

Opportunity Cost and Relative Cost:

- **Both involve trade-offs.** They help you decide between two options when resources are limited.
 - **Opportunity cost** is about what you give up when you choose something.
 - **Relative cost** shows how much of one thing you need to give up to get another.
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Difference Between Opportunity Cost and Relative Cost:

<u>Aspect</u>	<u>Opportunity Cost</u>	<u>Relative Cost</u>
Definition	The value of the next best alternative foregone.	The cost of one good or service compared to another.
Measurement	Can be measured in terms of money, time, or resources.	Typically measured as a ratio between goods.
Scope	Broad concept applicable to all decisions.	Focused on comparing production or trade choices.
Example Focus	What you give up when choosing one option over another.	The cost relationship between two specific goods.

Example Illustrating Both Concepts:

Scenario: A country can produce either 100 cars or 200 motorcycles with the same resources.

- **Opportunity Cost:** Choosing to produce 100 cars means the opportunity cost is 200 motorcycles (the foregone alternative).
- **Relative Cost:** The relative cost of 1 car is 2 motorcycles ($200/100$), and the relative cost of 1 motorcycle is 0.5 cars ($100/200$).

Simple takeaway:

- Opportunity cost = "What you give up."
- Relative cost = "How much of one thing equals another."

