


What is opportunity cost? (Year 7-10)

 30-45 mins

Learn about the true cost of buying something – or ‘opportunity cost’ – What it is, why it’s a helpful tool and when to use it. This resource has been developed with [ABC education](#).

Outcomes

Students:

- Understand opportunity cost.
- Develop a budget to view and reflect on their purchasing decisions.

Curriculum links

Mathematics

- Investigate and calculate ‘best buys’, with and without digital technologies (ACMNA174).

Economics and Business

- Identifying ways short - and long-term personal financial objectives can be achieved, for example through developing a budget and having a savings plan (ACHEK018).

Required resources

- ABC Video: [My five cents: What is opportunity cost?](#) (1:53) – video transcript available on page 2.
- Moneysmart [Budget planner](#)

Discovery (15 mins)

Opportunity cost concepts

Reflect on the following questions:

- Define needs and wants.
- Categorise your possessions into needs and wants.

Watch ABC video: [My five cents: What is opportunity cost?](#) (1:53)

- List the terms that stand out to you as you watch the video. (For example: budget, opportunity cost, needs and wants).
- Search the definitions of these words using the search function on [Moneysmart.gov.au](#)

Get practical (30 mins)

Real-life examples

Use the Moneysmart [Budget planner](#) to complete the following exercises:

Exercise 1: Choose a purchasing decision you’ve made recently or need to make. You can use Mario’s scenario too. Write a list of the opportunity costs for choosing each option.

Exercise 2: A budget can help making purchasing decision. It can provide a clear view of limits in spending and the opportunities to save further.

- Download the **Excel file** from the [Budget planner](#) page. Use the information provided to fill out the spreadsheet.

Income and Expenses	Cost	Income and Expenses	Cost
Take home pay after tax	\$750 per week	Groceries supermarket	\$200 per week
Rent	\$400 per week	Clothing	\$200 monthly
Electricity bills	\$150 per qtr	Gym membership	\$16 per week
Streaming services	\$20 per month	Gifts and celebrations	\$500 annually
Internet	\$70 per month	Transport card	\$50 per week
Mobile	\$50 per month	Movies	\$30 per month

- Scroll down the Excel spreadsheet to view a visual representation of Mario’s income and expenses. Describe the changes to his budget if Mario earns \$50.00 more every week.

Exercise 3: Your turn! Record your expenses and income for the week and develop your own budget using the Budget planner. Write 3 statements on how creating a budget helps you make purchasing decisions. Share your statements.

Video transcript - My five cents: What is opportunity cost?

[music plays]

Gen Fricker: A gaming console or a new phone? New trainers or a big night out? Choosing between things you really want is hard.

If you've created a budget to try and save some money, you'll have to decide what your needs and wants are. You only have so much cash, so you need to make choices.

Opportunity cost is what you lose by choosing one alternative over another. For every opportunity you choose, there might be something you have to give up.

Mario is torn. He needs a new phone pretty badly, but he's desperate to upgrade his gaming console too. Small problem. He's only got \$900 and that won't buy both, so he has to choose.

Mario could settle on a cheaper phone which costs \$500 and walk away with both the phone and console. The opportunity cost is that he's ended up with a less fancy phone with fewer features.

Or Mario could work an extra shift at his job, so he has more cash for a newer phone, but there's an opportunity cost there as well. He'll have to spend money on public transport to and from work.

His time is also a cost. If he didn't have to go to work, he'd have more free time, to hang out with his mates or just sleep.

There are other factors to consider too. Maybe Mario needs a better phone for work, or he could be driven by emotion. He wants to keep up with his mates.

My five cents is, it's easy to forget about opportunity costs because you can't really see it, but it's a handy tool to help you to stick to your budget and decide how to spend your precious dollars.