Opportunity Cost 1

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 MEBT is 0.2. Estimate the opportunity cost of hiring the workers. Explain, and defend any assumptions you make.

ANSWER

Since there is low unemployment, value worker time at the market wage rate. Since the number hired is small relative to market size, assume hiring does not significantly alter the wage. The social cost is then 1.02×60×10=720.