

# Good the persuasive power of opportunity cost essay example

[Business](#), [Customers](#)



[John McLane] insert your name here

[Wharton University] insert your university here

The article on Timothy Taylor's blog addresses the issue of opportunity costs – the costs of alternative option given up in order to make some action. The author argues that opportunity costs can appear large or small, depending on their “ framing”, i. e. comparing those costs with the value of goods or services.

The examples provided in the article show that while the opportunity cost in itself is just an abstract sum of money, it gains real value when stated in terms of the things that can be alternatively purchased with it. Thus, when the difference in price of \$300 between two stereos is quoted as “ twenty new CDs” (an option of relatively high value for a person who buys a stereo presumably because he loves listening to the music), the less expensive stereo would be chosen. In contrast, an unattractive option of spending those \$300 could make the buyer more inclined to purchase a more expensive stereo – for example, if his girlfriend told him: “ You would anyway waste that \$300 on junk food and cigarettes during the next year; you would better buy a high-quality stereo instead, so that we could learn to dance samba.” Furthermore, providing an unattractive alternative would work best for expensive goods, when combined with attractive presentation of possibilities associated with the good sold, thus raising the perceived good's value (as in the case of De Beers ad, which contrasts luxury and access to high society, typically associated with diamonds, to a “ boring” option of renovating a kitchen). The third example considers an even more expensive product – a heavy bomber, compared to the cost of building new schools and

houses, or feeding the nation. This case is typical for political discussions, as it discusses the valuable alternative to spending a large sum of money on a public good. However, the same costs could be framed to sound small, e. g. by stating them in the form: “ if each American pays only \$1, we can buy 10 such fighters”.

Therefore, the main factor that makes opportunity costs seem big or small is comparing them with relatively pleasant (valuable, desirable) or unpleasant (trifle, boring, unimportant, or even harmful) alternatives. The pleasant options can also include new possibilities, as well as situations involving emotional value (such as travelling, making a partial payment for a new car, learning a new language, or inviting one’s spouse for a romantic dinner). In their turn, unpleasant options could include bad habits (e. g. “ I quit smoking and thus would save the same \$300 for a more expensive stereo.”). Still, it is important to remember that the importance or pleasantness of options depends on the tastes and intentions of the buyer (e. g. if I were buying a stereo as a present for my friend, who already had a big CD library, then \$300 as “ twenty new CDs” would work worse). Another factor influencing the perception of opportunity costs is the financial situation of a buyer; e. g. \$300 could be a big sum for an unemployed student, but subjectively smaller for a CEO of Fortune 500 company. Also, the time factor is important: the expected lifetime of the good and frequency of its usage, can be employed to frame opportunity cost as small. For example, if I expect to be listening to a new stereo for 10 years daily, then \$300 difference in price can be quoted as “\$30 per year only” or even “ less than 10 cents per day” (comparable with something unimportant). The time factor can also work vice versa,

starting from the unimportant thing to be given up over a lengthy period: “ if I ate one less donut per week, this would be better for my teeth, and also let me save the \$300 over a year”.

## **References**

Mankiw, N. G. (2007). Principles of Economics (4th ed.). Mason, OH: Thomson/South-Western.

Taylor, T. (2011, July 21). The Persuasive Power of Opportunity Costs. Retrieved from <http://conversableeconomist.blogspot.com/2011/07/persuasive-power-of-opportunity-costs.html>.