



## **Defining Opportunity Cost**

### **Lesson Description:**

In this lesson, students learn about opportunity cost: its definition, and how to identify it when making a choice. They practice determining the opportunity cost in a real-life situation, and also envision situations where they would have to make a choice while considering the opportunity cost involved.

### **Suggested Grade Level:**

1<sup>st</sup> – 3<sup>rd</sup>

### **Economic Concepts:**

Opportunity cost

### **Voluntary National Content Standards in Economics:**

Content Standard 1: Scarcity

Students will understand that productive resources are limited. Therefore, people cannot have all the goods and services they want; as a result, they must choose some things and give up others.

Content Standard 2: Decision Making

Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something: few choices are “all or nothing” decisions.

Content Standard 4: Incentives

People usually respond predictably to positive and negative incentives.

### **National Standards for Financial Literacy:**

Standard II: Buying Goods and Services

People cannot buy or make all the goods and services they want; as a result, people choose to buy some goods and services and not buy others. People can improve their economic well-being by making informed spending decisions, which entails collecting information, planning, and budgeting.

### **Jump Start National Standards in K-12 Personal Finance Education**

Financial Decision Making:

- Standard 1: Recognize the responsibilities associated with personal financial decisions.
- Standard 4: Make criterion-based financial decisions by systematically considering alternatives and consequences.

### **Time Suggested:**

30-45 minutes (if completed in a single teaching period)

**Supplies:**

- *Bebe Learns About Opportunity Cost* video, and means to project it
- Opportunity Cost PowerPoint presentation, and means to project it
- One copy of the ‘What Choice Would You Make’ graphic organizer per student, and a writing utensil
- One copy of the sentence starters for the lesson assessment, per student – there are four copies per page

### Classroom Procedures:

1. Show students the *Bebe Learns About Opportunity Cost* video in its entirety. (If students have not watched the *Blackbeard Learns a Lesson* video, explain that Bebe and Megan are watching Blackbeard the Pirate battle the British Royal Navy, and that Blackbeard and his pirate crew have run out of cannonballs.)
2. Following the video, review the concept of opportunity cost, especially if this is the class's first exposure to it:
  - a. "When Bebe made her decision about which job she should take next, she had to think about the costs of each choice. What were the costs of her choices?" **(If she traveled south to parrot for Captain Cook, she would still be doing the same frustrating job she had done for Blackbeard. If she traveled west to work on a steamboat, she would have to start over, career-wise, and she would give up the chance to use Captain Cook's waterslide.)**
  - b. Continue by asking, "what is the economics term for the next-best choice to the one selected in a situation?" **(Opportunity cost.)**
  - c. Display Slide 2 in the Opportunity Cost PowerPoint to reinforce the definition:
    - i. Ask, "if Bebe chose to go south, what would be her opportunity cost?" **(Going west.)** Then, ask what would happen in the opposite situation: "if Bebe chose to go west, what would be her opportunity cost?" **(Going south.)**
    - ii. Ask, "which choice did Bebe make at the end of the video?" **(She chose to go west and work on the steamboat.)** Follow up by asking, "since she chose to go west, what was the opportunity cost of this decision?" **(The ability to go south.)** While this questioning seems repetitive, it is helpful for students.
  - d. Point out that Bebe thought about the benefits and costs of her options before she made her decision to go west. She gets to do something she has dreamed of doing – work on a steamboat – but this decision costs her both the chance to enjoy the water slide and her current career of parroting.
3. Tell students that they will use Bebe's example of careful decision making to help them make some theoretical decisions and identify the opportunity costs of those decisions.
  - a. Distribute a copy of the 'Which Choice Would You Make?' graphic organizer to each student. Explain to the class that they will read scenarios as a group, make a choice related to the scenario, and then record their choice and its opportunity cost on the organizer.
  - b. Display Slide 3, and have one student read the scenario on the screen. Make sure students understand the scenario, if necessary.
    - i. Then ask, "which choice would you make?" Have students indicate that they would select the choice pictured in the top photo using a thumbs-up, and the lower-pictured choice using a thumbs-down. In this case, they would give a thumbs-up if they choose to slide, and a thumbs-down if they choose to swing. **(Obviously, either choice is fine. Ask one or two**

