

# Opportunity Cost Examples

1. Jayne decides to use the train to get to work rather than driving each day. The train fare each month will be £350. After one month, she calculates that she is spending £250 less on petrol and about £25 less on maintaining her car. What is the opportunity cost of using the train?
2. Jim, a consultant, earns £85 an hour. Instead of working one night, he goes to a Premier League football match in Manchester which costs him £55 and lasts two hours. What is the opportunity cost of watching the football instead of working?
3. Janet has £25,000 worth of shares in her portfolio that she can sell now to her friend Michelle for \$30,000. She wanted to wait six months because she expected the value of her shares but decides to sell them to Michelle. Six months later Michelle sells the shares with a £2,000 profit. What is the opportunity cost to Janet of selling her shares immediately to Michelle?
4. Geoff makes £200 an hour as a lawyer specialising in workplace injury claims. He is considering paying someone £500 a month to clean his swimming pool (which takes 2 hours each time, 4 times each month). If he decides to do it himself, it will take 12 hours a month. What is Geoff's opportunity cost if he decides to clean his own pool?
5. Graham has received a £15,000 windfall and decides to invest his money. He has a choice to either buy shares of company that makes Advocaat or leave the money in a savings account that earns 5% per year. He decides to purchase shares in the Advocaat company and after a year he sells them for £15,300. What was the opportunity cost (in £) of investing in the shares instead of placing the money in a savings account?
6. Ruth has a mobile hot-dog stand. She wants to employ 2 students to work for her between June and August. She expects each employee to generate £250 a day each of the 78 working days of this period. However, if she lost 2 days at the start of the period and fully trained her employees they could generate £260 a day. What is the opportunity cost of not training her employees?



# Opportunity Cost Examples - answers

## Question 1

Cost of using train pm= £350.

Cost of using the car pm =

$$£250 + £25 = £275$$

Opportunity cost of using the train =

$$£350 - £275 = £75 \text{ per month}$$

## Question 2

Jim earns £85 per hour. In 2 hours he earns

$$2 \times 85 = £170$$

Opportunity of attending match =

$$£170 + 55 = £225$$

*However, Jim may have witnessed his team win for the first time in months = priceless!*

## Question 3

Janet earns £30000 - £25000 = £5000 from selling shares to Michelle.

Michelle sold the shares 6 months later for

$$£30000 + £2000 = £32000.$$

Opportunity cost of selling the shares early is

$$£32000 - £30000 = £2000.$$

*However, the increase in share value was not guaranteed. The early sale might be more attractive.*

## Question 4

If Geoff cleaned his own pool he would lose earning potential equalling

$$12 \times £200 = £2400 \text{ per month}$$

The opportunity cost of cleaning the pool himself =

$$£2400 - 500 = £1900$$

*Even if Geoff does not work all of the hours that he saves by not cleaning his pool, he only has to work 3 hours to save money by using the pool cleaning company. That gives him more time to use the pool!*

## Question 5

If Graham had placed his windfall in the savings account he would have earned:

$$15000 \times 5\% = £750$$

Instead he earned £15300 - 15000 = £350

The opportunity cost of buying the shares =

$$£750 - £350 = £400$$

## Question 6

Earnings from her 2 employees without training =

$$(£250 \times 78) \times 2 = £39000$$

If she trained the employees she would lose 2 working days worth of revenue. The revenue would be =

$$(260 \times 76) \times 2 = £39520$$

The opportunity cost of not training her employees =

$$£39520 - £39000 = £520$$

*One danger of training the students, however, might be that they may leave her employment sooner than the 3 month period. If one the students did not enjoy the job and left after the first 2 weeks, Ruth will have lost out by training that employee.*

