

# Alternative Choices – Understanding Opportunity Costs

**SUBMITTED BY:** Michael Ryan Moore, University of Pennsylvania, GSE

**SUBJECT(S):** Economics, Personal Finance

**GRADE LEVEL(S):** 9, 10, 11, 12

## ≡ OVERVIEW:

This lesson introduces students to the concept of opportunity costs. Using the Wharton Global Youth Program article “How Much Did You Spend on Prom?” students will think about the value of mutually exclusive decisions. Students will examine their own utility as it relates to prom expenditures, listing the costs and benefits of multiple decisions.

## ≡ NBEA STANDARD(S):

- Economics, I. Allocation of Resources
- Personal Finance, I. Personal Decision Making

## ≡ RELATED ARTICLES:

- [“Is High School Killing Your Creativity? Rajat Bhageria Has a Remedy for That”](#)
- [“Immigration Reform in America: The People, the Proposals and the Economics”](#)
- [“How Much Did You Spend on Prom?”](#)
- [“Challenging the S’mores Legacy with a Campfire Innovation”](#)

## Common Core Standard(s):

Mathematics (N-Q), “Reason quantitatively and use units to solve problems.”

**Objectives/Purposes:** The purpose of this lesson is to introduce students to *opportunity costs*

- Students will be able to define *opportunity costs*.
- Students will be able to evaluate multiple mutually exclusive economic choices.
- Students will be able to calculate *opportunity costs*.

**Other Resources/Materials:**

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier
- Access to Chalkboard/Whiteboard
- Copies of [Worksheet](#)

For Students:

- Pen

**Activity:**

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

*1. Introduction (5-10 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? Students will often provide several alternatives (e.g. at home, at work, playing games, etc.). Ask students to narrow down their list. Of all the other things they could be doing, what is the *most likely*, or *best alternative* to being in class?

After eliciting a few responses, ask students how they would compare the two alternatives. How do they know they made the right choice by being in class?

Again, after a short discussion, introduce students to the concept of *opportunity costs*.

Opportunity costs refer to the cost (or value) of the next best alternative. Use school and work as

an example. If students weren't in school, they could be earning money working a job. The money they could earn by working, instead of being in school, is the opportunity cost of school – it is the value of the next best alternative.

Have the students think through the opportunity costs of some of their recent purchases. Next, have the students think through opportunity costs from a business perspective. What kinds of decisions does a business owner make? What are the alternatives? (For example, spending money on advertising vs. inventory, on labor vs. capital).

## *2. Guided Reading (5-10 mins)*

After this short class discussion, students should read through the article “[How Much Did You Spend on Prom?](#).” As they read, students should think about the tradeoffs being made. First, from the customers' perspective, what is the utility of money spent on prom? What are the opportunity costs? Next, think about things from a business perspective. What businesses are involved? What kinds of decisions do the businesses make? What are their alternatives?

## *3. Class Discussion (5-10 mins)*

Once students have finished, ask them to briefly summarize the article. What do they think about the numbers involved? Does that seem like an accurate picture of prom? Why or why not?

Next, ask students to answer some of the guiding questions. From an economic perspective, what kinds of decisions are being made? What are the alternatives? Would companies (or customers) be better off taking the alternatives? Why or why not?

## *4. Exploration Activity (5-10 mins)*

Have the students break into small groups. Provide each group with a copy of Worksheet 3: On Display. In this activity, students will think about the opportunity costs of small business decisions.

After the groups work through the activity, have groups share with the class as a whole. The activity focuses primarily on *price* as a decision-making tool (i.e. the cost of jeans). Are there other considerations worth making?

## *5. Closing (1-5 mins)*

Remind students of key takeaways: although we often make choices that we think will maximize our utility, we aren't always sure what the outcome will be. Both businesses and individuals must think about alternative outcomes, and choose where to invest their time and money.

**What Worked and What I Would Do Differently:**

After students finished reading the Prom article, we spent about 5-10 minutes talking about prom in general. Students tended to think the article was conservative in estimating prom costs. I asked students to reflect on their own experiences, using those experiences to think about the utility of prom and why people choose to spend their money on prom instead of the next best alternative (i.e. opportunity cost).

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