

Name: \_\_\_\_\_ Discussion day/time: \_\_\_\_\_

Discussion Problems Week 1  
Opportunity Cost  
Econ 20A Introduction to Microeconomics  
Prof. Branch

During this quarter, you will run a make-believe consulting company. In this first assignment, you are to think about the very important economic concept of *opportunity cost*.

**Background:** guided discussion

Good decision making involves weighing the benefits and costs to choices. While many costs are explicit and obvious, other costs may be hidden. Economics teaches us that there are costs that extend beyond pure monetary costs, we call these costs *opportunity costs*. An opportunity cost is what must be given up to obtain some item. Hopefully, after this course is over you will become skilled at identifying opportunity costs.

For example, suppose that while walking on the ring road you find a \$ 100 bill lying on the ground. You must make the following choice: spend the money now, or put the money away for a year into your bank savings account and earn a 2% annual interest rate? What is the opportunity cost of spending the money now?

**Consulting work:** Work on your own (graded)

When you decided to start your consulting company, you were previously earning \$ 50,000/year working for the large private consulting company Accenture. When you started the business it cost \$ 100,000 to rent an office building, purchase computers, furniture and other office equipment. What was your opportunity cost of opening your own consulting company?