

# Opportunity Cost



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## CHOICES

## AND OPPORTUNITY COST

Whenever unlimited wants and needs coexist with limited resources, people must make choices. Choices result in an opportunity cost—the very next best thing given up.

## OPPORTUNITY COST

### Definition/Background

Productive resources are limited (scarcity). Therefore, people cannot have all the goods and services that they want (scarcity); as a result, they must choose some things and give up others. 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.

Both consumers and producers confront scarcity; consequently, both groups must make decisions and therefore incur opportunity costs. For example, a consumer may not have enough money to buy both a new pair of shoes and a skirt. If she decides to buy the skirt (economic choice), the shoes are her opportunity cost. Producers also face scarcity. For example, if he or she decides to reinvest *all* business profits into research and development (economic choice), those profits cannot also be used to expand a product line that might also be desired (opportunity cost).

Because we cannot have everything we want, we must make choices. 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 in the future (opportunity cost.) Students face many choices every day. Is watching TV the best use of their time? Is working at a fast-food restaurant better than the best alternative job or some other use of their time? By recognizing their opportunity costs when making choices, students will become more productive and rational decision-makers. Identifying and systematically comparing alternatives enables people to make more informed decisions.

### 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 one side will be destroyed, which will be their opportunity cost.
3. List three activities 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>

**Several Children's Literature lessons** (elementary)

[http://www.stlouisfed.org/education/lesson\\_plans/elementary.html](http://www.stlouisfed.org/education/lesson_plans/elementary.html)

**Great Minds Think** (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]

• **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

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