

“Answer on question #59615 -Economics - Microeconomics”

Opportunity Costs. What are the opportunity costs given this set of projects?

Project Direct Costs Total Benefits

A 800 860

B 40 240

C 200 320

D 360 660

Solution

Opportunity cost is the potential return of the second best option that was not selected.

The potential return is calculated the following formula:

Potential Return = Total Benefits – Direct Costs

Project	Direct Costs	Total Benefits	Potential Return
A	800	860	60
B	40	240	200
C	200	320	120
D	360	660	300

The best choice is the project D that has the biggest return.

The opportunity cost is the potential return of the second best option that will not be selected.

It is project B with return 200.

Answer

The opportunity cost equals 200.