

Choices begin with scarcity

Scarcity means that available time, resources and knowledge cannot satisfy every possible use. It does not mean that everything is rare or that everyone is poor. Economics studies choices under these limits. Throughout this lesson, every person, price and situation is illustrative. Start with this question: what must be given up?

A feasible choice is an available choice

A feasible set contains the options that a person can actually choose, given relevant constraints. A budget, opening hours, physical capacity and existing commitments can all matter. Preferences rank feasible alternatives; they do not make an unavailable alternative available. Separate “I would like it” from “I can choose it now”.

Worked example: draw a budget boundary

An illustrative weekly budget is £36. Books cost £9 each and lunches cost £6 each. Let B be books and L be lunches: $9B + 6L$ must be no more than 36. All books gives 4 books; all lunches gives 6 lunches. Two books and three lunches exactly exhaust the budget.

Worked example: calculate the trade-off

On that budget boundary, one additional book uses £9 that could buy 1.5 lunches. Its opportunity cost is therefore 1.5 lunches when lunch spending is the displaced alternative. With indivisible items, swapping two books for three lunches gives an exact feasible exchange. A price ratio describes the boundary's trade-off, not the learner's preferences.

Opportunity cost is the best forgone alternative

Opportunity cost is the value of the next-best feasible alternative sacrificed by a choice. Do not add together mutually exclusive alternatives. If the same hour could earn £18 tutoring or £12 gardening, choosing a third activity for that hour does not forgo £30. It forgoes whichever available alternative the person ranks highest.

Keep cash and economic cost separate

An explicit cost is a payment. An implicit cost is the value of an owned resource used instead of its next-best alternative. An afternoon project can use materials and unpaid time. Count each sacrifice once. Include an implicit time cost only when the comparison has not already accounted for the forgone activity.

Sunk costs belong to the past

A sunk cost has already been incurred and cannot be recovered through the current decision. It can explain how someone reached a situation, but it does not change the relative future consequences of available options. A refundable deposit is not fully sunk. Resale value, cancellation charges and future commitments need separate checks.

Worked example: continue or leave?

An illustrative concert ticket cost £18 and cannot be refunded or resold. Attending now brings enjoyment valued at £25 and requires £8 of travel. Staying home brings enjoyment valued at £14 with no extra cost. Compare future net values: attending gives £17; staying gives £14. Attending has a £3 advantage.

Think at the margin

Marginal means additional: the benefit or cost of one more unit, hour or step. For a divisible activity, expand while the next increment's benefit exceeds its opportunity cost. For discrete options, compare actual available bundles. A large total benefit does not imply that every additional unit is worth its cost.

Worked example: choose the next session

Four optional practice sessions have additional benefits valued at £31, £22, £12 and £5, in that order. Each session has a £15 opportunity cost. Net increments are £16, £7, minus £3 and minus £10. Taking the first two gives a total net benefit of £23. The third reduces that total.

Rules need their assumptions

A useful model states what is held fixed and what is omitted. The session example assumes diminishing additional benefits, constant additional cost and no hidden interaction. Real learning may have thresholds: a final session might unlock a qualification. When increments depend on one another, evaluate the relevant package before applying a marginal rule.

Uncertainty changes what we compare

Many outcomes are uncertain. Expected value weights each possible outcome by its probability, but people may also care about risk, timing and worst cases. Gathering information has a cost and can improve a decision. More information is worthwhile only when its expected usefulness exceeds its relevant cost, including delay.

Analysis and values answer different questions

A positive claim concerns what happens or could happen under specified conditions. A normative claim concerns what ought to happen or which values should guide action. Respect for individual choice is a normative commitment. Whether a particular rule expands feasible choices is an empirical or model-based question that still needs evidence.

A reusable decision checklist

Name the decision and the person making it. Identify feasible alternatives and relevant constraints. Compare future benefits and opportunity costs, counting each sacrifice once. Ignore only costs that are genuinely sunk. Examine the next increment or complete package. State uncertainty, affected people and the values behind your final recommendation.