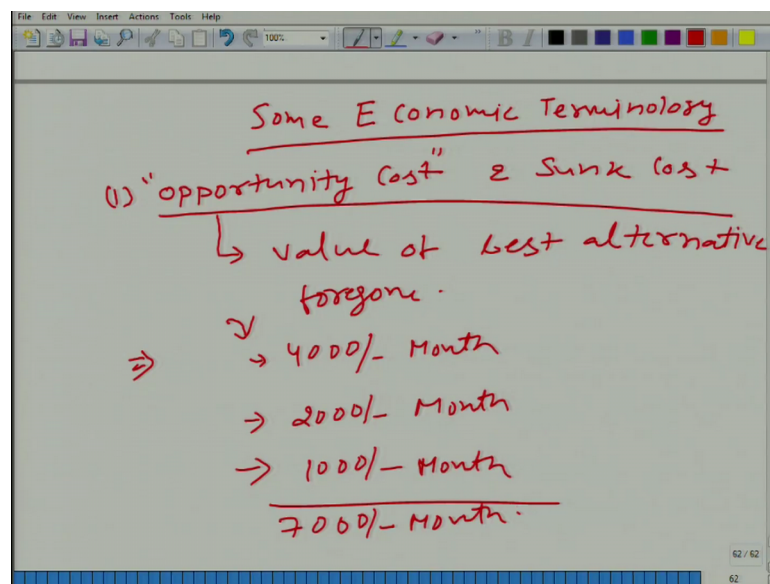**An Introduction to Microeconomics**
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Lecture – 87
Economic Terminology: Opportunity Cost

Now, we are going to talk about some economic terminology before we move to another topic.

 (Refer Slide Time: 00:18)

So, the first is we are going to talk about opportunity cost, and also sunk cost. Opportunity cost is the value of best alternative foregone fine.

Student: Foregone.

Let us take it is not very clear from the definition, but let us take some example. Currently you are studying at IIT Kanpur, I do not know the exact fee that you pay let us assume that you pay per semester 25000 rupees am I right; how much do you pay?

Student: 44.

34.

Student: 50 approx.

Let us keep it at 48 means, 4000 rupees per month you pay. The second is of course, you have to pay for.

Student: Mess.

Mess and let us say that you pay 2000 rupees per month fine. And let us say you need books and other items for the other items you are spending 1000 rupees per month. What is your cost of education?

Student: 7000.

Because, I have deliberately I have moved you in this direction. Do you think it is exactly 7 it is of course; with these assumption do you think it is 7000 rupees per month?

Student: More than 7000 per month.

It is more than 7000; why it is more than 7000?

Student: (Refer Time: 02:30).

Do not say that you did not include some other expenses.

Student: (Refer Time: 02:32).

You know like you did not include the football that you bought last month, I am not I am assuming that this covers your tuition fee, this covers your living charges and this covers the remaining item the money that you spend on remaining items. So, 7000 rupees per month would you still say it is more than 7000.

Student: Yes.

Why?

Student: Because instead of stud studying over here we might have worked somewhere.

Ok.

Student: Or we might have done some other thing.

But no one works. Particularly in our country no one at you know most.

Student: (Refer Time: 03:12).

What kind of services?

Student: Like the facilities you have provided on like the assurance factors like.

No, I am talking about I am not talking about what is provided to you; I am talking about the cost that you incur, because you are studying in IIT Kanpur and that this 1000 includes all the other costs.
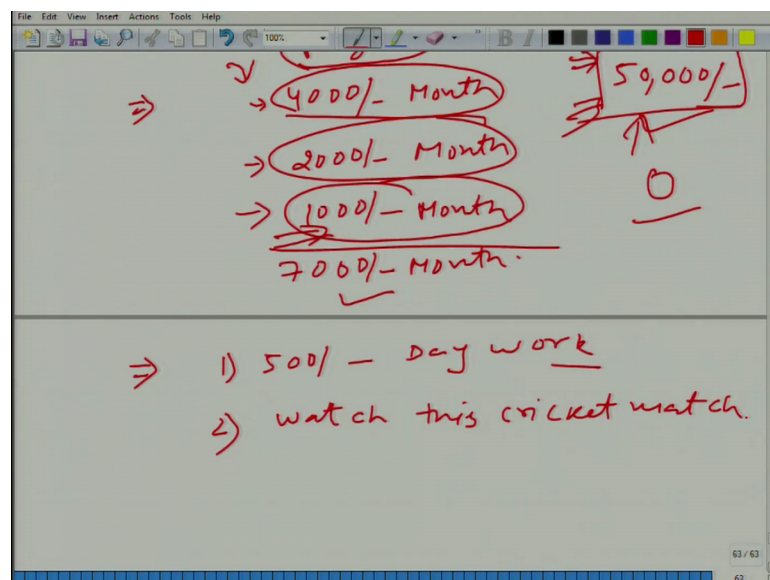
Student: So, then if we do not work then leisure cost.

