

COST BENEFIT ANALYSIS, MARGINAL BENEFITS, AND MARGINAL COSTS

COST BENEFIT

Rational Decisions

Due to scarcity, Every decision involves an opportunity cost.

Economists assume that people make rational decisions.

We get something we want, but we give up something else.

RATIONAL DECISIONS

To make a rational decisions, we must weigh the benefits and cost of each option.

“Cost benefit analysis” is when we choose the option whose benefits in your opinion) outweigh its cost.

A Rational Economic Decision is when we make a decision and our benefits exceed our costs.

MARGINAL BENEFITS AND MARGINAL COSTS

Marginal Benefit is the extra amount gained when a choice is made.

Marginal cost refers to the value of what is given up in order to produce that additional unit. Extra amount given up when a choice is made (could be the same as opportunity cost).

MARGINAL BENEFITS AND MARGINAL COSTS

Additional units of a good should be produced as long as **marginal benefit** exceeds **marginal cost**

It would be inefficient to produce goods when the marginal benefit is less than the marginal cost.
Therefore, an efficient level of product is achieved when marginal benefit is equal to marginal cost.

MARGINAL BENEFITS AND MARGINAL COSTS

When the marginal benefits you receive from a decision are equal to or greater than the marginal costs of making that choice, you are making a **rational decision**.