

## 4. THE SCOOP ON OPPORTUNITY COST

### HAVING ONLY SO MUCH TIME AND MONEY, WHAT CHOICES DO I MAKE?

CONSIDERING SCARCITY, THE MOST IMPORTANT ECONOMIC DECISIONS INVOLVE A CONCEPT CALLED OPPORTUNITY COST. HAVING ONLY SO MUCH TIME OR MONEY, HOW DO WE DECIDE WHAT TO DO WITH IT. HERE'S THE SCOOP.



IF YOU SPEND \$7 ON A LATTE YOU CANNOT SPEND THOSE SAME DOLLARS ON LUNCH AT WENDYS OR ADD TO YOUR SAVINGS OR RETIREMENT ACCOUNT. OPPORTUNITY COST INVOLVES BOTH CURRENT AND FUTURE CONSIDERATIONS. THE VALUE OF WHAT WE CHOOSE TO BUY IS MEASURED BY THE VALUE OF THE NEXT BEST THING WE MUST GIVE UP BUYING. THE DESIRED OUTCOME WITH ALL DECISIONS, BIG OR SMALL, IS TO MAXIMISE OUR SATISFACTION OR HAPPINESS.

ALL OF OUR OPPORTUNITY COST CHOICES AND TRADE-OFFS KIND OF BECOME A WHOLE BUNCH OF MULTIPLE-CHOICE QUESTIONS AND ARE MADE AT THE MARGIN, IN THE LANGUAGE OF THE ECONOMIST. THAT MEANS THE NEXT DECISION STANDS ALONE AND MAY BE DIFFERENT FROM YESTERDAY'S CHOICE BECAUSE THINGS HAVE CHANGED IN OUR PERSONAL SATISFACTION MAP. WE MAKE HUNDREDS OF THESE CHOICES EVERYDAY PROBABLY WITH LITTLE THOUGHT ABOUT ALTERNATIVES. OVER TIME, OUR SATISFACTION MAP CHANGES WITH OUR AGE, INCOMES, JOB, SUCCESS AND MANY OTHER FACTORS.

WHEN WE MAKE MISTAKES WITH OUR CHOICES, WE OFTEN WISH WE HAD MADE A DIFFERENT DECISION, OPPORTUNITY COST AGAIN, AND VALUE THAT BAD CHOICE IN

TERMS OF WHAT WE DIDN'T BUY. THERE'S AN OLD TV COMMERCIAL WHICH PERFECTLY DESCRIBES THAT OUTCOME.

*“I WISHED I'D HAD A V-8!”* WAS A MARKETING EFFORT BY IT'S COMPANY TO HAVE CONSUMERS CHOOSE VEGETABLE JUICE OVER SIMPLY TOMATO JUICE.

THE FUTURE VALUE OF MONEY IS ALSO ESPECIALLY IMPORTANT TO ONE'S CHOICES. LONGER-TERM OUTCOMES ARE OR SHOULD BE A MAJOR CONSIDERATION IN MAKING CURRENT DECISIONS BOTH IN BUYING ON CREDIT AND ADDING TO SAVINGS. A SIMPLE EXAMPLE IS CHOOSING BETWEEN RECEIVING MONEY SAY \$100 PER MONTH FOR A YEAR OR \$1000 AS A LUMP SUM. JUDGING FROM MOST PEOPLE'S TRACK RECORDS {DOCUMENTED BY MANY STUDIES}, WAY MORE THAN HALF TAKE THE \$1000.

AN IMPORTANT DECISION INVOLVING OPPORTUNITY COST IS WHETHER TO SPEND YOUR INCOME NOW OR ADD THAT MONEY TO YOUR SAVINGS. YOU FORGO IMMEDIATE SATISFACTION OR HAPPINESS FOR THOSE THINGS LATER. THAT'S ALSO A CHOICE! I HAVE INCLUDED AN EXCERPT FROM MY CHISTMAS GIFT MESSAGE TO MY GRANDCHILDREN AS AN EXAMPLE OF WHAT COULD BE DONE FOR YOURSELF OR YOUR FAMILY. THE FUTURE VALUE OF YOUR CURRENT INCOME SAVED FOR LATER SHOULD INCREASE OVER TIME FOR EVEN MORE BENEFIT.

IN THE OPPOSITE SCENARIO, BUYING ON CREDIT MEANS GIVING UP FUTURE BENEFIT TO HAVE THINGS NOW. THESE TRADE-OFFS ARE EXTREMELY IMPORTANT TO ONE'S LONG-TERM FINANCIAL PLANS. CREDIT CARD BALANCES NOT PAID OFF BEFORE THE “FREE PERIOD” MAKE THE OPPORTUNITY COST OF CURRENT COMSUMPTION WORSE. THE FINANCIAL COST OF ONE'S DINNER OUT PAID FOR WITH A CREDIT CARD GOES UP AT ABOUT 2% PER MONTH IF NOT PAID CURRENTLY.

