Solutions

Each answer shows the steps, then the **result**.

2.1

- proceed only if the total benefit is at least as large as the total cost

2.2

- explicit costs are out-of-pocket payments; implicit costs are the opportunity cost of resources you already own

2.3

- they are already spent and cannot be recovered, so they do not change the future benefits or costs of the decision

3.1 B

3.2 B

3.3

(a)

- yes, it should finish

(b)

- the $10 000 is sunk and irrelevant; the extra benefit ($4000) exceeds the extra cost ($3000), so finishing adds $1000 of net benefit