

Opportunity cost



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Have you ever been in the situation deciding which cloth to buy? Have you ever facing the dilemma of to study or to play? Have you ever consider as a seller and choose to lower the price or raise it? In the field of economics, here's a solution for you. The magic word is " opportunity cost". Opportunity cost in terms of economy is the highest-value alternative one has to give up to engage in an activity. In other words, using the same resources such as money and time, the best outcome besides the one that one chooses is the opportunity.

Like a price one has to pay to buy goods and services, opportunity also has its own price. It's not always in forms of money though; it could be reward form a competition, an earning from other activity, or even the feeling of satisfaction. Using this thinking process helps people see through the clouds of other factors and make rational decisions. The idea of Opportunity cost is so close to our daily life that sometimes we don't even notice. To interpreter the conception, we can use the classic example, guns versus butter.

Say a nation has limited resources and can produce butter only, guns only, or any combination of both. In order to produce one more unit of butter, a certain amount of guns has to be given up, vice versa. The opportunity cost of a unity of butter is that certain amount of guns that has been given up. In the example, guns represent the national defense while butter stands for civil goods. It's a dilemma that facing by any nation in the world. Not only the big event like national budget, but also small daily activity like shopping for goods involved in opportunity cost.

For example, a mid-class housewife is shopping online on walmart. com deciding between normal vegies and organic vegies. On the one hand,

vegies is cheaper by couple dollars for each item while the whole family has to take the risk of catching disease from the overused pesticide; on the other hand, the organic vegies cost 20% more while it can reduce 50% the chance of catching the disease. The opportunity cost of buying normal vegies is 50% chances of family getting sick, and the opportunity cost of buying organic vegies is only 20% of the price.

After calculating, as long as she can afford it, a rational decision would be buy the organic. Opportunity cost applies to not only monetary value, but also other types of burden such as time and relationship. Take my mom as an example. My mom is a perfect woman in my vision. She's the type that can be either out there earning money, or run our family tidily. However, she cannot do them both at the same time due to the time conflict and her scarce energy which in this case would be the opportunity cost.

Consider it with the view of an economist, either activity my mom performs has a very high opportunity cost. If she choose to start her own company, she has to abandon my sister's education and clean house; if she go with the her will and play her maternal role, she will have to sacrifice all the profit from running the company and her satisfaction of being a leader and providing jobs. Either way, she will have to give up a lot of potential possibilities. What she decides actually is to do them both with her strong will.

However, she is facing some serious health problem which means she gives up her health and most importantly later enjoyable life. On the big image, even the whole nation use the opportunity cost to evaluate its decision. Just like the example in former paragraph. During an international trade,

government will be facing the dilemma between economic efficiency which mean the total surplus of the world is increased and political efficiency which means that the national total surplus has been maximized. For example, U. S. import shoes from China because the cost of labor is cheaper in China. However, the opportunity of importing is unemployment rate goes up.

Under the other circumstances, if U. S. stops importing shoes from China or set up a tariff, the factory in the States will have a better chance competing against Chinese factory which means they will be able to hire more workers in their factory. The opportunity cost of setting up a tariff is less consumer surplus which means consumer will pay more for the same quality product.

Theoretically, U. S. shouldn't post tariff since the whole country would be better off with free trade to other country in the world. However, consider in social aspect, it would be a better idea to protect domestic producer in order to create more jobs, since citizen without a jobs tend to be more likely to commit crime. It all depends on which point of view one is standing. The function of opportunity cost is influencing our daily life without even being noticing. The effects of opportunity cost are not just financially based, but they also go through our day-to-day life.

Thus, the importance of being a rational thinker is shown, we need to keep an eye on the other option that more availability instead of focus on the myopia benefits. when during a test, student will pick the question that is easier and has better price instead that either harder or has less point. In terms of score, the first question has less opportunity cost which mean it requires to give up less credit or less time than the second one. So student

would have comparative advantage in doing the first question than the second one.

In this case, the value is score. There are two terms of cost in economics: explicit cost and implicit cost. When facing dilemma, they tend to use the explicit cost to determine which one to choose. Explicit cost is obvious, always in terms of money. If an apple cost \$499, that's the explicit cost one has to pay to obtain that device. On the other hand, if you start a small business with that \$499, and later earned \$1million, the implicit cost would be that \$1million.

Most people tend to consider explicit cost and make decision accordingly while economist makes decision based on implicit cost. Opportunity cost sometimes can be hard to measure. A good example would be the debate that was hot discussed these days in china: whether should student go to college or should go to work instead. The opportunity cost of going to the college would be the tuition and social experience during the 4 years of college life. While on the other hand, go to work (or even start one's own business) would miss the higher educations.