

Exercise walk-through

1.3

Opportunity cost

IGCSE Economics

Goods, services, and who makes the choices

goods

things you can **touch** – food, phones, clothes

services

things done *for* you – a haircut, a bus ride, a lesson

consumers choose

what to buy with a limited income

producers choose

what to make, and with which factors

governments

choose **what to provide and how to spend public money**

enterprise

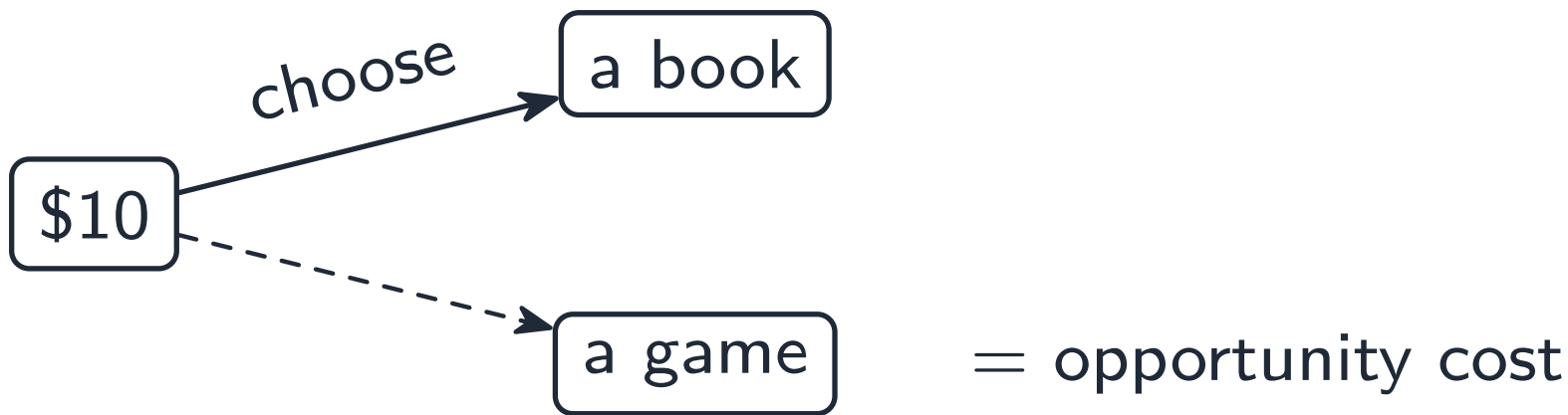
organising the other three factors and **taking the risk**; the **entrepreneur** is the person who supplies it

Free goods goods

are unlimited and have no opportunity cost; **economic goods** are scarce, so every unit of one means giving up another.

Opportunity cost

Opportunity cost is the **next best** choice you give up. An **economic good** is scarce (it has an opportunity cost); a **free good** (air) does not.



Mobility, and whose opportunity cost it is

mobility

how easily a factor can move to a different **use or place**

occupational mobility

a worker with **transferable skills** moves between jobs easily; a highly specialised one does not

geographical mobility

limited by housing cost, family ties and language

a consumer

buying a phone gives up the holiday that money could have paid for

a producer

who makes more cars uses factors that could have made trucks

a government

spending on hospitals gives up the schools that money could have built

Opportunity cost applies to **every** decision-maker, not just consumers. Naming which one the question is about is the first mark.

Exercises 2.1·2.3

2.1 Define the term *opportunity cost*.

[2]

2.2 A government spends its budget on a new road instead of a new hospital. State the opportunity cost.

[1]

2.3 State the opportunity cost for a worker who chooses one job over another.

[2]

Exercises 2.1·2.3

2.1 Define the term *opportunity cost*. [2]

2.1

- **opportunity cost** is the **next best alternative given up** when a choice is made (K)

2.2 A government spends its budget on a new road instead of a new hospital. State the opportunity cost. [1]

2.2

- the opportunity cost is the **new hospital** that is given up (K)

2.3 State the opportunity cost for a worker who chooses one job over another. [2]

2.3

- the pay (and benefits) of the **next best job** they could have done (K)

Exercises 3.1·3.2

3.1 A consumer spends \$30 on a concert ticket instead of a book. The opportunity cost is: [1]

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A the \$30 spent

B the book given up

C the concert enjoyed

D nothing, because money was spent

3.2 Explain, with an example, how opportunity cost affects a producer's decision. [4]

Exercises 3.1-3.2

3.1 A consumer spends \$30 on a concert ticket instead of a book. The opportunity cost is: [1]

☐

- A the \$30 spent
- B the book given up
- C the concert enjoyed
- D nothing, because money was spent

3.1 B

- the opportunity cost is the **book given up**, not the \$30 spent (K)
- A is money, not the alternative; C is the choice taken; D is false

3.2 Explain, with an example, how opportunity cost affects a producer's decision. [4]

3.2

- a producer's resources are scarce, so using them for one product means **another is given up** (K)
- e.g. more cars means fewer trucks – the **forgone trucks** are the opportunity cost (An)

Exercise 3.3

3.3 Analyse why opportunity cost is important when a government decides how to spend its budget. [6]

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3.3

- a government has a **limited budget** but many demands, so spending on one means giving up another (K)
- opportunity cost shows the **true cost** of each choice (An)
- it helps spend where the **benefit to society is greatest** (An)