Opportunity Cost

Complete the following questions in the time allowed by your teacher

QUICK DEFINITIONS

Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

1. Define: opportunity cost

2. Define: interest rate

3. Define: decision-making

QUICK LISTS

In this section, provide an outline or list points which answer the question

4. Give four examples of decisions a business takes

A.
B.
C.
D.
E.
F.
5. An entrepreneur decides to end her career in the world of investment banking and start a new business running a hotel in Padstow. Identify three potential opportunity costs arising from this decision:
   A. 
   B. 
   C. 
   D. 

6. List three factors that make it hard to assess the opportunity cost of a decision
   A. 
   B. 
   C. 
   D. 
   E. 

**Short Answers**

In this section, write a short answer (one or two sentences) for each question.

7. Explain why, in business, decision-making involves risk and uncertainty

8. Briefly explain why opportunity cost is so important in business decision-making
**Opportunity Cost**

Complete the following questions in the time allowed by your teacher.

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**QUICK DEFINITIONS**

Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

1. Define: opportunity cost
   
   **Answer**
   
   The benefit foregone of the best alternative - which is sacrificed when making a decision.
   
   Opportunity cost is the benefits lost from taking a decision.

2. Define: interest rate
   
   The return for saving or the cost of borrowing.

3. Define: decision-making
   
   **Decision-making is the process of choosing what to do based on a range of alternative actions**

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**QUICK LISTS**

In this section, provide an outline or list points which answer the question

4. Give four examples of decisions a business takes

   A. **Where to locate a new outlet?**
   
   B. **Whether to increase production capacity?**
   
   C. **Should new employees be taken on?**
   
   D. **Spend promotion budget on advertising or direct marketing?**
   
   E. **Develop a new product?**
   
   F. **Should employees be given a pay rise?**
5. An entrepreneur decides to end her career in the world of investment banking and start a new business running a hotel in Padstow. Identify three potential opportunity costs arising from this decision:

A. Loss of remuneration - investment banking well paid
B. Loss of feeling of job security and responsibility
C. The risk that the investment in the hotel will fail
D. The return on alternative investments other than the hotel

6. List three factors that make it hard to assess the opportunity cost of a decision:

A. Uncertainty - no guarantee that other decisions will prove better
B. Timescale - over what period is the opportunity cost being measured?
C. Importance of financial v non-financial rewards - which is most important?
D. Availability of information - are benefits and costs of decisions quantifiable?
E. Accuracy / reliability of estimates and forecasts

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**Short Answers**

In this section, write a short answer (one or two sentences) for each question.

7. Explain why, in business, decision-making involves risk and uncertainty

Valid points include:

Many business decisions taken every day - they vary in importance

Decisions have to be taken based on available information (e.g. financial data) -
but that might be outdated, inaccurate or unreliable

Other decisions taken on "hunch" - how can this be measured?

Decisions often have unintended consequences

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8. Briefly explain why opportunity cost is so important in business decision-making

Valid points include:

Almost all businesses have limited resources - so choices have to be made
about how resources are allocated

A business can benefit from a range of choices - but which one is best?

Ultimately, management is about decision-making