a next best alternative when making any choice. The value of this next best alternative (or second favorite choice) is the opportunity cost.

Students face many choices and thus incur opportunity costs every day. For example, when a student chooses to spend money on something now (economic choice), they give up the opportunity to save that money for something else in the future (opportunity cost). When they spend time watching TV, that is time that can't be spent doing something else. The evaluation of choices and opportunity costs is subjective; such evaluations differ across individuals and societies. But by recognizing their opportunity cost when making a choice, students will become more productive and rational decision-makers.

Consumers and producers must make decisions and therefore incur opportunity costs. For example, a consumer may not have enough money to buy a new pair of shoes and a skirt. If she decides to buy the skirt (economic choice), the shoes are her opportunity cost. A producer, for example, faces scarcity if he or she decides to reinvest all business profits into expanding a product line (economic choice), therefore those profits cannot be used to hire new employees (opportunity cost).

## Teaching Ideas

1. Ask the students to give examples of the opportunity costs made by their favorite literary characters. Discuss what choices were made and what was given up because of those choices.
2. Pass out two-sided pictures from coloring books. Instruct the students to color both sides to the best of their ability. When the students are finished, give them a pair of scissors and instruct them to cut out ONE of their creations for display. Explain that the other side will be destroyed, so the chance to display that side will be their opportunity cost.
3. Create a list of three activities that the students may vote to do during a specific time period such as going to the library, recess and computer time. Allow them to rank these activities from highest to lowest. The one with the most votes is the class's choice; the one with the second most votes is the opportunity cost.
4. Give students a choice between two inexpensive items (for example, Tootsie Roll and Hershey's Kiss). Allow students to decide which candy they want to eat and ask them to identify it to the class by holding it up and saying, "This is my economic choice." Have students then hold up the candy they are not choosing and say, "This is my opportunity cost." Students will physically experience giving up something when making their decision.

## Lessons & Resources

### Print Lessons

- Choices and Changes: Grades 2-4**, Lesson 5: Opportunity Cost - What Does a Choice Cost You? (elementary)  
**Master Curriculum Guides in Economics: K-2**, Lesson 14: Choice Train (elementary)  
**Financial Fitness for Life: Grades 6-8**, Lesson 1: The Economic Way of Thinking (middle)  
**Choices and Changes: Grades 7-8**, Lesson 5: Economic Choice and Opportunity Cost (middle)

### Online Lessons

- Toys for Me** – A Lesson on Choice (elementary)  
<http://www.econedlink.org/lessons/index.cfm?lesson=EM517&page=teacher>  
**Play Dough Economics: Lesson 4 Opportunity Cost** (elementary)  
[http://www.ncee.net/resources/lessons/play\\_dough\\_lesson4.pdf](http://www.ncee.net/resources/lessons/play_dough_lesson4.pdf)  
**The Opportunity Cost of a Lifetime** (middle)  
<http://www.econedlink.org/lessons/index.cfm?lesson=EM51&page=teacher>  
**What's It Going to Cost Me?** (middle)  
<http://www.powellcenter.org/uploads/WhatsItGoingtoCostU.pdf>

### Fed Resources

- Piggy Bank Primer** (elementary)  
<http://www.stlouisfed.org/education/resourcetools>  
**Great Minds Think: A Kid's Guide to Money** (elementary and middle)  
[http://www.clevelandfed.org/Learning\\_Center/Online\\_Activities/great\\_minds\\_think/](http://www.clevelandfed.org/Learning_Center/Online_Activities/great_minds_think/)

### Literature

- **Coming on Home Soon** by Jacqueline Woodson. Putnam, 2004. Spending time with Ada Ruth is Mama's opportunity cost when she takes a job in Chicago during World War II. [Grades K-3]
- **You Wouldn't Want to Be a Skyscraper Builder!: A Hazardous Job You'd Rather Not Take** by John Malam. Franklin Watts, 2009. The Great Depression is going strong and you need a job, even if it is a dangerous one. [Grades 3-5]
- **Only One Year** by Andrea Cheng. Lee & Low Books, 2010. When the decision is made to send a family's baby back to China to stay with his grandparents there are many opportunity costs. [Grades 3-5]
- **Al Capone Does My Shirts** by Gennifer Choldenko. Putnam, 2004. Twelve-year-old Moose struggles with the opportunity cost his family incurs when they move to Alcatraz Island in 1935 so his father can work as prison guard and his sister can attend a special school. [Grades 4-7]

# VIRGINIA COUNCIL ON ECONOMIC EDUCATION

VCEE is a nonprofit organization providing Virginia's K-12 teachers with professional development, quality curriculum and other resources to promote economic and financial education. Visit [www.vcee.org](http://www.vcee.org) or contact VCEE or one of its affiliated centers for economic education to learn about specific opportunities.

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