

LESSON 1

DECISION MAKING: SCARCITY, OPPORTUNITY COST, AND YOU

INTRODUCTION

The core concept in economics is *scarcity*, which results from the basic relationship between relatively unlimited wants and limited resources. Since we cannot have everything we want, we are forced to make choices. The concept of *scarcity* leads to decision making-situations at both personal and societal levels. Every choice involves a *trade-off*, that is, you must give something up if you want to get something. Whatever you give up is your *opportunity cost*. If you choose to use your resources in one way, then the real cost of that choice is the lost opportunity to use the resources in some other way. For example, at this moment you have chosen to use your time (a valuable resource) to read this lesson. Is there an opportunity cost to this time? Yes, another activity you would like to be doing now, but cannot, is your *opportunity cost*.

American consumers are constantly bombarded with “free samples” and “free prizes” as in “you have just won...” This lesson imitates the everyday phenomenon of “free” goods and illustrates that there is no such thing as a “free” lunch.

People make thousands of economic choices every year. By teaching students to understand the opportunity costs and weigh the consequences of the decisions they make, their actions will be more informed and prudent.

CONCEPTS

Scarcity
Opportunity cost
Trade-offs: Weigh costs and benefits
Consequences

CONTENT STANDARD

All decisions involve opportunity costs. Weighing the costs and benefits associated with alternative choices constitutes effective economic decision making.

OBJECTIVES

- ◆ Identify the opportunity cost in examples of personal decision making.
- ◆ Describe the trade-offs involved in their choices.
- ◆ Anticipate the consequences of their choices.

LESSON DESCRIPTION

Students participate in a group activity that illustrates the concepts of scarcity, opportunity cost, trade-offs, and consequences.

TIME REQUIRED

One class period.

MATERIALS

Gather five or six items that students consider valuable and different enough to be willing to weigh the costs and benefits of selecting just one. Some suggested items might be a homework pass, a get-out-of-quiz pass, an apple, a ticket to a school play, or athletic event, a library pass, a coupon for a 10-minute tutoring session, a school pin, a not-so-rare coin, a box of raisins, a healthful snack, a baseball card, a floppy disk, or a certificate for a free lunch with you. The one item that *must* be part of this simulation is a “free lunch” with the teacher.

- ★ Activity 1, Advice to the Sellers
- ★ Activity 2, Consumer Product Ranking Form
- ★ Activity 3, Franklin’s Decision

PROCEDURE

1. Explain that this lesson helps students improve their decision-making skills. Students need to understand the meaning of “cost” as economists use the term. To an economist, even supposedly “free goods” can have significant costs.

2. Ask, “If I offer to give you something for nothing, is there a cost?” Allow some discussion

LESSON ONE

and do not debate the issue yourself. Restrict your remarks to clarifying the fact that you are going to give away some items today without asking for any money from the students.

3. Once the discussion has reached the stage where students understand they are going to receive “something for nothing” ask for volunteers to serve as sellers for each product. Select as many sellers as you have products to give away, but no fewer than four or more than six items. Explain that the remaining students will be consumers.

4. Give each volunteer seller one “free” item and a copy of Activity 1, Advice to the Sellers. Send students to the back of the room to read the copy and work on their presentations.

5. While the sellers are preparing, give each consumer a copy of Activity 2, Consumer Product Ranking Form, and remind them that today a variety of sellers will offer them “free samples” of their products. Each seller will have one minute to explain why consumers should prefer their product over all the others. After hearing all the sales pitches, each consumer will be asked to rank the samples, from the most preferred to the least preferred product, using the response form to record their preferences.

6. Invite sellers to sit in the front of the room and give them one minute each to promote their products. This should involve some humor and creativity on the part of the seller. Classroom appreciation should be enough incentive to bring forth clever presentations. It should not be necessary to provide a reward structure such as grade points for the presentation.

7. Choose the same number of consumers as there are sellers, choosing a replacement if a consumer fails to get a gift. Ask them to stand one at a time and state their selections in the order ranked. Ask sellers to stand in the order that consumers rank them. After each consumer has publicly ranked the items, ask the two questions in Step 8. Consumers must answer *both* correctly to get their highest ranked choice.

8. Consumers will receive the highest ranked

product only if they answer the following questions correctly. An incorrect response means the consumer does *not* get any item.

A. “Did your choice have a cost?”

Correct Answer: Yes, an opportunity cost.

B. “What is the opportunity cost of your selection?”

Correct Answer: The product ranked second (or the next available, if the second ranked has been taken by another consumer). This is their “opportunity cost” (lost opportunity) since by the rules of the game they could receive only one product. The “cost” of getting one product is not getting the second highest available alternative desired.

