✦ IDEA · CHEAT CARD · ECONOMICS

opportunity cost

The value of the best alternative you give up when you choose, because the same time or money cannot be used twice.

How it works

1. Every choice uses time or money that could have gone to something else.
2. Of all the options you give up, only the best alternative counts.
3. The value of the best alternative, minus what it would cost, is the opportunity cost.
4. So an option is worth choosing only if it is worth more than its opportunity cost.

Example

Economists' concert survey, Philadelphia 2005

- Free Clapton ticket; the best alternative is Dylan, worth $50 to you, with a $40 ticket.

→ Going to Clapton costs you $50 minus $40, which is $10.

→ Only 21.6% of the 199 economists asked chose the $10 answer.

Use it for

- ✓ Counting the income you give up when you decide to study
- ✓ Comparing a job offer with your best alternative, not with nothing
- ✓ Choosing between a new restaurant and a favourite place you know is good

Watch out

- ✗ Only the best alternative counts, not all the alternatives you give up added together.
- ✗ Real values are often unclear, so an opportunity cost is an estimate, not an exact number.

Remember Before you choose, ask what is the best thing you would do instead.