

What is Opportunity Cost?

Worksheet

Opportunity cost is the value of the next-best alternative forgone when a choice is made. It applies to every decision, from spending money to choosing how to spend an hour of your day.

Questions

1. What is opportunity cost?
 - A) The total cost of all options
 - B) The value of the best alternative forgone
 - C) The price you actually paid
 - D) The sum of explicit costs
2. You choose to watch a movie (worth \$20 in enjoyment) instead of working a shift paying \$40. Your opportunity cost is:
 - A) \$20
 - B) \$40
 - C) \$60
 - D) \$0
3. Opportunity cost exists because of:
 - A) Inflation
 - B) Scarcity of resources
 - C) Government regulation
 - D) Interest rates
4. Which is an example of an implicit opportunity cost?
 - A) Paying \$30 for a textbook
 - B) The wages you could have earned instead of studying
 - C) A \$10 late fee
 - D) A \$5 tax
5. You have \$500. You could invest it for a \$50 return, or spend it on a trip worth \$500 in enjoyment. If you invest, what's the opportunity cost?
6. A student can work a weekend shift for \$120 or study for an exam. If studying raises their expected grade value by \$200 (in future scholarship terms), what should they choose?
7. A farmer has 10 acres. Wheat yields \$300/acre profit; corn yields \$250/acre. If she plants all wheat, what is the opportunity cost per acre?
8. Define: What is opportunity cost?
9. Define: Does opportunity cost only apply to money?
10. Define: What is the 'best forgone alternative'?

Answer Key

1. B) The value of the best alternative forgone - Opportunity cost is specifically the value of the single next-best alternative you gave up.
2. B) \$40 - The opportunity cost is the value of the forgone alternative - the \$40 shift.
3. B) Scarcity of resources - Because resources are scarce, choosing one option means giving up another.
4. B) The wages you could have earned instead of studying - Implicit costs are forgone values of resources you already own, like your own time/labor.
5. Chosen: invest, gain = \$50 Forgone: trip worth \$500 in enjoyment Opportunity cost = \$500 (the value of the trip you gave up)
6. Chosen (study) value = \$200 Forgone (work) value = \$120 Net benefit = $200 - 120 = \$80$ studying is the better choice
7. Value chosen (wheat) = \$300/acre Value forgone (corn) = \$250/acre Opportunity cost = \$250/acre (per acre planted with wheat)
8. The value of the best alternative you give up when making a choice.
9. No - it applies to time, labor, and any limited resource.
10. The single next-best option you didn't choose, not all the options combined.

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