

You take \$100,000 out of your savings account where you were earning 7% interest, to buy equipment for your business







You did not give up \$100,000, you still have the money



No longer in Cash

But in Assets

What you **gave up** when you transformed cash into
equipment, was your **opportunity** to earn interest

**Cash earns
interest**

**Fixed Assets
don't earn
interest**



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= interest you no longer earn with your
money tied up in equipment

Cost = What you give up

What is the **cost** of the equipment?

\$100,000 in Cash

\$100,000 in Assets





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= 7,000 in missed interest

Transformed

Opportunity Cost

You take \$100,000 out of your savings account where you were earning 7% interest, to buy equipment for your business

**Cash earns
interest**



Transformed



**Fixed Assets
don't earn
interest**

**\$100,00 in Cash
No longer in Cash**

**\$100,000 in Assets
But in Assets**

What is the **cost** of the equipment?

Opportunity Cost = 7,000 in missed interest

The Cost of Capital