OVERVIEW:

In this lesson, we will introduce students to the concept of opportunity costs. Using the article “Red Velvet Revolution: The Rise of the Cupcake Entrepreneur,” students will expand on their understanding of scarcity, looking at the value of mutually exclusive choices from a business perspective. In particular, students will think about opportunity costs from the customers’ perspective. Students will take on the role of business managers, thinking carefully about their target customers and those customers’ alternative choices.

NBEA STANDARD(S):

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

RELATED ARTICLES:

- “Red Velvet Revolution: The Rise of the Cupcake Entrepreneur”
- “Insights from the Fall of Aleppo”
- “Challenging the S’mores Legacy with a Campfire Innovation”

Objectives/Purposes: The purpose of this lesson is to encourage students to think of the hidden costs of running a business. By introducing students to the concept of opportunity costs, students can begin to think about the value of mutually exclusive decisions.
Students will be able to define opportunity costs.

Students will be able to calculate and compare mutually exclusive economic choices.

Other Resources/Materials:

For Teachers:

- Internet Access (Outside of the Classroom)
- Printer/Copier

For Students:

- Pen and Paper
- Butcher Paper

Activity:

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

1. Introduction (1-5 mins)

(NOTE: If your students have not been following this unit, skip to “Guided Reading,” before proceeding through this lesson plan).

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.

2. Guided Reading (5-10 mins)

(NOTE: if you have been following the lessons in this unit, please skip this section.)

Have students read through the article “Red Velvet Revolution: The Rise of the Cupcake Entrepreneur.” As the students read, ask them to think about the trade-off between spending money and saving money. Ask them to think of all the decisions that go into starting your own cupcake store.

3. Group Activity (15-20 mins)

In this activity, students will once again take on the role of cupcake store managers. Break students into small groups. (If students have already completed the first lesson in this unit, have students return to their original groups.)

Each group will be given a different store location. (If students have already completed the first lesson in this unit, have groups use their locations from worksheet 1).

Have each group brainstorm about their customers. What type of customers are they likely to have? What do these customers value? Have students create a list on butcher paper.

After about 5 minutes, have students move on to a second question. What opportunity costs do these customers have? What is the next best alternative? Again, have students write their answers on butcher paper. (These will eventually be shared with the class as a whole.)

Finally, give students a second piece of paper. Give students 10 minutes to create an advertisement for their cupcake shop, based on their expected customers and those customers’ opportunity costs.

4. Group Discussion (5-10 mins)

Have each group hang their advertisements on a classroom wall. Give each group 3-5 minutes to explain their thought process, and the rationale for their advertisements.

5. Closing (1-5 mins)
The key takeaway from this lesson is that customers and businesses always have multiple choices. Choosing to do one thing means choosing not to do something else. In economics, we try and calculate the cost of foregone choices. These costs are opportunity costs.

**Tying It All Together:**

*Assessment & Extension*

Use the Exploration Activity above as an assessment for this lesson. Teachers can extend the lesson by asking students to think about the opportunity cost of advertising. Encourage students to draw on their own experiences, thinking about advertisements they have seen. What is the next best alternative? Why do companies choose to advertise in the ways that they do?

**Practice Outside of the Classroom:** See “Assessment & Extension” above.

**What Worked and What I Would Do Differently:** As with previous lessons, the “advertisement” activity worked very well. Students seemed to enjoy the creative aspect of the activity and it really helped them use “opportunity costs” in a more practical setting. Throughout the lesson, it was helpful to stop and ask students, “Why are these terms important? Who really cares about opportunity costs? Why?”