

Opportunity cost



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Opportunity Cost In the economics domain, there are three closely related terms that are used not interchangeably but in tandem to relay economic matters in the best palatable way. These are, scarcity, choice and opportunity cost. The three terms are used in the economic domain which is defined as the means of making deliberate production, distribution and the final utilization of the resources within the human society (Ojediran 76). In respect to this the definition of the three terms becomes handy. Scarcity is the tendency of the goods and services to be limited in supply necessitating choice of one of the very many options available and this leads to the opportunity cost(Ojediran 98). Opportunity cost can then be defined as the act of forfeiting acquisition of a product or a service for utilization while in the same breadth opting for another that according to the prevailing circumstances you believe can best satisfy your need. Opportunity cost then is reached by an individual after weighing all the options in a circumstance and opting for only one, in this sense, it can be appreciated that the opportunity cost comes with the aspect of choice and scarcity in equal measure.

The concept of the opportunity cost is a culmination of the major economic problem which involves the ever limited resources in the society and that needs to satisfy the ever increasing unlimited demand for the products and services. Economists thus are faced with the problem of deciding what product to be produced in what quantity by the limited resources available to satisfy an envisaged demand. Opportunity cost can also take the aspect of time; demand and supply is all dependants and is affected by the time and thus opportunity cost can be effectively applied in reference to time (Ojediran 114). The video clip that was view and summarized in this paper <https://assignbuster.com/opportunity-cost/>

explains the sense of opportunity cost. It considers the opportunity cost of travelling from state collage to Florida during spring break engaging a bus and the other engaging a plane.

In the in-depth explanation of how to calculate the opportunity cost, Dirk takes his class through an integrated determination of opportunity cost by using empirical figures to clearly and vividly connote the essence of opportunity cost. He asks the class to determine the variables that will be considered in when gauging the opportunity cost of travelling from state collage to Florida and he advanced two options; a plane and a bus. He gets the response from the students that cost of the journey with reference to the two options, hours the two means will take to complete the journey, and finally the worth of the person per hour. The worth of a person per how is categorically singled out by Dirk to be mostly ignored by most people when considering the same.

In the chronology of the calculation, it was determined that the cost of the plane and the bus are \$400 and \$200 respectively, the time taken by the plane and the bus was proposed to be 8 hours and 48 hours respectively, this was to and from cost. The worth of a person hour was taken to be \$8. With regard to this the total cost of the journeys was calculated by adding the cost of the tickets and the product of time and worth per hour which was found to be \$64 and \$384. The total cost of the journeys was then calculated to be \$464 by plane and \$584 by bus. The inference to the figures thus indicates that travelling by plane is most cost effective that by bus and opportunity cost will favor the choice of the plane. He also extend to advice that when the worth of the person per hour is not given, then one can calculate the comfort of the two options per/hour to ascertain the

opportunity cost.

Work Cited

Ojediran, Bisi. Opportunity cost. Ibadan: Onibonoje Press & Book Industries (NIG), 1996. Print.