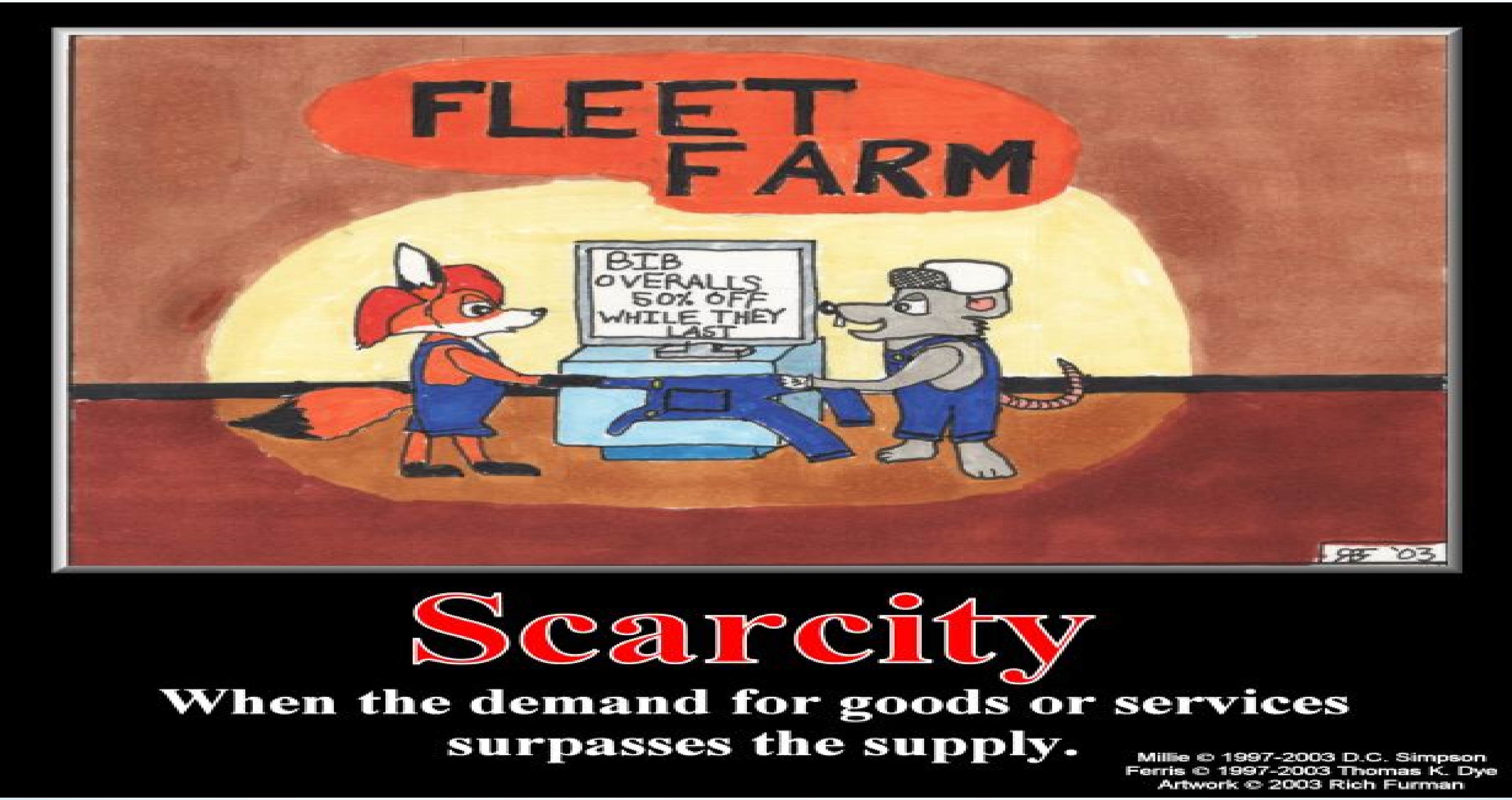
Marginal Analysis

High School Economics

Unit 1, Lesson 2

