In-class exercise

BA 206 Principles of Microeconomics
Name\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Instruction: Please work on the following questions. We will complete it as a group in-class exercise after covering some part of chapter 1 Monday, Jan 22nd.**

Q#1. By taking an airplane Larry can travel from Atlanta, GA to Pensacola, FL in one hour. The same trip takes 5 hours by bus. Airfare is $90 and the bus fare is $30.

Larry, when he is not traveling, can work and earn $30/hour.

Answer the following questions:

1. What is the opportunity cost (OC) for Larry of traveling by bus?
2. What is the OC for Larry of traveling by plane?
3. Which is the cheaper mode of travel for Larry?
4. How would the answers be different for another person Emily (who can work and earn $6/hour when she is not traveling)?

Q#2. On Tuesday, January 10th, the class met for the first time. What were your alternative options instead of attending class? Assume you were able to skip class that day without incurring a penalty, what was your total opportunity cost expressed in dollars? Please note, even though activities do not have an explicit monetary value, try to assign a dollar amount by estimating how much you would pay to do the activity.

Q# 3. Recent Census estimates show the median income for an individual with a high school diploma is $21,079 per year. Meanwhile, the tuition for full-time Brenau students is $29,000 per year.

a. What is the accounting cost of a high school graduate attending Brenau for a year?

b. What is the opportunity (both implicit and explicit) cost of a high school graduate attending Brenau for a year?

Q#4. Imagine, for example, that you spend $8 on lunch every day at work. You may know perfectly well that bringing a lunch (of similar quality) from home would cost only $3 a day, so the opportunity cost of buying lunch at the restaurant is $\_\_\_\_\_ each day. However, if you project what that adds up to in a year, it would be $\_\_\_\_\_\_\_, the cost, perhaps, of a decent vacation.

***Q#5 Should you videoconference or travel to a business meeting?***

1. Suppose you own a profitable small business in Washington, D.C. You desire to hold an essential 1-hour meeting with business executives in New York, NY. You have two options:
2. You can fly to New York. You own 25,000 frequent-flyer miles, which you can return to the airline at any time for a free ticket anywhere in the United States. Thus, you need not pay for your flight to New York. Your only expenditures would be for 15-minute cab rides to and from the airport in D.C. (fares = $25 each way) plus 15 – minute cab ride to and from the airport in New York (fares = $25 each way). Or,
3. You can use a video conferencing facility. Last January, you paid $3,000 to obtain access to a video conferencing facility located within your office building for one year. You also must pay $125/hour for each hour the facility is used.

You estimate the meeting will be equally effective if held in person or via video conferencing. (Meeting face to face has advantages, but video conferencing may impress the other executives.)

 What option should you choose? How should you think about this decision?

Q#6 Suppose you wish to sell your old car. The car is **worthless** to you, but you expect it will sell for $1000 if you aggressively advertise. You spend $500 on advertisement in a local newspaper ([Chippewa Valley](http://local.yahoo.com/info-16875384-chippewa-valley-newspapers-chippewa-falls;_ylt=AsSAnTmi9G1YWWw4kFe0kImHNcIF;_ylv=3?csz=Eau+Claire%2C+WI) **[Newspapers](http://local.yahoo.com/info-16875384-chippewa-valley-newspapers-chippewa-falls;_ylt=AsSAnTmi9G1YWWw4kFe0kImHNcIF;_ylv=3?csz=Eau+Claire%2C+WI)**). The car does not sell. One day you tell your sad story to your friend. He says to you, “I know why your car didn’t sell. You advertised in the wrong news paper. If you run the same number of ads in the [Tradin' Post Buyer's Guide](http://local.yahoo.com/info-16875129-tradin-post-buyer-s-guide-chippewa-falls;_ylt=AoUWxSx2laan2qP.LfZBELiHNcIF;_ylv=3?csz=Eau+Claire%2C+WI), I guarantee it will sell. In fact, if it doesn’t sell, I will buy it from you for $1000! You say to your friend, “Great, thanks for the advice. By the way, how much does it cost me to run the same number of ads in the [Tradin' Post Buyer's Guide](http://local.yahoo.com/info-16875129-tradin-post-buyer-s-guide-chippewa-falls;_ylt=AoUWxSx2laan2qP.LfZBELiHNcIF;_ylv=3?csz=Eau+Claire%2C+WI)?” He answers, “$800” Should you advertise your car again?