



Teacher-to-Teacher

Video Series
for Secondary Educators

TITLE: Choice, Opportunity Cost, and Decisions

PRIMARY SUBJECT AREAS: High School Economics

GRADE LEVELS: 9 -12

OVERVIEW: Scarcity, choice, and cost are sometimes referred to as a basic trilogy of economics, because of the strong interrelationships between these fundamental concepts. Resources are limited, compared to wants; therefore, individuals and families face the problem of scarcity in deciding how to allocate their incomes and their time. All societies must also make choices about how to use their scarce resources. And every economic choice involves an opportunity cost - the foregone opportunity to make a different choice and use resources in a different way.

This lesson provides examples of decision-making involving specific consideration of opportunity costs and trade-offs. A monthly budget is planned and then adjusted because of unexpected expenses.

APPROXIMATE DURATION: two 50-minute class periods

LOUISIANA CONTENT STANDARDS:

<http://www.doe.state.la.us/DOE/asps/home.asp?I=CONTENT>

Students develop an understanding of fundamental economic concepts as they apply to the interdependence and decision making of individuals, households, businesses, and governments in the United States and the world.

Economics

E-1A-H1 analyzing the impact of the scarcity of productive resources and examining the choices and opportunity cost that result

Free Enterprise

GLE 2 Define scarcity (E-1A-H1)

GLE 3 Identify factors that drive economic decisions (e.g., incentives, benefits, costs, trade-offs, consequences) (E-1A-H1)

GLE 4 Analyze an economic choice at the personal, family, or societal level to determine its opportunity cost (E-1A-H1)

TECHNOLOGY STRATEGIES:

<http://www.doe.state.la.us/DOE/LCET/curric/cats.asp>

INTERDISCIPLINARY CONNECTIONS:

Mathematics

OBJECTIVES:

1. The learner will define the opportunity cost of a decision as the value of the best alternative given up.
2. The learner will analyze tradeoffs involved in making decisions.
3. The learner will analyze the consequences of a choice and determine when those consequences occur.

MATERIALS :

Watts, Michael. Focus: High School Economics, National Council on Economic Education, 2001. Used with permission. From *Focus High School Economics*, Second Edition, copyright (c) 2001, National Council on Economic Education, New York, NY. All rights reserved. For more information on the National Council on Economic Education visit www.ncee.net or call 1-800-338-1192.

Activities 1, 2, and 3, pgs. 4, 5, and 6.

Visuals 1 and 2

TECHNOLOGY CONNECTIONS:

N/A

BACKGROUND INFORMATION:

This is the introductory lesson in teaching economic literacy. No prior knowledge is necessary.

LESSON PROCEDURES:

CHOICE, OPPORTUNITY COSTS, AND DECISIONS

Scarcity, choice, and cost are sometimes referred to as a basic trilogy of economics, because of the strong interrelationships between these fundamental concepts. Resources are limited, compared to wants; therefore, individuals and families face the problem of scarcity in deciding how to allocate their incomes and their time. All societies must also make choices about how to use their scarce resources. And every economic choice involves an opportunity cost – the foregone opportunity to make a different choice and use resources in a different way.

Ask question:

1. How many of you never seem to have enough time to do all of the things you want to do? Imagine that for some reason you find yourselves with an hour of free time today that you did not expect to have. What might you do with this free time?

Write answers on board or on a transparency.

2. Why can't you do all of these things?
Because time is limited. **Scarcity** is the condition of not being able to have all of the goods and services one wants. Scarcity exists because there are never enough available resources to produce all the goods and services people want. **Everyone** experiences scarcity.
3. Ask students to write a list of the things they would choose to do, then put an asterisk by their first choice and circle the second choice.

Draw a T – chart on board or transparency and label first column **Choice** and second **Cost**

4. Ask them some of their choices and place them under **Choice** and second picks under **Cost**.
5. Ask students: Why did I place the second choice under cost? In order to get the first choice, you gave up the second choice. In choosing the first option, you lost the opportunity to do the second.
6. Not all of the alternatives are considered **opportunity costs**; only the next-best alternative that was given up when the choice of what to do was made. Different people make different choices and have different opportunity costs.
7. Pass out Activity 1. Divide class into groups. Review instructions and ask them to make their decisions and record them on **Visual 1**. Discuss the following.
8. A **tradeoff** involves giving up some of one thing to get more of another. What tradeoffs did each group make?
9. What was the **opportunity cost** of each group's decision? (second choice in each category)
10. How did group preferences influence decisions? (different preferences resulted in different choices, tradeoffs, and decisions on how to use the funds)
11. In what ways is this problem similar to the "economizing behavior" faced by your family, and in what ways is it different? (**Similar**: Difficult choices must be made, and tradeoffs are necessary because of varying opinions of family members. **Unlike**: You make this decision together as families. Also families make continuous spending decisions concerning food, shelter, clothing, and transportation, as well as entertainment. Family decisions must be considered with respect to their long-run effects as well as immediate impacts.)

Distribute **Activity 2**. Discuss instructions.

12. Students should establish their budgets. Discuss any changes they might have made to the proposed budget.
13. Display **Visual 2**. Tell them they have had some unexpected expenses and must adjust their budgets.
14. A tradeoff involves giving up some of one thing to get more of another. Some tradeoffs must be made.
15. What was the opportunity cost of your decision? (whatever was given up to pay the dental bill and repair the washing machine)
16. Remind them that choices have consequences.
17. Review key points of the lesson.

