

# Calculating Opportunity Cost

1. What is the opportunity cost (in civilian output) of a defense buildup that raises military spending from 4.0 to 4.4 percent of a \$16 trillion economy?
  - a. \$64 Trillion
  - b. \$704 Billion
  - c. \$70.4 Billion
  - d. \$64 Billion

Answer \_\_\_\_\_

2. What is the opportunity cost (in dollars) to attend an hour-long Economics lecture for a \$230,000 per year corporate executive who works 2,000 hours per year?

Answer \_\_\_\_\_

3. Opportunity costs are always described in dollar (or other currency) amounts.
  - a. True
  - b. False

Answer \_\_\_\_\_

Answers:

1. D That is an increase of 0.4%.  $\$16 \text{ Trillion} * 0.4\% = \$0.064 \text{ Trillion}$  or \$64Billion
2. \$115 Calculate the wage per hour of the executive who works 2,000 hours for \$230,000. So you would take his total salary and divide by the number of hours he works.  $\$230,000/2,000 = \$115$
3. B Opportunity cost can be described in dollar amounts, but are not always described that way. Your opportunity cost of attending college includes the foregone wages you could be earning if you were working instead of attending classes, but it also includes the foregone pleasure of sleeping in, and many other things. Each person can have different opportunity costs, because he or she has different tastes and preferences.