- students why they made their choice, just to encourage the habit of explaining an answer.)**
- ii. Follow up by asking, “what is the opportunity cost of your choice?” **(This is straightforward – purposefully – in these scenarios. The choice that students did not pick is their opportunity cost. If they chose to swing, then sliding is their opportunity cost. If they chose to slide, then their opportunity cost is swinging.)**
  - iii. Ask students to record their responses on their organizer. They should list their choice and its opportunity cost.
  - iv. If students are confused, talk through the scenario again. Remind them that opportunity cost is the next-best alternative to a choice; it is what you give up when you make a choice.
- c. Continue similarly with subsequent slides – read the scenario, discuss as necessary, allow students to respond, and then have students record their choices and opportunity costs.
4. Once students have finished discussing all the scenarios on the slide, have them reiterate the meaning of opportunity cost. If they are confident in the definition, then wrap up the lesson. If not, revisit one or two examples from the slides or the video.

### **Closing:**

Pick a time during the school day when students are asked to make choices: when they enter the building; at lunch; or dismissal are good examples. Brainstorm a couple of choices made in this situation, and have them state their best choice and its opportunity cost.

For example, thinking about lunchtime:

- Before it is time for lunch, students may have chosen whether to bring lunch from home or to eat at school. If they choose to eat at school, then the packed lunch is their opportunity cost. If they choose to pack lunch, then the school lunch is their opportunity cost.
- If they go through the lunch line, they may choose regular or chocolate milk. Again, the one they do not select is their opportunity cost.
- When choosing to eat or chat with their friends, there are costs. If they choose to eat first, their opportunity cost is the conversation they could have had at that time. If they choose to talk first, then their opportunity cost is the calm, unrushed eating that they could have enjoyed.
- Note: in cases where there is more than one choice, only the next-best alternative is the opportunity cost. Make sure to stress this so that students do not think that all unchosen options “count” as opportunity costs.

**Assessment:**

-Give each student a copy of the sentence starter slip found at the end of this document. Tell them that they should complete the slip to describe a choice that they have made recently. Have them finish the sentences with this information as a ticket out the door, or springboard to small group conversation.

-Gauge students' ability to identify choice-making situations and whether or not they can identify the opportunity cost in those situations.

**Extensions:**

-Since students and teachers make many, many decisions in the course of a school day, there are plenty of examples to use to point out real-world situations where people make choices and consider the opportunity costs of those choices. From behavioral decisions to figuring out what to paint in art class, each of these choices comes with an opportunity cost. Pointing out one or two of those per day will help solidify students' understanding of opportunity cost. Some students will pick up on this and point out examples of their own.

-Similarly, many children's books involve characters making choices. From time to time, point out characters' choices and opportunity costs within a book. If you'd like to teach this explicitly, the following books are good choices:

- A Chair for My Mother, by Vera B. Williams
- Uncle Jed's Barbershop, by Margaree King Mitchell
- Stand Tall, Molly Lou Melon, by Patty Lovell
- The Honest-to-Goodness Truth, by Patricia McKissack

# Which Choice Would You Make?

	<b>Choice</b>	<b>Opportunity Cost</b>
Slide or swings?		
Mint or bubble gum?		
Tomatoes or okra?		
Plain or Hello Kitty?		
Snickers or Twix?		
Ride bikes or homework?		
Hoodie or t-shirt?		
New movie or re-watch?		
Markers or colored pencils?		
Tacos or pizza?		

Think about a choice you have made recently. Use that situation to finish the sentences below.

I had to choose between \_\_\_\_\_ and \_\_\_\_\_.

I chose \_\_\_\_\_.

My opportunity cost was \_\_\_\_\_.

Think about a choice you have made recently. Use that situation to finish the sentences below.

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I chose \_\_\_\_\_.

My opportunity cost was \_\_\_\_\_.

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