ASSESSMENT PROCEDURES:

Distribute **Activity 3**. Instruct the students to review the areas of the budget scheduled for possible cuts and write a recommendation for the mayor. They should include in the recommendation the areas of the budget that should be cut, a description of the tradeoffs involved, identification of the opportunity cost, and a summary of the likely future consequences of the recommendation.

ACCOMMODATIONS/MODIFICATIONS:

N/A

REPRODUCIBLE MATERIALS:

Activities 1, 2, and 3

Visuals 1 and 2

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EXPLORATION AND EXTENSION:

Below is a link to an Economics Minute lesson on the National Council on Economic Education website. It is specifically related to this lesson, but there are many more lessons here for opportunities to expand students' knowledge of Economics.

<http://www.econedlink.org/lessons/index.cfm?lesson=EM17>

LESSON DEVELOPMENT RESOURCES:

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REFLECTIONS:

N/A

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LESSON ONE

Activity 1

Planning a Dance

Your class has been engaged in various fund-raising projects during the past several years, and you now have a total of \$9,635 to spend on a big bash – your last school dance. You may not spend more than this amount on the dance, but you do not have to spend all of it on the dance. Any remaining money can be used for a class project, designed to help your school or community.

You have decided that there are three categories of expenditures for the dance: 1) hiring a band or disc jockey, 2) renting a place to hold the dance, and 3) providing refreshments and decorations. A committee has provided the following information:

Music for the Dance

Cost

Disc Jockey

\$1000

Pig Sty – cheap but good

2000

Good Vibrations – excellent music selections and sound system

Live Bands

\$2500

Pumkin Chunkin – good progressive country

4000

Angelic Sinners – good hard rock

5000

Our Rage – a popular group featuring rap music

6500

Funky Fugues – nationally known touring group, classic rock and roll

Places Available for Dance

\$200

School Gym

600

American Legion Hall

1500

Holiday Inn

2000

The Hilton Hotel

3000

The Knob Hill Country Club

Refreshments and decorations for Dance

\$800

School Service Club prepares sandwiches, chips, etc, and limited decorations

1200

Catered – pizza, wings, sandwich platter and decorations

3000

Catered – pizza, chicken fingers, salad bar, taco bar, pasta bar and neat decorations

5000

Package deal – before-dance meal at a restaurant; good snacks and decorations at dance

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Your task now is to decide, with the other members of your group, which band or disc jockey to hire, where to hold the dance, what type of refreshments and decorations to provide and how much money to spend on a class project. Your group must select one item from each expenditure category.

Group	Band/DJ	Place	Food	Project
1.	Pig Sty	School Gym	School Service Club	
2.	Good Vibrations	School Gym	Catered \$1200	
3.	Good Vibrations	American Legion Hall	Catered \$1200	
4.	Good Vibrations	School Gym	School Service Club	
5.	Pig Sty	American Legion Hall	School Service Club	

LESSON ONE

Visual 1
Dance Choices

Group	Band/DJ	Place	Food	Project

LESSON ONE

Activity 2

Budget Tradeoffs

You are a graduate of a technical community college and have a job as a surgical technician. Your salary for the current year is \$2100 per month. Below is a possible budget for you. It is only a proposed budget and you can make changes, but you cannot change the taxes, housing, car payment, and car insurance amount for next month. You may add other budget categories in the spaces provided, if you wish.

Plan your budget for month 1 using the proposed budget as a guide. Your total for the month cannot be more than \$2100.

MONTHLY BUDGET

Budget Category	Proposed	Month 1	Month 2
All taxes	\$420	\$420	\$420
Housing (includes utilities, cable TV, local phone)	625	625	625
Food - groceries	250		
Food - eating out	100		
Clothing	85		
Car payment	200	200	200
Car - operation (gas, oil)	65		
Car- insurance	50	50	50
Car- repairs	30		
Medical insurance (deductibles and co-payments)	25		
Entertainment - movies, hanging out, snacks, beverages, etc.	75		
Newspapers, books, magazines	20		
Gifts (birthdays, Mother's Day, etc.)	25		
Savings (for stereo)	100		
Miscellaneous (haircuts, toiletries, laundry, etc.)	30		
TOTAL	\$2100	\$2100	\$2100

1. Did you make any changes in your actual budget for month 1? Explain.
2. What tradeoffs did you make?

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Visual 2

Unexpected Expenses

Month 2

You have an unexpected dental bill of \$400. Your dental insurance covers 80%. You owe the dentist \$80.

Your washing machine needs repairs. It will cost \$60.

LESSON ONE

Activity 3 Assessment

The recently elected mayor has inherited a budget deficit. He has asked you as budget director to cut \$500,000 from the city's budget. The areas targeted for budget cuts and their current appropriations are below.

Department	Current	Final Budget
Parks and Recreation		
Opening and maintaining six citywide swimming pools	\$240,000	
Youth Programs		
Summer work program	200,000	
High school grade incentive program	200,000	
After school athletic program	100,000	
After school tutorial program	100,000	
Public Safety		
Safety patrols		
Downtown business district	50,000	
Five adjacent neighborhoods	75,000	
Police and fire		
Three additional police officers	150,000	
Fire education program	40,000	
TOTAL	1,155,000	\$655,000

Your task is to prepare a recommendation for the mayor. Your recommendation should

- State which areas of the budget should be cut
- Describe the tradeoffs involved
- Identify the opportunity cost of your recommendation
- Summarize the likely future consequences of your recommendation

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