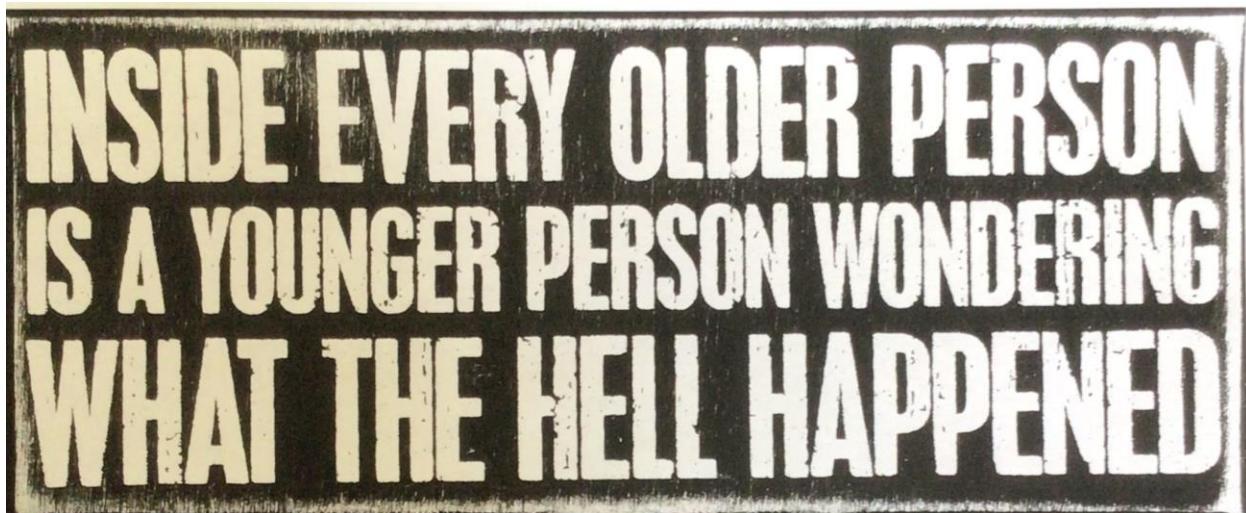
AS NEIL DIAMOND SAYS, “YESTERDAY'S GONE” OR “USED TO BE'S AREN'T ANYMORE.”

ANOTHER FUTURE BENEFIT TRADE-OFF OPPORTUNITY ARISES WHEN ONE RECEIVES A FINANCIAL “WINDFALL” FROM WORK, AN INHERITANCE OR WHATEVER. SAVING PART OR ALL OF THIS “FOUND” MONEY CAN BE A LIFE CHANGING BONUS TO FUTURE POSSIBILITIES.

NOT ALL OPPORTUNITY COST CHOICES ARE FINANCIAL. AS PEOPLE BECOME MORE SUCCESSFUL, BUSIER OR OLDER, TIME CAN BECOME MORE VALUABLE AS A SCARCE RESOURCE, INCLUDING LEISURE TIME. A SIMILAR CHOICE PROCESS FOR AN INDIVIDUAL'S TIME BECOMES A CONSIDERATION. WHAT'S IMPORTANT FOR “OLD TIMERS”, FOR EXAMPLE, CHANGES WITH HEALTH ISSUES FOR THEMSELVES AND FAMILY, ENERGY LEVELS AND MANY OTHER UNEXPECTED INTERUPTIONS. SOME

SUCESSFUL FOLKS EVEN TAKE TIME MANAGEMENT TRAINING TO IMPROVE THEIR BEST USE OF AVAILABLE TIME AS A RESOURCE. BEST NOT TO RUSH YOUR BIG CHOICES. THESE CAN BE LIFE-CHANGING DECISIONS.

FROM A QUOTE BY C.S. LEWIS: “*THE TRUTH IS, OF COURSE, THAT WHAT ONE CALLS INTERRUPTIONS ARE PRECISELY ONE’S REAL LIFE*”.



FROM RINGO: “YOU DON’T HAVE TO LIVE IN THE PAST BUT JUST CHECK IT OCCASIONALLY”.



## A SHORT STORY OVER 50 YEARS LONG

BY GRANDPA

I AM GIFTING SOME MONEY & SECURITIES PERIODICALLY AND ON YOUR BIRTHDAYS, HOLIDAYS ETC. DIRECTLY TO YOUR INVESTMENT ACCOUNTS. YOU CAN DO ANYTHING YOU WANT WITH THAT MONEY. YOU CAN BUY SOMETHING NICE SOMETIME, TAKE A TRIP OR EVEN GIFT IT TO YOUR OWN CHILDREN SOMEDAY. MOST OF THESE DOLLARS I PUT AWAY OVER 50 YEARS AGO AND IT'S BEEN COMPOUNDING IN VALUE EVER SINCE.

LIFE IS ABOUT CHOICES. TO HAVE THINGS IN THE FUTURE MEANS YOU HAVE TO PASS UP HAVING SOME THINGS NOW. IN ECONOMICS, THAT'S CALLED OPPORTUNITY COST.

HOPEFULLY THESE GIFTS WILL GIVE YOU A NICER LIFE OVER THE YEARS. I BELIEVE IN YOUR FUTURES, NO MATTER WHAT YOU CHOSE TO DO & REALLY ENJOY WATCHING YOU GROW.

AS YOU CAN TELL, I'VE BEEN AN "ECONOMICS NUT" ALL MY LIFE. SORRY FOR THE LECTURE. AT LEAST IT'S SHORT!!