Ah leisure never, but the idea is that it is a different thing that we do not you if you do not work that is fine, but what you could do see we come back to this best alternative for gone. So, for different people it would be different.

Student: (Refer Time: 03:58).

But it may be let us say for him that if.

(Refer Slide Time: 04:01)

He is not in the IIT, he would have started his own business and he again we do not know for certain, but expectation is that he would earn 50000 rupees per month, because he has some experience, he has some family business, his contribution would be 50000 per

month for his family. So, now, because he is studying here, he is not earning this 50000 rupees ok.

So, his cost would be total 7000 and this 50000 and this is the opportunity cost that we are not including here in the cost fine. For example, let us say you do not have any business, if you were not here you would have not studied at all. The best alternative for you would have been to sleep in the daytime, play some games and not earn anything.

So, your opportunity cost is 0, because you would not have earned anything. So, again see it is it is not explicit in the sense it is implicit and it depends on the; what is the second best available to you? You selected this because this was the best available to you. So, now, you have to look at the second best and what is the value of that second best that you have to figure out and that is your opportunity cost fine. So, it varies it depends on the person ok; is it clear?

Student: (Refer Time: 05:33).

So let us take an example; another example again made up example not perfect example, but made up example. Let us say he has you know at present he has two different options available one that he can work for me you know I have some research assistants work that I can give, and I can pay him let us say 500 rupees for a day work today fine; that is one example.

Second thing that he can do today although, we do not have any cricket match, but let us say that today we have India versus Pakistan match; and what he can do is to watch this cricket match fine.

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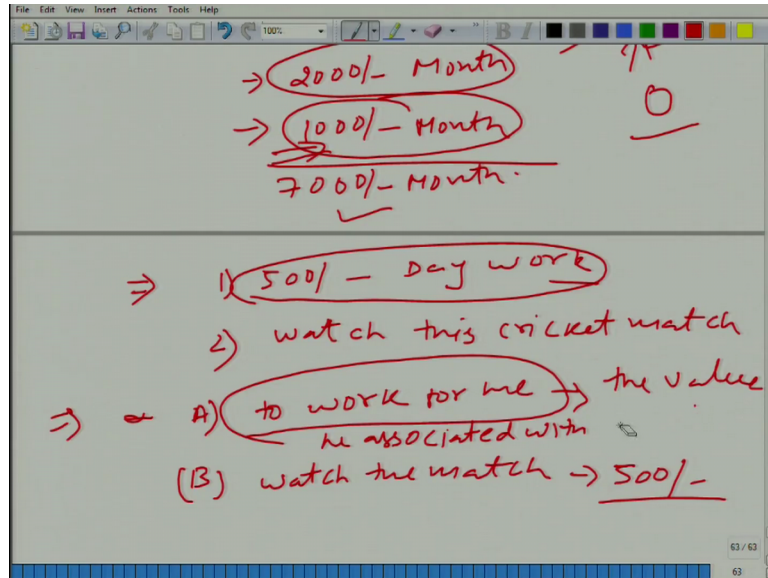
And let me give you two scenarios that in scenario A: that he has selected to work for me. What is his opportunity case in this case and in the second scenario is that he decided to watch the match what is his opportunity cost in.

Student: In case.

For watching this cricket match.

Student: (Refer Time: 07:00) 500 approximately 500.

So in this case, if he watches the match and we are assuming this is the only other option he ha; in that case his opportunity cost is 500 rupees, but how about here.

Student: 0.

0.

Student: Considering there is no value of leisure (Refer Time: 07:19).

But, it is not leisure it is pleasure. There is a difference between leisure and pleasure. His, if he works for me the second best is that he would watch this cricket match and there is some value associated with that cricket match, what we know that it is definitely less than 500 rupees, but how much we do not know, but the opportunity cost is simply the value that he associates.

Student: (Refer Time: 07:47).

With the crick with the cricket match with watching with watching this cricket match so, you see you have to figure out the second best alternative and that would be your opportunity cost. The value of that alternative is it clear perfectly clear.