OaklandSchools

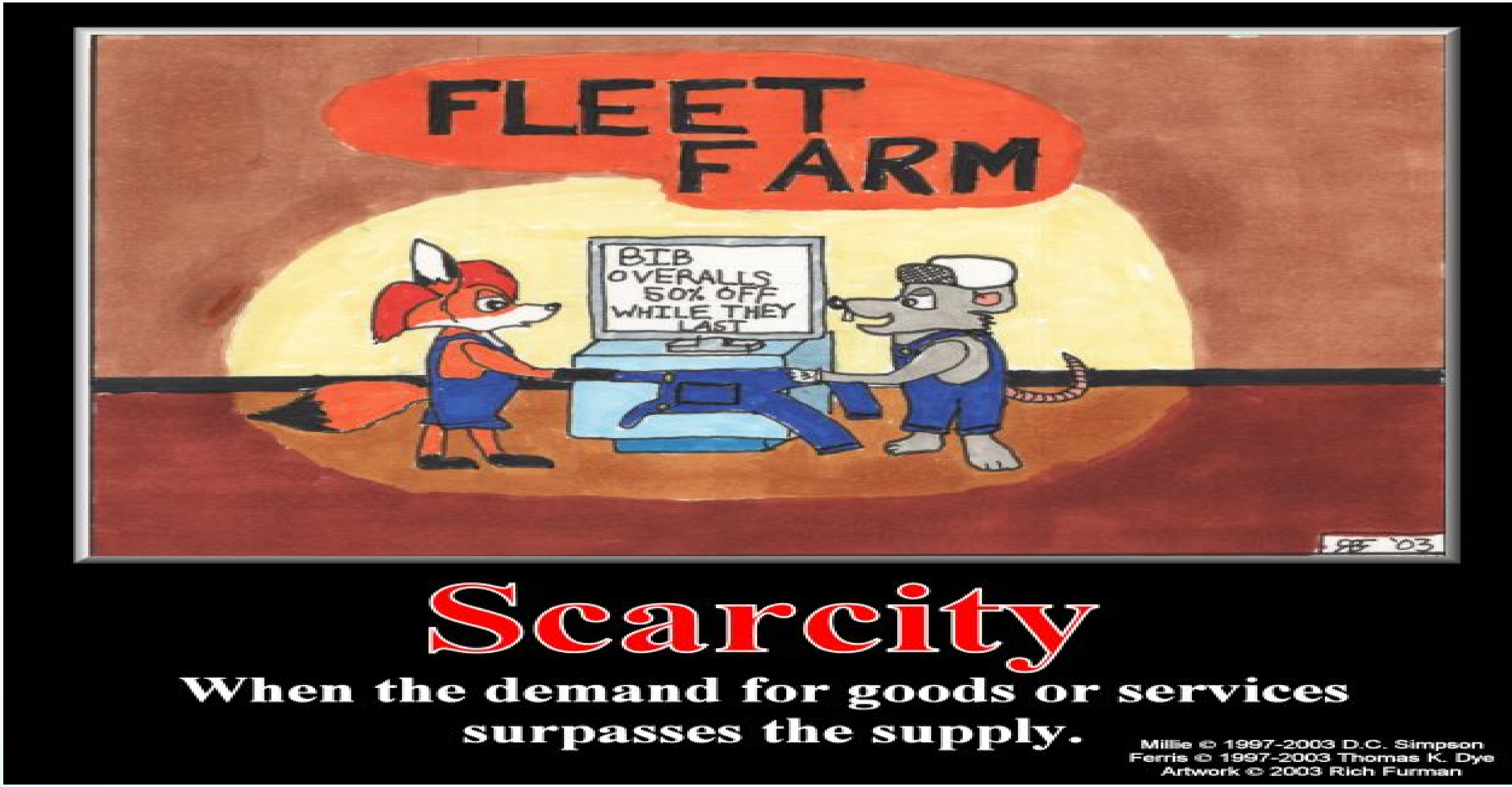
Learning today. Transforming tomorrow.



