



op·por·tu·ni·ty cost

the loss of potential gain from other alternatives when one alternative is chosen.
"idle cash balances represent an opportunity cost in terms of lost interest"

1. By taking an airplane one can go from A to B in one hour. The same trip takes five hours by bus. If the airfare is \$30 and the bus fare \$10, which would be the cheaper mode of transportation for someone who could earn \$2 per hour during that this time? For someone who could earn \$10 an hour?
2. The acres of grass surrounding the Taj Mahal in India are often cut by young women who slice off handfuls with short kitchen blades. Is this a low (or high) cost way to keep a lawn mowed?
3. Many Americans today seem to be much more "pressed for time" than were their grandparents. This is rather odd in view of the fact that today's homes and workplaces are full of so many time-saving devices to which our grandparents had no access. How would you account for this?
4. Suppose that there is a drastic reduction in the availability of gasoline and the price skyrockets to \$3/gallon. For whom is the cost of gasoline higher, a retired person living on social security or a prominent cosmetic surgeon? Suppose that in response to a gasoline shortage, the government placed a ceiling on the price of gas, at \$1.05/gallon. For whom is the cost higher in this situation?
5. Use the concept of opportunity cost to explain why the rate of divorce among show business celebrities is so high.





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6. What is the cost per ticket to a professional baseball club that offers 50 free tickets to an orphanage? Does it matter for what game the tickets are offered? Why would it probably cost the ball club more to give the tickets to college students than to poor orphans?

7. TV and radio networks offer "free" air for public service announcements. What is the cost of this "free" time to the station? Why are there more public service announcements on Sunday than on any other day of the week?

8. In the early 1980s, when Polish people had to stand in long lines in order to purchase most consumer goods, the government ordered that every third place in line be reserved for pregnant women or disabled persons. This was presumably done to reduce their discomfort. What happened to the amount of time pregnant women stood in lines?

9. Teachers in eastern European countries comment on the fact that they do not have as much trouble getting their students to do homework as American teachers do. Is there some fundamental difference in character between American and European students? How would you explain the comment by a traveling American teacher who predicted that as the eastern European economies developed, European teachers would have the same problems of unfinished homework as American teachers?

10. Why do businessmen often buy full-fare airline tickets while people planning vacations fly when rates are lowest?

