Warmup: Marginal Cost / Marginal Benefit Analysis

Describe an example of the cost-benefit principle from your own life experience (i.e. describe a situation or event where the cost-benefit principle was used to make a decision, explicitly or implicitly). Explain how the cost-benefit principle is illustrated by your example.

Student Responses Used in Class

Is the economic analysis correct?

I had to make a decision as to if I should purchase a textbook that cost $30.00 or do without it. Cost-benefit is illustrated in this example because on the cost side I would have had $30.00 less, would not have a book for class, and could not study for test properly. The benefit is I have a book to refer to in class and I will do well in class because I have the textbook. Considering the situation numerically. If each time I go to class the value of the book is worth $1.00 and there are approximately 45 class days (twice a week); then you would use the books at a price of $45.00, however I would have only purchased the book for $30.00. The cost-benefit principle states that I should take action if, and only if, the extra benefits from taking the action are at least as great as the extra cost. Because of this, I should purchase the textbook because the benefit is greater than the cost.

Reference: Chapter 1, pages 4-6 In my life, an example of the cost-benefit principle being implicated would be the answer to the question of whether I should go to class or not. Going to class would benefit me in such a way that I would not be wasting the money that I spent to be enrolled in that class and I would be furthering my education. However, not going to class would give me time to do other things such as sleep or finish some other homework. The cost-benefit principle says I should go to class if, and only if, the benefit of doing so exceeds the cost. On the cost side, I could say that the cost of the class I am taking and the cost of my book will be considered. That would be about $250 for the class and $100 for the book. Together, that is about $350 that I would be using in going to class and wasting by not going to class. My decision comes when I think about the other things I could be doing by not going to class. A few examples are sleeping, doing homework, and going to the mall. Would making use of my $350 by going to class outweigh the benefit of not making use of the money and doing something else? Not going to class would cause me to waste $350, and possibly spend more money on something else that is not as important as my education – maybe an extra $100 in shoes if I go to the mall. It would also cause me to miss out on information that could help me in the future and opportunities that could continue to help me. The benefits of not going to class, however,
include extra sleep (beneficial for about an hour), possibly finishing some other homework early (profitable only until the next class period), or getting a new pair of shoes (which will only last for maybe two years). The benefits of going to class would include making exceptional use of my already invested money, furthering my education, which will benefit me for the rest of my life, and possibly coming in contact with an opportunity for an intern, which will benefit me for a substantial part of my life. In this case, it would be more beneficial for me to go to class, whether looking at dollar amounts or time periods. This example illustrates the cost-benefit principle because it demonstrates the fact that the extra benefits included in going to class outweigh the costs of not going to class. The benefits that I could receive from going to class are definitely heavier than the ones I might receive by not going and doing something else. Those benefits include the proper usage of pre-invested money and the expansion of my knowledge as a student as opposed to maybe getting a new pair of shoes and allowing myself a little extra sleep. The cost-benefit principle shows how my decision of going to class would be the best decision for me to make.

The cost-benefit relationship that easily come to mind is the decision that my husband and I made to purchase a new home and keep the home that I had purchased before we got married. The benefit of course having two homes and possibly making a small profit by using one as a rental property. The cost of having both homes is that one of us had to work a second job to maintain the mortgage and maintenance on the old home. The second job, took away time from each other, added additional work hours to my husband. Another cost is the possibility of someone renting out our home and not properly take care of the home and/or not pay the rent. The cost was having substantial damage to the home, having the stress of dealing with rentors (and strangers). Another cost was less spending money for recreation because we try to keep a savings for the possibility of maintenance problems or rentor damage to the home. We have an additional mortgage which increased our bills. One major benefit was that we have something to pass along to our daughter and help get her started in life. That benefit is worth all the cost to my husband and I.

An example where the cost-benefit principle could be used in my personal experience would be deciding if traveling on Greyhound would benefit me more than traveling on Delta this holiday weekend to get home. Being that it would cost my parents $58.50 to travel by bus, and $189.76 to travel by plane, it is obvious that taking the bus would be much cheaper, $131.26 cheaper. However, it is also noted that it would take approximately eight hours and thirty minutes to arrive at my destination by bus, while it would only take one hour and twenty-three minutes to get home by plane. Lastly, before making the final decision I also must put into consideration my personal preference, which is to ride the bus because I’m slightly afraid to fly. After evaluating my situation I’ve concluded that traveling by plane is more beneficial than traveling by bus because traveling time is cut in half which equals the extra cost my parents must pay, and the only way to become fearless is to face your fears.

I have recently had a cost-benefit problem brought to me. My sister’s boyfriend was gone for the weekend. That saturday night she decided to watch a movie with one of her male friends, while in his room things got a little awkward. And she had the opportunity to kiss her friend, she didn’t know what to do. On one hand she loved her boyfriend, but she also wondered what it would be like to kiss her friend. Well, she eventually came to the conclusion that she was not going to kiss him that night. She didn’t know when the opportunity might present itself again, which was a problem. That is when she came to me for guidance. I expressed to her the cost and benefits of the situation. The cost of cheating on him would be that she would stand the chance of losing her first love. While, the benefit of cheating on him would be to gain one night of “pleasure”. 
“Which is more important?”, is what I asked her. Another way of wording it maybe, “does the cost exceed the benefit?”. Although a lot more went into the situation, it was primarily based upon the cost-benefit principle. Graphically the marginal cost curve would be positioned high on the marginal benefits curve. And the marginal benefit curve will slope upward to the left. Because I personally believe that the marginal cost out weighs the marginal benefit in this particular situation.