

Class One: Scarcity, Choice and Opportunity Cost

1. The Course Syllabus and Calendar

2. What you will do in Econ 101H

3. 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 a *Trade Off* each time they make a decision. That is, decision makers must give up something (or some alternative) to get something else (or another alternative).

The *Opportunity Cost* of a decision is the decision maker’s next best alternative.

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.

4. Economic Principles at Work

- Scarcity is a fundamental fact of life. Everyone experiences scarcity. Scarcity makes it necessary for people to make choices among scarce goods and services. Because we must choose, we constantly bear the *opportunity cost* of our choices. To make good decisions, we must carefully consider the opportunity costs we face.
- To a decision maker, the relevant costs and benefits are *marginal costs and marginal benefits* where marginal means “incremental.” Most decisions involve choosing a little bit more or less of a good or activity. Few decisions are all-or-nothing decisions. The cost-benefit principle says that an individual should do more of an activity only if marginal benefits exceed marginal costs.
- There are many ways to ration scarce goods. In a market economy, the price of the good is the rationing mechanism. At the market price, demand for the good equals supply of it. This means that everyone who is willing to pay the price of the good obtains it.

5. Assignment for Class 2

Find a news or opinion article that you believe is fundamentally about scarcity of an important resource. Write a one-page (200 word) essay in your course journal in which you explain why and how the concepts of opportunity cost and the benefit-cost principle can be used to better understand the article

Exercises

- Please indicate whether you think each is essentially true or false.

Econ 101 Survey				
	Class Start		Class End	
	True	False	True	False
The best things in life are free.				
The largest cost of attending college is tuition and fees.				
Anything worth doing is worth doing well.				
Life should be sustained at any cost.				

2. Give an example of how you could use “opportunity cost” to improve a personal decision. Explain why thinking about opportunity cost improves the decision?

3. 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. How can you use the cost-benefit principle to decide how long to stay?

4. The City of Raleigh recently built a new Convention Center. In discussing funding for the center, a political analyst suggested that the Convention Center was free to the citizens of Raleigh because the city paid for it by raising the motel and hotel tax. Use the concept of opportunity cost comment on the analyst’s suggestion.

5. In a local coffee shop, you overhear your friend say the following. Use the concepts you have learned in class today 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.

6. At the end of class, please decide whether you have changed your mind about the truth of the aphorisms listed in the Exercise 1 Table. If you have changed your mind, briefly explain why.