

# Economics - Opportunity Costs

Putting economists' cost/benefit rules into practice isn't easy. To do so, you have to be able to choose and measure the cost and benefits correctly. Economists have devised the concept of **opportunity cost** to help you do that. The **opportunity cost** of undertaking an activity *is the benefit forgone by undertaking that activity*. The benefit forgone is the benefit that you might have gained from choosing the next-best alternative have an opportunity cost.

Let's consider some examples. The opportunity cost of going out once with Natalie (or Nathaniel), the most beautiful woman (attractive man) in the world, might well be losing your solid steady, Margo (Mike). The opportunity cost of cleaning up the environment might be a reduction in the money available to assist low-income individuals. The opportunity cost of having a child might be two boats, three cars, and a two-week vacation each year for five years.

Examples are endless, but let's consider two that are particularly relevant to you; your choice of courses and your decision about how much to study. Let's say you're a full time student and at the beginning of the term you had to choose four or five courses to take. Taking one precluded taking some other, and the opportunity cost of taking an economics course may well have been not taking a course on theater. Similarly with studying: You have a limited amount of time to spend studying economics, studying some other subject, sleeping, or partying. The more time you spend on one activity, the less time you have for another. That's opportunity cost.

Notice how neatly the opportunity cost concept takes into account costs and benefits of all other options, and converts these alternative benefits into costs of the decision you're now making.

The relevance of opportunity cost isn't limited to your individual decisions. Opportunity costs are also relevant to government decisions, which affect everyone in society. A common example is the guns-versus-butter debate. The resources that a society has are limited: therefore, its decision to use those resources to have more guns (more weapons) means that it must have less butter (fewer consumer goods). Thus, when society decides to spend \$50 billion more on an improved health care system, the opportunity cost of that decision is \$50 billion not spent on helping the homeless, paying off some of the national debt, or providing for national defense.

The opportunity cost concept has endless implications. It can even be turned upon itself. For instance, it takes time to think about alternatives; that means that there's a cost to being reasonable, so it's only reasonable to be somewhat unreasonable. If you followed that argument, you've caught the economic bug, if you didn't, don't worry. Just remember the opportunity cost concept for now; I'll infect you with economic thinking in the rest of the book.

**Source:** Colander, David. *Macroeconomics*. 5th ed. Boston, McGraw Hill. pp. 8-9.