

## Case A.6

# The Opportunity Costs of Studying Economics

## What are you sacrificing?

You may not have realised it, but you probably consider opportunity costs many times a day. The reason is that we are constantly making choices: what to buy, what to eat, what to wear, whether to go out, how much to study and so on. Each time we make a choice to do something, we are in effect rejecting doing some alternative. This alternative forgone is the opportunity cost of our action.

Sometimes the opportunity costs of our actions are the direct monetary costs we incur. Sometimes it is more complicated.

Take the opportunity costs of your choices as a student of economics.

### Buying a textbook costing £49.99

This does involve a direct money payment. What you have to consider is the alternatives you could have bought with the £49.99. You then have to weigh up the benefit from the best alternative against the benefit of the textbook.

#### *Question*

1. What might prevent you from making the best decision?

### Coming to classes

You may or may not be paying course fees. Even if you are, there is no extra (marginal) monetary cost in coming to classes once the fees have been paid. You will not get a refund by skipping classes!

So are the opportunity costs zero? No: by coming to classes you are *not* working in the library; you are *not* having an extra hour in bed; you are *not* sitting drinking coffee with friends, and so on. If you are making a rational decision to come to classes, then you will consider such possible alternatives.

#### *Question*

2. If there are several other things you could have done, is the opportunity cost the sum of all of them?

### Revising for an economics exam

Again, the opportunity cost is the best alternative to which you could have put your time. This might be revising for some *other* exam. You will probably want to divide your time

sensibly between your subjects. A *sensible* decision is not to revise economics on any given occasion if you will gain a greater benefit from revising for another subject. In such a case the (marginal) opportunity cost of revising economics exceeds the (marginal) benefit.

## Choosing to study at university or college

What are the opportunity costs of being a student in higher education? At first it might seem that the costs would include the following:

- Tuition fees.
- Books, stationery, etc.
- Accommodation expenses.
- Transport.
- Food, entertainment and other living expenses.

But adding these up does not give the opportunity cost. The opportunity cost is the sacrifice entailed by going to university or college rather than doing something else. Let us assume that the alternative is to take a job that has been offered. The correct list of opportunity costs of higher education would include:

- Tuition fees
- Books, stationery, etc.
- *Additional* accommodation and transport expenses over what would have been incurred by taking the job.
- Wages that would have been earned in the job *less* any student grant or loan interest subsidy received.

Note that tuition fees would not be included if they had been paid by someone else: for example, by a parent, or as part of a scholarship or a government grant.

### *Questions*

3. Why is the cost of food not included?
4. Make a list of the benefits of higher education.
5. Is the opportunity cost to the individual of attending higher education different from the opportunity costs to society as a whole