

Class Two
Thinking Like an Economist

The concepts of opportunity cost and the benefit-cost principle are very important to the economic way of thinking. To provide you with practice in using these concepts, we begin today's with a couple of "thought" problems. Please consider each problem individually and then meet with others in your group to discuss your answers. Each group will have an opportunity to present its group answer to the class.

APPLICATIONS OF OPPORTUNITY COST, BENEFIT-COST AND INCENTIVE PRINCIPLES

1. You and your friend Joe have identical tastes. At 2 p.m. on a Friday in February, you go to the local ticket outlet and buy a \$30 ticket to a concert to be played that night Raleigh, 25 miles away. Joe plans to attend the concert but, because he cannot conveniently get to the ticket office, he plans to buy his ticket at the concert venue. Tickets sold at the concert venue cost \$27 because they carry no ticket office surcharge. Many people pay the higher price at the ticket office to be sure of getting good seats.

At 6 p.m., an unexpected ice storm begins, making the prospect of the drive to Raleigh much less attractive than before. You learn from a radio broadcast that the concert will be held and reckon that the ice storm assures the availability of good seats. If both you and Joe are rational, is one of you more likely to attend the concert than the other? Remember you have the same tastes.

2. Residents of your city are charged a fixed weekly fee of \$6 for garbage collection. They are allowed to put out as many cans as they wish. The average household disposes of three cans of garbage per week under this plan.

Suppose that your city changes to a "tag" system. Under the tag system, residents must affix a tag to each can of garbage that they wish to have collected. Untagged cans are not collected. Tags cost \$2 each and are not reusable.

What effect will the introduction of the tag system have on the total quantity of garbage collected? Explain. Is the introduction of a tag system a good idea? What are the benefits of the system? What are the costs? Do the benefits of the tag system outweigh the costs?

