

Cost is what you give up

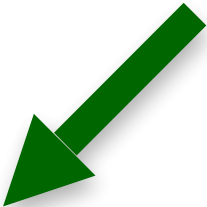
Out of pocket
expense

What Brent paid for the car

\$30,000

The interest he lost on the \$30,000:

\$587,298



Explicit Cost

Implicit Cost

Money you could have earned and
you did not: a “missed opportunity”



Some costs are easy to see

Some costs are hidden

He gave up all the things he
could have purchased with
that \$30,000

He gave up all the things he
could have purchased with
that \$587,298

Cost of missed opportunity



p

p







u

n





Y





S





m

p















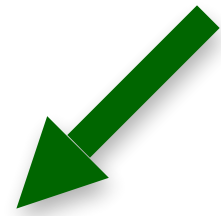
S



Cost is what you give up

Some costs are easy to see

Explicit Cost



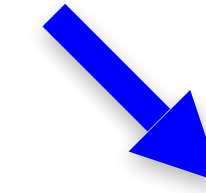
Out of pocket
expense

What Brent paid for the car
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He gave up all the things he
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Some costs are hidden

Implicit Cost



Opportunity Cost
Cost of missed opportunity

The interest he lost on the \$30,000:
\$587,298

He gave up all the things he
could have purchased with
that \$587,298

Economists are
painfully aware of
Implicit costs

