

## Chapter 1: Homework Assignment

1. What is your opportunity cost of each of the following?
  - a. Attending your next economics class meeting.
  - b. Skipping your next economics class meeting.
  - c. Taking an all expenses paid trip to the Bahamas for a week during this semester.
2. The local pizza restaurant is advertising a special. If you buy one individual sized pizza, you get the next one at 25% off, the third one for 50% off and the fourth one for 75% off . Your marginal benefit from eating pizza is shown in the table below. If the price of a pizza is \$6, how many should you buy?

<u># pizzas</u>	<u>MB</u>
0	0
1	7
2	4
3	2
4	1

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3. You own and manage your own fruit stand. You can grow your own apples to sell as shown in the following table or you can buy apples to sell for \$.20 per pound. For every hour you work growing apples, you must pay someone \$6 per hour to run the fruit stand. How much time will you spend growing apples?

<u>hours</u>	<u>pounds</u>
<u>worked</u>	<u>of apples</u>
0	0
5	200
10	400
15	500
20	620
25	680
30	700
35	720
40	730

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### Key

- 1a. The opportunity cost of attending the next economics class meeting is the value of the next best alternative (e.g., sleeping for an additional hour, taking a different class or money that could be earned for an hour at work).
- 1b. The opportunity cost of skipping class is the value of attending the class (e.g., better grade from having been in class, or specific points associated with attendance).

1c. Even though the expenses are paid, there is still an opportunity cost -- the next best alternative for that week's time (e.g., money from work missed or better grades from attending class).

2. The additional costs of pizzas are 6, 4.50, 3, 1.50. Marginal benefit exceeds marginal cost for only the first pizza.

3. The benefit from growing apples is the \$.20 per pound of apples saved by growing them rather than purchasing them. The additional pounds of apples grown for each 5 additional hours worked are 200, 200, 100, 80, 60, 20, 20, 10. The benefit of each 5 additional hours spent growing apples is 40, 40, 20, 16, 12, 4, 4, 2. The cost of growing apples is the \$6 per hour that must be paid for someone to run the stand ( $\$6 \times 5 \text{ hours} = \$30$ ). The additional benefit exceeds the additional cost for 10 hours worked growing apples.