9. Repeat this process until there is only one item left. Keep that item for yourself.

10. Since consumers are supposed to rank the products according to their own tastes, there will usually be a change in the order sellers will stand and differing opportunity costs for consumers. Discuss these differences with student consumers who were not selected to publicly reveal their preferences.

11. After the buyers have received their products, pose the following question: “What positive or negative consequences might result from your selection?”

Possible Student Answers: A more pleasant personality, or weight gain and tooth decay from eating the snack; better grades with quiz exemption or from having lunch with the teacher, or discomfort from being called teacher’s pet; happiness (disappointment) from seeing one’s team win (lose) the athletic event; or lower grades if attending the game means less study time.

CLOSURE

Conclude the lesson by having the students review the opportunity costs and consequences illuminated in Activity 3, Franklin’s Decision.

There are several ways to conduct this exercise. The simplest method would involve giving each

LESSON ONE

student a copy of Activity 3 and, if time permits, having students share their answers.

A variation involves clustering the students after they select one of the options. Each cluster of students discusses their common option and selects a spokesperson to give their views. This could lead to a general discussion of the trade-offs they find acceptable for Franklin.

There are a variety of answers for some of the major consequences (both positive and negative) of each of these alternatives. For example:

Job Alternative: More income, a car, job experience, and larger savings are positive consequences; less study time, lower grades and consequently less chance for college scholarships or continuing education are negative consequences.

Football Team: New friendships and better health through exercise are positive consequences; lower grades, athletic injury, and lack of income are potential negative consequences.

Tutor Alternative: Some increase in income and higher grades may lead to academic success; not enough money for a car and fewer new friends might be some of the negative consequences.

ACTIVITY 1
ADVICE TO THE SELLERS

Name _____

Your job is to get the consumer to rank your product first, ahead of all the other products that will be sold in the classroom today. You are being given a few minutes to prepare your presentation now, but you will have only one minute to convince consumers that you have the best product. How do you do this?

1. Use a clever sales pitch. You are not supposed to lie, but you can use your imagination and honestly exaggerate why you believe your product will be of interest to consumers. After all, this is part of the reason advertising executives earn high incomes.

2. Emphasize how your product is used. Especially mention the many uses for your product that “ordinary” consumers might not see without your help.

3. Mention significant benefits that people gain by using your product. Try to make the consumers think they will get a great deal of satisfaction from using your product and must have it.

4. Tell why your product is the best. You may also want to mention some of the problems with your competitor’s product, but be aware that this can lead to retaliation.

ACTIVITY 2

CONSUMER PRODUCT RANKING FORM

Name _____

Listen to several sales pitches made by your classmates who have products to give away. As you listen to each presentation, write the product name in the first column below and think about how much you would like to have that “free” product. After all sales presentations are completed, you will be asked to make a new list of the products advertised by ranking them according to how much satisfaction owning the product would give you. In the second column rate all the products offered by writing the product name you want the most at the top and the product you want the least at the bottom. You will be asked to reveal your preferences and, if you answer two questions correctly, you may receive what you want most.

<u>Product Names</u> (gifts)	<u>Product Rankings</u> (my preferences)
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____
4. _____	4. _____
5. _____	5. _____
6. _____	6. _____

ACTIVITY 3

FRANKLIN'S DECISION

Name _____

Franklin is an eleventh grade student at Enterprise High. He is a solid B student with the following options:

Option I. Take a part-time job after school that pays minimum wage and requires him to work from 4:00 P.M. until 9:00 P.M. school nights. The extra money would allow him to buy a nice used car now, and he could save some money for college. On the other hand, his grades would suffer.

Option II. Join the football team which means he must practice every day after school. Franklin loves football. His coach thinks he has a good chance to get an athletic scholarship to a local college, but his mother is concerned about his grades. She is also worried about the possibility of his getting injured like his uncle who has bad knees as a result of playing professional football.

Option III. Study harder to improve his grades, and qualify as a "Student Tutor" in the after-school program. This would give him some spending money, and help him score better on the college entrance exams. Some of his teachers think he could get an academic scholarship if he spent his spare time studying. But tutoring would not give him enough income to get that used car.

Franklin has all of the standard teenage wants in alphabetical order: car, college, friends, money, and sports. In fact that's his problem. He can't do all three options at the same time. What should he do?

In order to help Franklin decide which alternative to choose, answer the following questions.

A. What are some of the major consequences (both positive and negative) of each of these alternatives?

Job Alternative:

Football Team Alternative:

Tutor Alternative:

B. Rank these options for Franklin from best to worst.

1. _____

2. _____

3. _____

C. Given these rankings, what is his opportunity cost?

D. List an important trade-off in Franklin's Decision.

E. How would you explain your decision to Franklin's mother?