

The persuasive power of opportunity costs research paper example

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Introduction

When deciding to procure a service or a product, an individual or a company evaluates the opportunity cost. One thing is bought at the expense of another. Since resources are limited and needs are unlimited, people usually purchase products that will give them the greatest value for the available resources. Opportunity cost can therefore be defined as the loss of potential gain from the second best sacrificed alternative when one alternative is chosen. For instance one has \$800 which he can use to buy a house or a vitz as those needs top his priority list. If he decides to buy a house, then he has to sacrifice the vitz. Opportunity cost is therefore the value that he would have reaped by buying the vitz.

When shopping for the stereo, Fredrick's choice was influenced by the amount of money that he already had, taste for the two brands, the desire that was more pressing and the number of CDs that he had. Buying the pioneer at \$1000 meant that he had to sacrifice Sony and \$ 300 as he only had \$ 1000. Though his taste and preference were on pioneer, purchasing it at the expense of Sony and the \$ 300 CDs would result to an opportunity cost of Sony plus \$ 300 CDs. Since the desire for CDs was also equally pressing, Fredrick had to result to purchasing the Sony and the CDs at the expense of pioneer. In that case the pioneer is an opportunity cost because purchasing it will mean foregoing Sony and the CDs. It is therefore clear that taste, what you already have and the desire for more pressing needs comes into subjectivity when calculating opportunity cost and deciding what alternative to take.

In the second case, though the opportunity cost has been modified to appear

minor, its value is actually large. Personal income will determine the choice that one will take. Purchasing the diamonds using the money reserved for the kitchen might disorganize the priorities as it may not be easy to raise the money again. However, for a high income earner, expenditure on diamonds will not displace any high-priority. The urgency of the kitchen renovation must also be considered in the calculation of the opportunity cost as it potentially affects the choice to be made. Purchasing the diamond earrings will lead to a delay of one year in the renovation of the kitchen. The earrings are luxurious and the renovation is apparently basic. So, it is therefore better to forego the diamond earrings for the sake of the kitchen renovation.

In the political example, if the government decides to purchase a modern heavy bomber, they will have to forego the modern brick schools, half million bushels of wheat and new homes that could have housed more than 8, 000 people. President Dwight seems to value the welfare of the citizens more than acquisition of the modern heavy bomber. He does not believe that there will be need for war. The opportunity cost of foregoing the bomber is small as compared to the potential loss and suffering that the people might undergo if the other developments are foregone. For this reasons, it is therefore better to give up the modern heavy bomber. Personal beliefs and ideology influenced the president's decision. Values and ideology of an individual influence the calculation of opportunity cost.

Reference

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