Answer on Question #69682 - Economics -Microeconomics

Question:

How to face the changes in opportunity costs as it possibly produces various combinations?
Answer:

An opportunity cost represents an alternative given up when a decision is made. This cost is, therefore, most relevant for two mutually exclusive events. In investing, it is the difference in return between a chosen investment and one that is necessarily passed up.

Opportunity cost is not the sum of the available alternatives when those alternatives are, in turn, mutually exclusive to each other. It is the next best alternative given up selecting the best option. The opportunity cost of a city's decision to build the hospital on its vacant land is the loss of the land for a sporting center, or the inability to use the land for a parking lot, or the money the city could have made by selling the land. Use for any one of those purposes precludes all the others.

If someone loses the opportunity to earn money, that is part of the opportunity cost. If someone chooses to spend money, that money could be used to purchase other goods and services so the spent money is part of the opportunity cost as well. Add the value of the next best alternatives and you have the total opportunity cost. If you miss work to go to a concert, your opportunity cost is the money you would have earned if you went to work plus the cost of the concert.

The model of alternative expenses by G. Haberler envisages the graphical construction and analysis of the production capacity curve within the framework of the situation of the two-state economy and allows us to determine the optimal correlation in the production of goods under the conditions of use of available resources and the latest (best) technology. Countries, as H. Haberler's research shows, mainly exports products of those industries in which they have exclusive technology. In the event of the spread of such technology and its availability to use in other countries, the country's exports gradually decline, which generates changes in the structure of world trade.

Sources:

http://www.investopedia.com