What is Opportunity Cost?

Worksheet

Opportunity cost is the value of what you sacrifice by choosing one option over another. If you study, the opportunity cost is the money you'd earn working instead.

Questions

1. You give up 3 hours of sleep to attend a party. If sleep is worth 8 points per hour to you, your opportunity cost is:
A) 0 points
B) 8 points
C) 24 points
D) 3 hours

2. Which is NOT an opportunity cost of attending a 2-hour movie?
A) Money for ticket
B) Time to study
C) Social time with friends
D) The movie you watch

3. A country chooses to build a hospital instead of a school. The opportunity cost is:
A) The cost of the hospital
B) The school that is not built
C) Hospital benefits gained
D) Tax revenue needed

4. When is opportunity cost zero?
A) When you get something free
B) When you have unlimited resources
C) When you have no choices
D) Never — scarcity means there is always an opportunity cost

5. You can work and earn $20/hour or study for 4 hours. What is your opportunity cost of studying?

6. A farmer has land for 100 acres. She can grow wheat (profit 500/acre) or corn (profit400/acre). If she chooses wheat, what is the opportunity cost per acre?

7. You have 5000. You can invest in stock (expected return500) or bonds (expected return $250). If you pick bonds, what is your opportunity cost?

8. Define: Define opportunity cost.

9. Define: Is opportunity cost always in dollars?

10. Define: Does a free choice have an opportunity cost?

Answer Key

1. C) 24 points — 3 hours × 8 points/hour = 24 points of lost sleep value.
2. D) The movie you watch — The movie is a benefit gained, not something given up.
3. B) The school that is not built — Opportunity cost is specifically the school benefits and services foregone.
4. D) Never — scarcity means there is always an opportunity cost — Because resources are finite, every choice involves giving up an alternative.
5. Hours spent studying = 4 hours Wage per hour = 20/hour Opportunity cost = 4 ×20 = $80
6. Profit per acre (corn) = 400 Profit per acre (wheat) =500 Opportunity cost = $400 (corn profit foregone)
7. Return from stock = 500 Return from bonds =250 Opportunity cost = $500 (stock return forgone)
8. The value of the next-best alternative given up when making a choice.
9. No — it can be time, happiness, health, or any valued resource.
10. Yes — your time and other things you could do instead still count.