1.3 Opportunity cost

Name: _____ Class: _____ Date: _____ **Total: 16 marks**

KEY WORDS opportunity cost • alternative • consumers • governments • producers

Objective

Build the skills to answer exam questions on **opportunity cost** – what it is, and how it affects **consumers, workers, producers and governments** ، ، ، .

You must be able to:

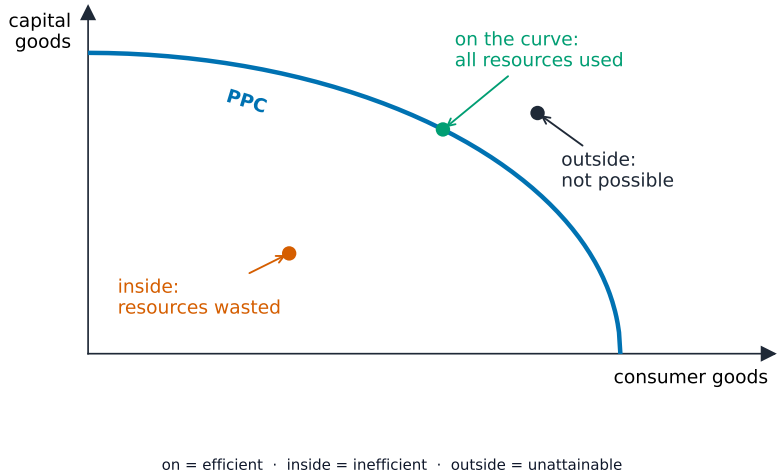
- define opportunity cost
- apply it to each type of decision-maker
- analyse the role of opportunity cost in a decision

1 Key knowledge and worked examples

The cost of every choice

Opportunity cost is the next best alternative given up

- **Opportunity cost** : the next best **alternative** given up when a choice is made.
- **Consumer:** buys a game → gives up the book. **Worker:** takes one job → gives up another's pay.
- **Producer:** makes more cars → gives up the trucks. **Government:** builds a hospital → gives up a school.
- Every choice has a cost, even when no money changes hands.



On a PPC, opportunity cost is what you give up moving from one point to another

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

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]

3 Exam-style questions

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

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

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

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

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

2.1

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

2.2

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

2.3

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

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

- 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)

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)