

2.1: Why It Matters- Choice in a World of Scarcity

Why learn to think like an economist?



As you now know, the study of economics is about choices that are made by individuals and entities, given the fact that we can never have enough. You might not argue that you don't have enough time or money, for instance, but why might you want to think about that in economic terms? Let's look at one situation in which the choices you make today—with limited time and money—have an impact on the choices available to you in the future.

It's generally true that the higher the educational degree a person has, the higher the salary he or she will earn. So why aren't more people pursuing higher degrees? The short answer: choices and trade-offs.

In 2012, the average annual salary for a full-time U.S. worker over age twenty-five with a master's degree was \$67,600. Compare that to annual earnings for a full-time worker over twenty-five with no higher than a bachelor's degree: \$55,432 a year. What about those with no higher than a high school diploma? They earn just \$33,904 in a year. In other words, says the U.S. Bureau of Labor Statistics (BLS), earning a bachelor's degree boosted salaries 63 percent above what you would have earned if you had stopped your education after high school. A master's degree yields a salary almost double that of a high school diploma.

What are your educational goals? Do you plan to complete a bachelor's degree? A master's degree? Given the salary data, shouldn't everyone pursue a master's degree? When you made your own educational plans and goals, perhaps you were motivated by the potential for financial returns later on—i.e., the expectation that a higher degree would lead to a higher-paid job or career. But what other factors did you consider? Perhaps you also thought about the time and cost of education and the other things you like to do when you aren't studying. Other people, it turns out, also think about these things when deciding whether or not to pursue college.

Considering salary data alone, you might expect a lot of people to choose to attend college and at least earn a bachelor's degree. In fact, in 2012, the BLS reported that while nearly 88 percent of the U.S. population had a high school diploma, only 31 percent had a bachelor's degree, and only 8 percent had earned a master's degree.

For the majority of Americans, the time, money, and effort required to earn a degree is too great, in spite of the resulting salary benefits. In recognition of these barriers, state and federal governments have created programs such as the Pell Grant program to help students pay the financial costs of going to college. However, these programs don't cover the opportunity costs that are often the most pressing concern for students. For example, the opportunity cost of lost income that could be used to support a student's family might be a significant factor.

So, now that you're in college, how can you make the best decision about which level of education to pursue? Perhaps more important, how can you be realistic about your scarce resources and develop a plan that provides the greatest benefit to you?

In this module we will look more closely at the idea of choices and trade-offs, revisit the concept of opportunity cost, and learn how to calculate it. This will help you assign dollar amounts to your choices and understand why your decision to pursue a college degree—in spite of the opportunity costs—is one of the most important decisions you can make toward improving your financial future.

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