Opportunity Costs: What is My Best Alternative?

SUBMITTED BY: Michael Ryan Moore, University of Pennsylvania, GSE
SUBJECT(S): Economics, Personal Finance
GRADE LEVEL(S): 9, 10, 11, 12

OVERVIEW:
In this lesson, we will introduce students to the concept of opportunity costs. Using the article “Olivia Mitchell on Why Young Consumers Should Just Say No to Spending,” students will compare the value of mutually exclusive choices. In particular, students will look at the relationship between post-secondary education and income in order to understand the true cost of career choices.

NBEA STANDARD(S):
- Economics, I. Allocation of Resources
- Personal Finance, I. Personal Decision Making

RELATED ARTICLES:
- “Olivia Mitchell on Why Young Consumers Should Just Say No to Spending”
- “Is High School Killing Your Creativity? Rajat Bhageria Has a Remedy for That”
- “Intel for Aspiring Investment Bankers”
- “Family Influence: Choosing to Follow Your Parent’s Career Path”
- “College Decisions Sometimes Require Sacrifice”
- “Challenging the S’mores Legacy with a Campfire Innovation”
- “3 Financial Priorities to Get You Ready for College”
Common Core Standard(s):

- Mathematics (A-CED), “Create equations that describe numbers or relationships”
- Mathematics (S-IC), “Make inferences and justify conclusions from sample surveys, experiments, and observational studies”

Objectives/Purposes: The purpose of this lesson is to encourage students to think of the hidden costs of their own educational and financial choices. By introducing students to the concept of opportunity costs, students can begin to evaluate the comparative value of their own decisions.

- Students will be able to define opportunity costs
- Students will be able to calculate and compare mutually exclusive economic choices

Video Glossary: Opportunity Cost

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier

For Students:

- Pen and Paper
- Copies of “The Cost of College” Worksheet

Tying It All Together:

The lesson is divided into five parts: (1) Introduction, (2) Guided Reading, (3) Class Discussion, (4) Exploration Activity, and finally (5) Closing

*Introduction (1-5 mins)*
Begin the lesson by asking students: Where would you be if you didn’t come to class today? Follow-up by asking: Why did you choose to be here instead of there?

After this short introduction, ask students if they know what opportunity costs are. Define the term for them. **Opportunity cost** is the value of what you are willing to pass on as the result of making a decision. In other words, the value of the next best alternative.

Ask students what they think the value of their “next best alternative” might be. Ask them if the value of being in the class today is higher? The goal of this discussion is to get students thinking of opportunity costs in terms of utility or value. In economics, we choose the alternative that we think has the highest utility.

**Guided Reading (5-10 mins)**

After this brief introduction, have students read through the article “Olivia Mitchell on Why Young Consumers Should Just Say No to Spending.” Prior to starting, ask the students to think about the trade-off between spending money and saving money (i.e. What is the opportunity cost of spending/saving money?)

**Class Discussion (1-5 mins)**

Once students have finished reading, encourage them to briefly summarize the article. Next, repeat the guiding question, asking students to think about the opportunity cost of putting money in the bank.

**Exploration Activity (20-30 mins)**

Have the students break into small groups. Provide the class (or individual groups) with a copy of Worksheet 1, detailing average income by varying levels of educational attainment. Have the groups work through the problems, thinking about the opportunity cost of enrolling in a four-year college.

**Closing (1-5 mins)**

The key take-away from this lesson is that we always have multiple choices. Choosing to do one thing means choosing not to do something else. In economics, we try and calculate the cost of foregone choices. These costs are opportunity costs.

**Assessment & Extension**
Use the Exploration Activity above as an assessment for this lesson. The decision to apply to college is far more complex than the worksheet suggests. Teachers can extend the lesson by asking students about issues like part-time employment, housing, health insurance and trade schools. Encourage students to draw on their own experiences, thinking about the decisions made by friends and family to enroll in, or forego, a four-year college.

**What Worked and What I Would Do Differently:**
As you go over the worksheet, it helps to ask students about their initial impressions. Are they surprised by the median income for people with high school degrees? For people with bachelor’s degrees? Why are we using median income instead of mean income? After going over each problem, ask students what was left out of their calculations (e.g. room & board, working a part-time job, etc.)