Name ______________________________ Date ______________

SECTION 2

READING STUDY GUIDE WITH ADDITIONAL SUPPORT

Economic Choice Today: Opportunity Cost

Before You Learned

The economic problem of scarcity guides economists to ask and answer basic economic questions.

Now You Will Learn

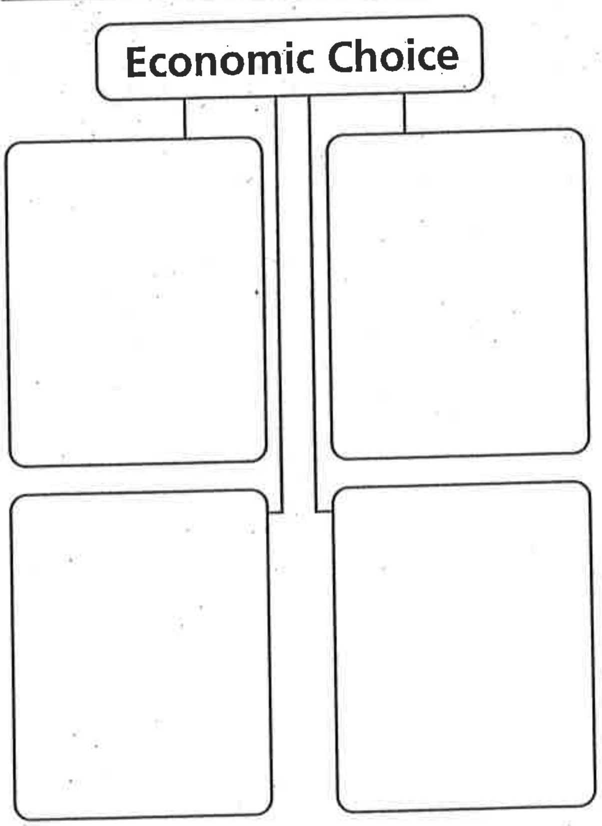
People consider several different factors, including incentives, utility, benefits, and costs when they make economic choices.

Economic Terms

- **trade-off:** An alternative people give up when they make choices
- **opportunity cost:** The value of something that is given up to get something else that is wanted
- **cost-benefit analysis:** The practice of comparing the benefits of an action against its costs
- **marginal cost:** The additional cost of using one more unit of a product
- **marginal benefit:** The additional benefit received from using one more unit of a product

As You Read

Take notes to help you understand how people make economic choices.



Name ____________________ Date ____________

Making Choices

People consider several things when they make economic decisions. They consider incentives, which are benefits offered to encourage particular actions. They also consider utility, which is what is gained from using a product. In making decisions, people also economize, balancing benefits against costs.

Costs need not take the form of money. They might also be time or some other thing of value.

1. What might be an incentive for taking a pet-sitting job?

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Trade-Offs and Opportunity Cost

Any economic choice involves giving up something to get what you want. What you give up when you make an economic choice is called a trade-off. Any economic choice will have a number of different trade-offs.

Economic choices always involve an opportunity cost. The opportunity cost of a decision is the value of the next-best alternative, or what is given by choosing one alternative over another.

2. What is the difference between a trade-off and opportunity cost?

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Analyzing Choices

Analyzing economic choices involves comparing the costs of a particular choice with the expected benefits of the choice. Such a comparison is called a cost-benefit analysis. As part of a cost-benefit analysis, economists look at both marginal costs and marginal benefits. Marginal cost is the cost of using one more unit of a product. A marginal benefit is the gain expected from using one more unit of a product.

3. What is the difference between marginal cost and marginal benefit?

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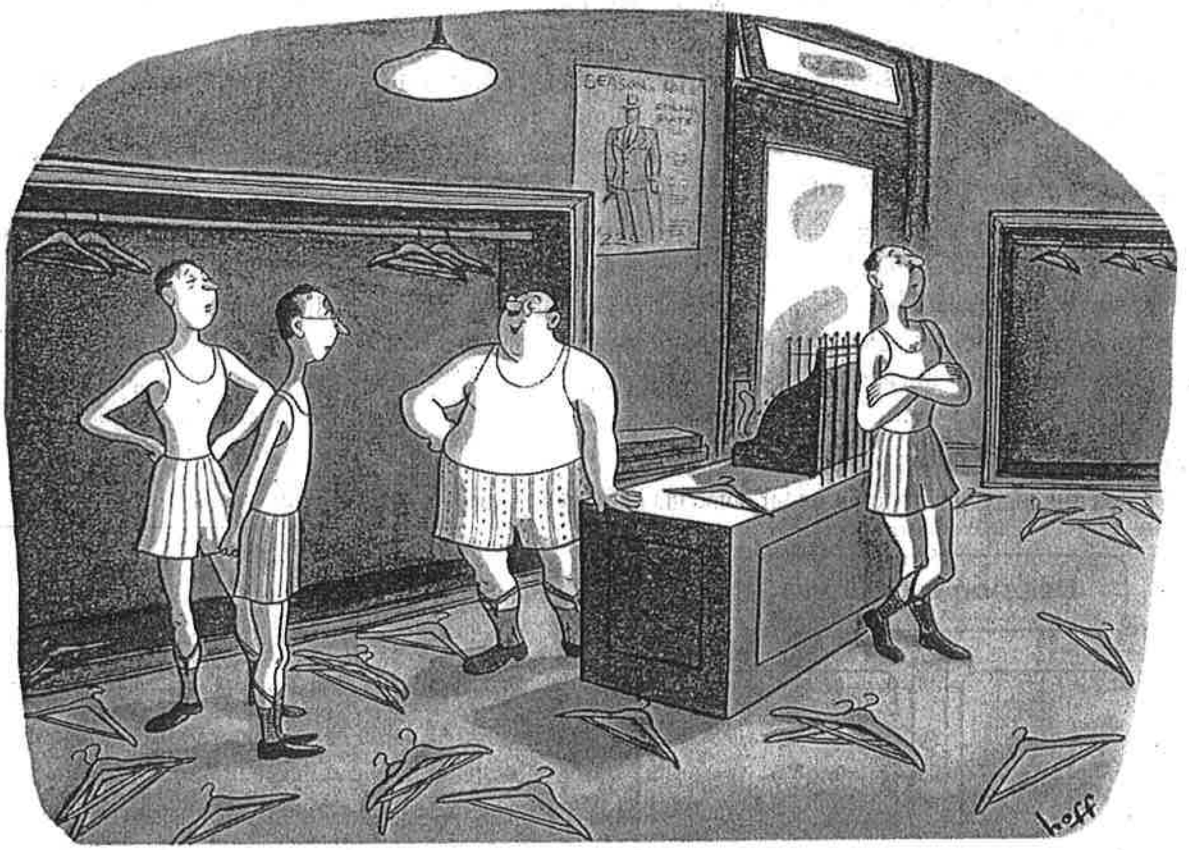
Name ______________________ Date ____________

APPLICATION

Mark It Up!



"Most successful suit sale we ever had, I should say."

4. Reread your notes on "Trade-Offs and Opportunity Cost." **Highlight** the key vocabulary terms. Think about how these terms relate to the cartoon.

5. Tell how the cartoon shows that the suit sale was extremely successful.

6. **Identify** the opportunity cost of the sales force's decision to sell the last four suits.

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