Answer on Question #38979 – Economics – Microeconomics

In microeconomic theory, the opportunity cost of a choice is the value of the best alternative forgone, in a situation in which a choice needs to be made between several mutually exclusive alternatives given limited resources. Assuming the best choice is made, it is the "cost" incurred by not enjoying the benefit that would be had by taking the second best choice available.

In finance, the net present value (NPV) or net present worth (NPW) of a time series of cash flows, both incoming and outgoing, is defined as the sum of the present values (PVs) of the individual cash flows of the same entity. In the case when all future cash flows are incoming (such as coupons and principal of a bond) and the only outflow of cash is the purchase price, the NPV is simply the PV of future cash flows minus the purchase price (which is its own PV). NPV is a central tool in discounted cash flow (DCF) analysis and is a standard method for using the time value of money to appraise long-term projects. Used for capital budgeting and widely used throughout economics, finance, and accounting, it measures the excess or shortfall of cash flows, in present value terms, above the cost of funds.

In our case the opportunity cost of completing MBA is the salary as managers during this period of time. But we also should count that after completing MBA their salary will be higher and after several years that opportunity cost will be covered with the excess salary. The total net present value of the sum of future salaries in 5 years will be higher, than it would be without completing MBA.