This poster is wrong. Why?

Be prepare to explain your thinking.

Turn and Talk with a partner.

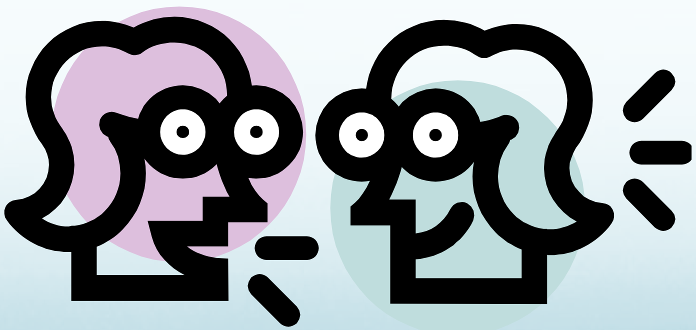


- Scarcity is not a shortage of <u>supply</u>.
- Scarcity is the condition of unlimited wants but limited resources.

Based on the choices below, which notebook would you be more likely to purchase?

Turn and Talk:

What other information would be helpful to you in making a decision?



Examine the data below.

	HP TouchPad	Apple iPad	Motorola Xoom	BlackBerry PlayBook

	HP TouchPad	Apple iPad	Motorola Xoom	BlackBerry PlayBook
Platform	webOS 3.0	iOS 4.2.1	Android 3.0	BB Tablet OS (QNX)
Processor	1.2GHz Qualcomm Snapdragon dual-CPU APQ8060	1GHz Apple A4, PowerVR SGX 535 GPU	1GHz NVIDIA Tegra 2	1GHz Cortex-A9 dual-core
Display	9.7-inch	9.7-inch LED-backlit IPS LCD	10.1-inch	7-inch LCD
Resolution	1024 x 768	1024 x 768	1280 x 800	1024 x 600
Memory	1GB RAM	256MB DRAM	1GB DDR2 RAM	1GB RAM
Storage	16GB / 32GB	16GB / 32GB / 64GB	32GB	--
Front camera	1.3 megapixel	none	2 megapixel	3 megapixel

What does the data tell you about the differences among the choices?

How could this information help you make a decision?

Would price influence your decision?

	HP TouchPad	Apple iPad	Motorola Xoom	BlackBerry PlayBook
Platform	webOS 3.0	iOS 4.2.1	Android 3.0	BB Tablet OS (QNX)
Processor	1.2GHz Qualcomm Snapdragon dual-CPU APQ8060	1GHz Apple A4, PowerVR SGX 535 GPU	1GHz NVIDIA Tegra 2	1GHz Cortex-A9 dual-core
Display	9.7-inch	9.7-inch LED-backlit IPS LCD	10.1-inch	7-inch LCD
Resolution	1024 x 768	1024 x 768	1280 x 800	1024 x 600
Memory	1GB RAM	256MB DRAM	1GB DDR2 RAM	1GB RAM
Storage	16GB / 32GB	16GB / 32GB / 64GB	32GB	--
Front camera	1.3 megapixel	none	2 megapixel	3 megapixel
Cost	$99	$459	$475	$299

Discussion Questions:

- Given this additional information, which notebook would you be more likely to purchase?
- Did your decision change based on this additional information? Why or why not?

