

Chapter 1

Opportunity Costs

Section 2

A. As You Read

Directions: As you read Section 2, fill in supporting facts or details under each main idea by answering each question. Then apply your knowledge to the Guiding Questions:

How does opportunity cost affect decision making?

Main Idea: A trade-off is the act of giving up one benefit in order to gain another greater benefit.

1. Who makes trade-offs?

2. Why do decisions involve trade-offs?

Main Idea: Opportunity cost is the most desirable alternative given up as the result of a decision.

3. Why does opportunity costs vary?

Main Idea: Deciding whether to do or use one more or one less unit of some resource is thinking at the margin.

4. What does thinking at the margin help compare?

B. Reviewing Key Terms

Directions: Answer each of the following questions.

5. How does an opportunity cost differ from a trade-off?

6. What are “guns or butter” decisions?

7. How does thinking at the margin – also called cost/benefit analysis- change the decision making process?

C. Key Terms and Concepts

Directions: Complete each statement with the correct term from this section.

1. Giving up one benefit in order to gain a greater benefit is a (n) _____.
2. The most desirable alternative given up as a result of a decision is the _____.
3. The extra cost of adding one unit is the _____.
4. Deciding by thinking at the margin is called _____.
5. A (n) _____ is a visual way of examining opportunity costs.
6. The idea that a government must decide to produce more or less military or consumer goods is called _____.

D. Main Ideas

Directions: Write the letter of the correct answer in the blank provided.

- _____ 7. If you choose between two summer jobs, the one you do not choose is the _____ of your decision.
- A. trade-off
 - B. opportunity cost
 - C. decision at the margin
 - D. opportunity at the margin
- _____ 8. Making a decision at the margin is possible only in situations where
- A. the available opportunity costs are unclear or complicated.
 - B. the available alternatives can be divided in increments.
 - C. there are more than three different types of alternatives to consider.
 - D. there are differences in the amount of time each alternative will consume.
- _____ 9. Every decision involves trade-offs because
- A. everyone has to make decisions.
 - B. everyone's resources are limited.
 - C. some people have more money than others.
 - D. Some decisions are made for business, others for society.
- _____ 10. A decision is made at the margin when each alternative considers
- A. a different trade-off than the others.
 - B. where the most costly alternative will be.
 - C. what the "all or nothing" alternative will be.
 - D. cost and benefit ranked in progressive units.