Economists make that statement that "there is no such thing as free lunch" report...

Economics, Money

A well-known saying “ There is no such thing as a free lunch” belongs to Milton Friedman, Nobel Peace Prize winner in Economic Sciences (Tucker, 2008, p. 27). This phrase poses a key question whether or not something can be free. “ Free lunch” appeared during a period in history when bars and saloons in America started attracting their customers by offering them free lunch (Riley, 2006). Obviously, they sacrificed money for lunch knowing about the trade-off on drinks their customers would order.

It refers to such economic concepts like opportunity cost and scarcity of resources. In addition, it is important to understand that monetary payment is not the indicator, because if an individual does not have to pay for lunch from his own pocket, there is always a person, company, institution or government that has to pay for it (Mankiw, 2010, p. 45). Thus, the famous saying does not imply only the trade-off of those who offer free lunch. Therefore, there is truly no such thing as “ free lunch” in the world of scarce resources and unlimited wants and needs people always make choices, and there is always an opportunity cost involved that is imposed on others.

Opportunity Cost and Choice

Limited resources and limited income of individuals clearly shows that people cannot buy all they want while their desires and needs are infinite. When people want to buy new clothes with a limited budget, they inevitably have to choose one piece of clothing over the other. Due to the time pressure individuals are unable to do everything they want at the same time. For this reason choice between different alternatives must be always made (Tucker, 2008, p. 34). If you decide to go hiking for a weekend, you will not have an opportunity to prepare for history exam, or take an additional shift at work to earn extra cash. In this way the opportunity cost of hiking consists of extra cash that could have been earned and study time needed to prepare for the history exam.

Scarce resources, money, and time apply to the concept of opportunity cost. Choice always implies choosing one product over the other, one service or the alternative one. Therefore, the opportunity cost of any purchase or action is what an individual must give up when making the choice (Riley, 2006). If Peter decided to buy a new necklace for his girlfriend, he spent the money and lost the chance to buy her flowers or invite her for a dinner. Each decision is a sacrifice and a problem of choice. In this case the opportunity cost for Peter is the value of the next best opportunity. The price of the necklace represents the purchase price, but the true cost of his decision is the opportunity cost of a choice he has not made.

The concept of opportunity cost also involves explicit and implicit costs. For example, “ How much does it cost to travel to India for two weeks?” Explicit costs for the trip are direct costs like tickets, taxi, hotel, and restaurant. These costs require a money payment. However, explicit costs are only the surface of an iceberg, and are insignificant comparing to the value of time spent on the two-way flight, two weeks of leisure, and excursions in India. Instead of spending two weeks abroad the student could have worked and earned more money. It represents the implicit costs of vacation in India, because these costs do not require a money payment. While the opportunity costs is the sum of both explicit and implicit costs (Mankiw, 2010, p. 62).

Furthermore according to Riley (2006), the concept of scarcity implies inability of producing another good after producing one. If government spends money, employs staff and spends time for producing free food for homeless or low-income people, the opportunity of producing another good is lost, since scarce resources and time already have been used. Homeless people acquire free lunch without any payment. From their standpoint it is free. However, economics is not the science studying separate individuals. Recourses and time spend on charity incurs the opportunity cost on government that could have used these resources on building of additional kindergartens, schools, providing better healthcare services, hiring more staff to clean the roads and lakes, or planting additional trees in the parks. In this case tax-payers are those who pay for a “ free lunch”, and from their viewpoint it is not free.

Possible Exceptions

Despite the common understanding of “ free lunch” idea, there are those who believe that free goods exist and do not impose any opportunity cost on anybody. For example, many bars and cafes offer their customers second cup of coffee for free. It is a marketing technique to attract more people and make more profit. It also does not mean that the first cup of coffee increased in price to include the cost of the second one. Usually it implies the trade-off that bar and café owners make on pastry and cakes that customers usually buy together with the coffee (Mankiw, 2010). It is a psychological trick. People think they save money one a cup of coffee and for this reason can spend money on something else. Those who do not believe in “ free lunch” would claim that first of all, the additional cost is already included in the mark-up for pastry, and secondly, even if customers do not pay for one cup of coffee, they still spends time that could have been used to work overtime or go to the zoo with their children.

Conclusion

When discussing the famous phrase of economists, it is important to realize that “ There is no such thing as a free lunch” does not mean that society cannot get anything for free without paying for it. The concepts of scarcity, choice, and opportunity cost help understanding this idea clearly. In our world individuals choose between different alternatives and are forced to make sacrifices. The money spent on a plasma tv cannot buy a snowboard. Even if your friend pays for dinner and you get your meal for free, it does not make your food free. The cost of your dinner imposes additional opportunity cost on the friend, who could have spent this money on a toy for his child.

References

Mankiw, N. G. (2010). *Macroeconomics* (7th ed.). Worth Publishers.

Riley, J. (2006). *Scarcity and Choice in Resource Allocation.* Retrieved February 5, 2011, from http://tutor2u. net/economics/revision-notes/as-markets-scarcity-and-choice. html

Tucker, I. B. (2008). *Survey of Economics* (6th ed.). South-Western College Pub.