	HP TouchPad	Apple iPad	Motorola Xoom	BlackBerry PlayBook
Platform	webOS 3.0	iOS 4.2.1	Android 3.0	BB Tablet OS (QNX)
Processor	1.2GHz Qualcomm Snapdragon dual-CPU APQ8060	1GHz Apple A4, PowerVR SGX 535 GPU	1GHz NVIDIA Tegra 2	1GHz Cortex-A9 dual-core
Display	9.7-inch	9.7-inch LED-backlit IPS LCD	10.1-inch	7-inch LCD
Resolution	1024 x 768	1024 x 768	1280 x 800	1024 x 600
Memory	1GB RAM	256MB DRAM	1GB DDR2 RAM	1GB RAM
Storage	16GB / 32GB	16GB / 32GB / 64GB	32GB	--
Front camera	1.3 megapixel	none	2 megapixel	3 megapixel
Cost	$99	$459	$475	$299

How did you decide?

	HP TouchPad	Apple iPad	Motorola Xoom	BlackBerry PlayBook
Platform	webOS 3.0	iOS 4.2.1	Android 3.0	BB Tablet OS (QNX)
Processor	1.2GHz Qualcomm Snapdragon dual-CPU APQ8060	1GHz Apple A4, PowerVR SGX 535 GPU	1GHz NVIDIA Tegra 2	1GHz Cortex-A9 dual-core
Display	9.7-inch	9.7-inch LED-backlit IPS LCD	10.1-inch	7-inch LCD
Resolution	1024 x 768	1024 x 768	1280 x 800	1024 x 600
Memory	1GB RAM	256MB DRAM	1GB DDR2 RAM	1GB RAM
Storage	16GB / 32GB	16GB / 32GB / 64GB	32GB	--
Front camera	1.3 megapixel	none	2 megapixel	3 megapixel
Cost	$99	$459	$475	$299

- Economic choice is based on **<u>comparing</u>** the ***marginal benefit*** to the ***marginal cost***.

- A rational decision maker will choose to do something as long as the **marginal benefit** **exceeds** the **marginal cost.**

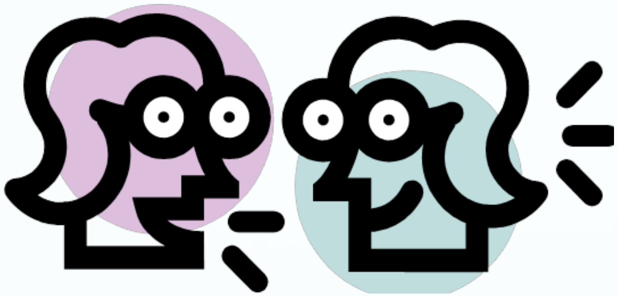
Was your decision made at the margins?

- Making a decision at the margins means considering the:
  - different capabilities of the products
  - cost differences among the products
  - and then weighing the importance of each to you personally.
- Did you weigh the benefits of some characteristics relative to the cost? Did you decide that some features were not worth the difference in cost? --- then you engaged in **marginal analysis**!!
- Did your experiences or personal feelings influence your choice? Was that rational?

Marginal Analysis

- Involves making an economic choice by comparing the **marginal benefit** to the **marginal cost.**
- **Marginal benefit** is the satisfaction or utility that a person receives from purchasing a good or service
- **Marginal cost** is the amount of money, time or resources that a person is willing pay to purchase a good or service
- **A rational decision maker will choose to do something as long as the marginal benefit exceeds the marginal cost.**

Turn and Talk: Marginal Analysis



- Can you think of any examples in which you engaged in marginal analysis?

- Are human beings always rational?

Marginal analysis should not consider sunk costs

Should I fix my car?

- Money already spent ($4000) on repairing old car is close to original cost ($4500)
- Now needs new breaks and transmission–$1000

OR should I buy a new car?

- What would be the rational decision?
- Why did I choose to fix the car?

  Costs that have already been incurred **should <u>not</u> be part of an economic decision. These are sunk costs.**
- But we <u>irrationally</u> may consider them anyway. **Why?**

Property of Oakland Schools

Authors: Brian Pierce, Scott Warrow, Kathryn Gustafson

Editor: Amy Bloom

OaklandSchools

Learning today. Transforming tomorrow.