

Economics
Notes on Calculating Cost Efficiency

FORMULA FOR CALCULATING COST EFFICIENCY

Benefits (B) / Costs (C) or B / C

Example of Cost Efficiency Problem

Let's say you have a choice of two sizes of nutmeg spice in the grocery store to choose from (you want to make a sweet potato pie). Here are the sizes and prices:

Choice A

.9 oz. (\$2.50)

Choice B

2.4 oz. (\$3.99)

Which is the better choice? Let's check it out. Using the very simple formula above, we can set up the problem as follows:

Choice A

$.9 / 2.50 = 0.36$

Choice B

$2.4 / 3.99 = 0.60$

INTERPRETATION

Choice A

This choice gives .36 oz. of nutmeg for every dollar spent

Choice B

This choice gives .60 oz. of nutmeg for every dollar spent

CHOICE EVALUATION

Choice B is the most cost efficient choice because you get more nutmeg for every dollar that is spent on the nutmeg. Does that make sense?

FAILURE TO PROVIDE AN INTERPRETATION FOR YOUR RESULTS WILL LEAD TO POINTS BEING DEDUCTED FROM YOUR ANSWERS. MAKE SURE THAT YOU PROVIDE AN INTERPRETATION.

Economics
Practice Problems

Brief Answers and Graphs (if needed). Show all work. Points will be deducted if all work is not shown.

- 1) Using the market demand graph, show the law of demand.
- 2) Using the market supply graph, show the law of supply.
- 3) Briefly explain the economic connections between price, quantity, and market demand.
- 4) Briefly explain the economic connections between price, quantity, and market supply.
- 5) Illustrate a demand graph where quantity (Q) went from 250 (Q_2) to 180 (Q_1) because price (P) went from \$25 (P_1) to \$40 (P_2).
- 6) Illustrate a supply graph where quantity went from 100 to 175 because market price went From \$55 to \$65.
- 7) You need some garbage bags for the house and decide to stop by one of local Dollar Generals (DG). You are faced with two alternatives that make sense to you. The first option is a box of 38 bags at a price of \$7.00. The second option is a box of 17 bags At a cost of \$5.00. Which is the better choice?

**IF YOU CANNOT DO THIS ASSIGNMENT ON YOUR COMPUTER, DO BY HAND,
TAKE A PICTURE OF IT, AND PLEASE PLACE THIS ASSIGNMENT IN DROP BOX 1.**