

Name: _____ Class: _____

Date Taken: _____ Total Possible Marks: 26



Opportunity Cost

Complete the following questions in the time allowed by your teacher

QUICK DEFINITIONS

Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

$\frac{2}{2}$ 1. Define: opportunity cost

$\frac{2}{2}$ 2. Define: interest rate

$\frac{2}{2}$ 3. Define: decision-making

QUICK LISTS

In this section, provide an outline or list points which answer the question

$\frac{4}{4}$ 4. Give four examples of decisions a business takes

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____
- F. _____

$\frac{-}{4}$ 5. An entrepreneur decides to end her career in the world of investment banking and start a new business running a hotel in Padstow. Identify three potential opportunity costs arising from this decision:

- A. _____
- B. _____
- C. _____
- D. _____

$\frac{-}{4}$ 6. List three factors that make it hard to assess the opportunity cost of a decision

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____

Short Answers

In this section, write a short answer (one or two sentences) for each question.

$\frac{-}{4}$ 7. Explain why, in business, decision-making involves risk and uncertainty

$\frac{-}{4}$ 8. Briefly explain why opportunity cost is so important in business decision-making

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Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

$\frac{-}{2}$ 1. Define: opportunity cost

Answer

The benefit foregone of the best alternative - which is sacrificed when making a decision.

Opportunity cost is the benefits lost from taking a decision.

$\frac{-}{2}$ 2. Define: interest rate

The return for saving or the cost of borrowing.

$\frac{-}{2}$ 3. Define: decision-making

Decision-making is the process of choosing what to do based on a range of alternative actions

QUICK LISTS

In this section, provide an outline or list points which answer the question

$\frac{-}{4}$ 4. Give four examples of decisions a business takes

A. Where to locate a new outlet?

B. Whether to increase production capacity?

C. Should new employees be taken on?

D. Spend promotion budget on advertising or direct marketing?

E. Develop a new product?

F. Should employees be given a pay rise?

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- 5. An entrepreneur decides to end her career in the world of investment banking and start a new business running a hotel in Padstow. Identify three potential opportunity costs arising from this decision:
- 4
- A. Loss of remuneration - investment banking well paid
 - B. Loss of feeling of job security and responsibility
 - C. The risk that the investment in the hotel will fail
 - D. The return on alternative investments other than the hotel
- 6. List three factors that make it hard to assess the opportunity cost of a decision
- 4
- A. Uncertainty - no guarantee that other decisions will prove better
 - B. Timescale - over what period is the opportunity cost being measured?
 - C. Importance of financial v non-financial rewards - which is most important?
 - D. Availability of information - are benefits and costs of decisions quantifiable?
 - E. Accuracy / reliability of estimates and forecasts

Short Answers

In this section, write a short answer (one or two sentences) for each question.

- 7. Explain why, in business, decision-making involves risk and uncertainty
- 4
- Valid points include:
- Many business decisions taken every day - they vary in importance
- Decisions have to be taken based on available information (e.g financial data) - but that might be outdated, inaccurate or unreliable
- Other decisions taken on "hunch" - how can this be measured?
- Decisions often have unintended consequences
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- 8. Briefly explain why opportunity cost is so important in business decision-making
- 4
- Valid points include:
- Almost all businesses have limited resources - so choices have to be made about how resources are allocated
- A business can benefit from a range of choices - but which one is best?
- Ultimately, management is about decision-making