

Thinking Like an Economist

Review of Concepts and Principles

Scarcity is an insufficient supply of something where “insufficient” is interpreted relative to the desires of a group of people. Scarcity implies that decision makers face trade offs, that is they must give up something to get something else. The *Opportunity Cost* of a decision is the decision maker’s next best alternative to the chosen decision. *Marginal Cost* is the cost of doing a little bit more of an activity. *Marginal Benefit* is the benefit that derives from doing a little bit more of an activity. The *Cost-Benefit Principle* says that an individual should undertake an activity only if the benefits are greater than the costs and only up to the point where the marginal benefit equals the marginal cost.

Exercises

The purpose of these exercises is for students to practice constructing arguments using opportunity cost and the cost-benefit principle.

1. Give an example of how you could use “opportunity cost” to improve a personal decision. Explain why thinking about opportunity cost improves the decision?
2. You have been invited to a party on Thursday night.
 - a. What is your opportunity cost of attending the party?
 - b. You decide to attend. Explain how can you use the cost-benefit principle to decide how long to stay?
3. The City of Raleigh recently built a new convention center. The city council paid for the project by raising the hotel tax by one-quarter of one percent. Council members argued that the project was free to Raleigh citizens because out-of-town visitors paid for it. Use the concept of opportunity cost to comment on the city council argument.
4. In a local coffee shop, you overhear your friend say the following. Use the concepts you have learned in class to join the conversation.

I think it shows a lack of moral character to introduce economics into consideration of the value of life. Human life cannot be priced. Who is to say what the value of a life is? We have an obligation to preserve life and must do whatever it takes to give the poorest child access to state of the art medical care.
5. Provide a brief oral report on the news article you located for which opportunity cost and the cost benefit principle can be used to better understand the article.
 - a. Say what the article is about.
 - b. Explain how you used opportunity cost and/or the cost benefit principle to interpret the article.