

HW 6 Opportunity Cost of Inputs 1

Sunday, October 4, 2020 5:04 PM

Suppose a project needs to hire 10 electricians. At the initial wage of 60K/year (including benefits) 480 are currently employed in the local area and 20 are estimated to be unemployed. The MEETB is 0.2. Estimate the opportunity cost of hiring the workers. Explain, and defend any assumptions you make.



Assuming new wage is 65k as it does in Problem 2

$$q' = 10$$

$$abc = \frac{1}{2} (65 - 60) (490 - 460) = 75,000$$

$$SC = (490 - 460) \cdot 65,000 - abc + MEETB (490 - 460) (65,000)$$

$$SC = 30 \cdot 65,000 - 75,000 + (0.2 \cdot 30 \cdot 65,000)$$

$$SC = 2,265,000$$