

ECO135 (04) Worksheet 1 (Week 2, Oct. 18)

A: Opportunity Cost (OC) [The value of the best alternative we forgo when we make a choice.]

1. It takes 10 min to catch 1 fish. It takes 5 min. to collect 1 banana.

OC of collecting 1 fish = (banana) / OC of collecting 1 banana = (fish)

2. It takes 2 hours to produce 1 shirt. It takes 10 hours to build one house.

OC of producing 1 shirt = (house) / OC of building 1 house = (shirts)

3. It takes 1 hour to collect 30 seashells. It takes 1 hour to collect 6 apples.

OC of collecting 1 seashell = (apple) / OC of collecting 1 apple = (seashell)

4. Investment A: Deposit 10,000 TL to a bank now. Earn 15% interest after one year.

Investment B: Invest 10,000 TL in a Project. Get 11,000 TL after one year.

What is the Opportunity Cost of investing your 10,000 TL in Investment B? TL.

(You think you've earn _____ TL, but actually you've lost _____ TL)

5. You've spent 2000 TL on one-week vacation in Antalya last summer. What could have been your opportunity cost? List 3 things you could have done with 2000 TL. Select the best alternative and consider the value you've given up.

- 1.
- 2.
- 3.

Best Alternative:

Lost Value:

6. Last night, you had 2 hours to spend on different options, such as going to sports gym to exercise, study at home to review yesterday's lectures, join a study group, join your friends at a café, going to a movie, work part time at Starbucks etc. But instead, you after all spent that 2 hours simply by browsing internet aimlessly. What is your opportunity cost of spending 2 hours in browsing internet last night? List 3 things you could have been doing, select the best alternative, and consider the value you've given up.

- 1.
- 2.
- 3.

Best Alternative:

Lost Value:

B: Four-Types of Person Economy (Robinson, Friday and two friends)

1. Fill in the blanks in the table below

	Player Type			
	A1	B1	A2	B2
Allocation of labor hours per round	80	80	150	150
Hours required to produce one unit of wheat	1	2	1	3
Hours required to produce one unit of steel	2	1	3	1
Opportunity cost of steel (in wheat)				
Opportunity cost of wheat (in steel)				
Maximum possible production of wheat				
Maximum possible production of steel				
Five-round consumption goal : Wheat	200	150	450	200
Five-round consumption goal : Steel	150	200	200	450

2. We will now do production/trading experiment. (You will be assigned as one of the produce types.) What you decide is how many units of wheat and how many units of steel you are going to produce given the limited amount of labor hours that you have. You may produce any combination of wheat and steel that you like; you may choose to produce all of one good and zero of the other. There are only two basic restrictions. You may not produce any fractional units of wheat or steel; you must produce whole units. In addition, you may not use fractional hours of labor; you must use whole hours to produce wheat and steel.

Round One No Trade. You simply decide how many units of wheat and steel to produce and consume whatever you've produced.

Round Two and Three After you have chosen the particular combination of wheat and steel to be produced, you may trade what you have produced for what another player has produced. Trading limited to whole units. You can trade just once per round.

Round Four and Five You may consult with other players about their production capabilities and make binding trade agreements based on the production each of you will undertake for the upcoming period (that is, contract to make trades before you produce. Do not agree to trade unless you can produce that quantity.) You may not trade labor hours, only wheat and steel.

My Type _____

	1 (No Trade)	2 (Trade)	3 (Trade)	4 (Trade with Neg.)	5 (Trade with Neg.)	Total
A: Total labor hours available (Given: A1, B1 = 80, A2, B2 = 150)						
B: Hours used to produce wheat (Your decision)						
C: Hours required to produce one unit of wheat (Given: A1 = 1, B1 = 2, A2 = 1, B2 = 3)						
D: Units of wheat produced (Calculate by B/C)						
E: Hours used to produce steel (Your decision)						
F: Hours required to produce one unit of steel (Given: A1 = 2, B1 = 1, A2 = 3, B2 = 1)						
G: Units of steel produced (Calculate by E/F)						
H: Units of wheat traded (gave)	NA					
J: Units of steel received	NA					
K: Units of steel traded (gave)	NA					
L. Units of wheat received	NA					
M. Player traded with (type) (I traded with type _____ producer)						
N. Total units of wheat consumed (D- H + L)						
O: Total units of steel consumed (G + J - K)						

After 5 rounds, calculate total units (N and O) and see if you've reached the consumption goals for Wheat and Steel. [Yes, I did! (Good job!) / No, I didn't. (☹)]