Exercise walk-through

Opportunity cost ▪ 1.3

eXercise

You must be able to

- define opportunity cost
- apply it to each type of decision-maker
- analyse the role of opportunity cost in a decision

Method — The cost of every choice

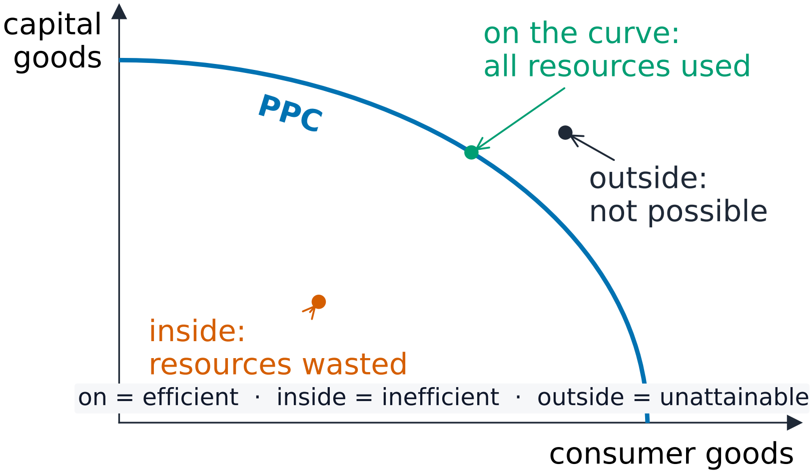
- **Opportunity cost 机会成本**: the next best **alternative 替代选择** given up when a choice is made.
- **Consumer:** buys a game → gives up the book. **Worker:** takes one job → gives up another's pay.
- **Producer:** makes more cars → gives up the trucks. **Government:** builds a hospital → gives up a school.
- Every choice has a cost, even when no money changes hands.

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

Method — The cost of every choice

Scarcity forces everyone to make choices

Method — The cost of every choice



Practice 2.1 ▪ 2 marks

Define the term *opportunity cost*.

Solution 2.1

Method: The cost of every choice

Worked steps

the next best alternative given up when a choice is made (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 1 mark

A government spends its budget on a new road instead of a new hospital. State the opportunity cost.

Solution 2.2

Method: The cost of every choice

Worked steps

the new hospital that is given up (1).

Practice 2.3 ▪ 2 marks

State the opportunity cost for a worker who chooses one job over another.

Solution 2.3

Method: The cost of every choice

Worked steps

the pay (and benefits) of the next best job they could have done (2 for a clear answer; 1 for a partial idea).

Exam-style 3.1 ▪ 1 mark

A consumer spends $30 on a concert ticket instead of a book. The opportunity cost is:

A the $30 spent

B the book given up

C the concert enjoyed

D nothing, because money was spent

Solution 3.1

Method: The cost of every choice

A the $30 spent

B the book given up ✓

C the concert enjoyed

D nothing, because money was spent

Worked steps

B. The opportunity cost is the next best alternative — the book given up.

Exam-style 3.2 ▪ 4 marks

Explain, with an example, how opportunity cost affects a producer's decision.

Solution 3.2

Method: The cost of every choice

Worked steps

[4] K 1–2 + An up to 2 — a producer's resources are scarce, so using them for one product means another is given up $\rightarrow$ e.g. a factory that makes more cars uses factors that could have made trucks $\rightarrow$ the forgone trucks are the opportunity cost, which the producer must weigh.

Exam-style 3.3 ▪ 6 marks

Analyse why opportunity cost is important when a government decides how to spend its budget.

Solution 3.3

Method: The cost of every choice

Worked steps

[6] K/App/An — a government has a limited budget but many demands (health, education, defence, roads), so spending on one means giving up another $\rightarrow$ opportunity cost shows the true cost of each choice $\rightarrow$ it helps the government compare the benefit of each option and spend where the benefit to society is greatest $\rightarrow$ ignoring it could waste scarce public money on a less valuable project.