ClassTycoon opportunity cost student worksheet

Work in pairs with a calculator. Use US dollars. Spend five minutes reading the case, eight minutes comparing plans, seven minutes explaining opportunity cost, five minutes on the revised case, and five minutes on your individual answer.

A campus printing business has $1,000 for one month. It can fund marketing, rent equipment, pay for staff training, or keep the money. Each spending plan costs $1,000 upfront. No borrowing, split plans, combined plans, or repeated plans are allowed.

The owner wants the largest expected increase in cash by month-end. Forecast receipts are additional customer payments after all other extra operating payments, but before the $1,000 upfront payment. Existing activity is unchanged and excluded. All payments settle this month. Exclude tax, interest, unpaid bills, resale value, and later benefits. Keeping the money earns no return.

Marketing forecasts $1,450 in receipts, equipment rental $1,600, and training $1,350, using the definition above. These are fictional forecasts. Calculate each expected net cash gain by subtracting the upfront payment once.

Marketing gain ___________ Equipment gain ___________ Training gain ___________

Gain from keeping the money ___________ Rank all four choices _______________

Choose a plan and calculate expected month-end cash from the $1,000 budget.

Choice ________________________ Expected month-end cash ____________________

Opportunity cost is the value of the best available alternative you give up. Measure that value here as the alternative's expected net cash gain. What is your best rejected plan, and what gain do you give up? How much more or less gain does your chosen plan offer?

Best alternative ________________________ Opportunity cost ___________________

Difference in expected gain ____

Explain why the opportunity cost differs from the $1,000 payment and from the difference in expected gain. Why should you avoid adding all rejected plans together?

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Wait for your instructor before continuing. In a separate revised case, before any money is spent, marketing forecast receipts rise to $1,800. Everything else stays the same. Start with the original $1,000 budget and choose again.

New choice ________________________ Expected net cash gain __________________

Best alternative ________________________ Opportunity cost ___________________

Advantage over that alternative ____

Write an individual explanation of your revised choice and the value you give up. What else would you need to know if forecasts were uncertain or training also helped next year?

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