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## Lesson 5

# Economic Choice and Opportunity Cost

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### Objectives

Students will

- recognize the need to make economic choices.
- understand that scarcity makes economic choices necessary.
- understand opportunity cost as the cost of making a choice.

### Materials Needed

- Student Journal, pages 5-1 and 5-2
- Activity 3, one copy for each student.

### Vocabulary

- alternative
- economic want
- opportunity cost
- scarcity

*review:* cost

## Getting Started

Define *economic want* on the chalkboard.

A want is something desired or wished for. An **economic want** is a desire that can be satisfied by consuming a good or service.

Ask the students the main reason why they don't have, and probably won't ever have, all their economic wants fulfilled. They will probably answer that they don't have enough money. Talk about reasons they don't have enough money.

(*Examples: allowance too small, unable to work because of labor laws, and so forth.*)

Direct attention to reasons other than lack of money for not being able to fulfill wants. (*Parents won't let me, not enough time.*) If students don't mention lack of human capital (skills and knowledge), be sure to include this reason.

Explain that in economics the word for not being able to have everything we want is *scarcity*. Write the definition on the chalkboard:

**Scarcity** is a condition in which wants are greater than available resources.

Help the students to realize that scarcity exists for everyone, not just for young people. Parents, teachers, and even nations experience scarcity because no one can have everything they want. Have the students think of examples of scarcity for individuals and for society; emphasize the limits of society's productive resources.

Students tend to think of money as a resource that can cure scarcity, but it is not a cure-all. If our money income doubled, our scarcity problems would not disappear. Wants escalate with income, and time (that is, the time we spend to get things we want) has a greater opportunity cost as income rises. Money is not a societal resource either. If the amount of money available in the nation were doubled, we would still not be able to produce more goods or services than before. However, increasing the quantity or quality of human resources results in greater productivity. Although we cannot cure scarcity, we can learn to cope with it by making better decisions, budgeting our time and money more efficiently, and thus gain more control over the outcome. This added control leads to more personal satisfaction.

## Teaching Procedures

1. Distribute Activity 3, *Mario's Lucky Day*. Ask the students to read the story, working individually or in groups. The story describes a scarcity situation.

2. When the students have finished the story, direct them to turn to page 5-1 in their Student Journal. Work through the page with them. Ask:

Mario just got \$75. Does he have a scarcity problem? (*Yes. Because he can't have everything he wants, he must choose how to spend his money.*)

3. The different choices Mario has are called his *alternatives*. Write on the chalkboard:

An **alternative** is one of two or more things that can be chosen.

4. Ask students:

What is the first of Mario's alternatives discussed in the reading? (*Saving for a digital camera.*) Write this alternative in the first column under Alternative 1.

5. Write on the chalkboard: **Price** is the amount of money one pays for a good or service.

6. Ask: What is the price of Mario's first alternative? (*\$200*) Write this in the second column.

7. Repeat this procedure for the other two alternatives. (*Clothing, \$60; season ticket, \$75*).

8. Explain that while prices are important in making a decision, other factors also should be taken into consideration. One of these factors is the additional cost of each alternative.

In economic terms, a cost is something given up or sacrificed. Have the students identify some of the additional costs of choosing each alternative. For example:

- A digital camera (*having to wait to save or earn the rest of the money; not having anything to enjoy now*)
- Clothes (*won't be any closer to getting a camera; possible dry cleaning expenses; time spent shopping*)
- Season tickets (*transportation expenses to the games; cost of snacks at games; additional time spent watching games*)

9. Have the students review Mario's three alternatives. Emphasize that Mario has a scarcity problem because he does not have enough money to satisfy all three of his wants. Because of scarcity, Mario must make a choice. He makes a choice by deciding among his alternatives.

10. Direct the students' attention to the questions 1 and 2 on page 5-1 in the Student Journal and ask the students to answer them. When the students have finished answering, encourage volunteers to share their answers and their reasons.

11. Tell the students that in economics there is a special name for the alternative which would be someone's next-best choice. This alternative is called the person's *opportunity cost*. Define the term as follows:

**Opportunity cost** is the highest-valued alternative a person has to give up when making a choice.

12. Tell the students that Mario decided he liked Alternative 2 (clothes) best. He liked Alternative 3 (season ticket) second best, and Alternative 1 (saving for a digital camera) least. Explain that in economics Alternative 2 is called Mario's *choice*. Alternative 3 is called Mario's *opportunity cost* because it is his next-highest valued alternative.

Illustrate the meaning of opportunity cost with Mario's story by writing the following on the chalkboard:

Alternative 2: Mario's choice

Alternative 3: Mario's opportunity cost

## Evaluation

Have the students turn to page 5-2 in their Student Journal, *My Story About Scarcity*. On this page they are to write a story similar to Mario's story which shows a situation of scarcity in their lives or in the life of someone they know. Remind the students that scarcity does not always refer to money. It can be related to time, skill, knowledge, tools, materials, and so on. Their stories should explain the scarcity situation, the alternatives (at least two), and how the situation turned out. In their stories, students should address these questions in order: What is wanted? What do they cost? How much money is available? How did you decide on which alternative?

After completing their stories, the students are to identify their choices and their opportunity costs. (Examples of choice situations might include spending money received as a gift, choosing among activities that happen at the same time, having enough fabric to make a shirt or pants but not both.)

**ACTIVITY 3****Mario's Lucky Day**

It is Mario Alvarez's lucky day. He is 14 years old and has \$75 in his pocket. Mario's older brother, Ricardo, plays in a band. Last night Ricardo's boss paid the band extra for playing longer than usual. Ricardo split his part of the extra pay with Mario because Mario had helped him carry the band's instruments several times. Now Mario faces a nice decision—what to do with the \$75?

For about a year now, Mario has wanted a digital camera. If he had one, he and his friends could take pictures together and have lots of fun. There is a problem, however. The digital camera Mario wants costs \$200. The \$75 Mario has would be a good start toward buying the camera. However, Mario would have to wait until he got the rest of the money to buy the camera.

Mario also wants some new clothes. They cost \$60. Mario knows he would look great in the new clothes.

Mario loves to go to basketball games with his uncle who sometimes comes to town to visit. The \$75 would pay for a season ticket to see his favorite team play. Then he wouldn't have to wait for his uncle to come to town.

These are three alternatives Mario has for using his \$75. Suppose you are asked by Mario to help him think about these alternatives. Use page 5-1 in your Student Journal to help Mario make his decision.

STUDENT JOURNAL Page 5-1

**Never Enough**

Help Mario make his choice by first listing his alternatives in the left-hand column below. In the middle column, list the price of each alternative. In the right-hand column, list additional costs of each alternative.

	Price	Additional costs of this alternative
Alternative 1 _____		
Alternative 2 _____		
Alternative 3 _____		

1. If you were in Mario's position, which alternative would you choose? \_\_\_\_\_

Why? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

2. What would your second choice be? \_\_\_\_\_

Why? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

