

# How to use Opportunity Cost

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## What it is

Whatever you choose, you give up the next-best thing you could have done instead. That trade-off is the real cost.

## When to use it

Whenever you're choosing how to spend money, time, or energy on one thing over another.

## Steps

1. **Name the choice.** What are you considering spending your time or money on?
2. **Weigh it against the next best option.** What do you gain by choosing it, and what do you give up by not choosing the alternative?

## Common mistake

Only counting the money or time spent, and forgetting what you could have done instead.

## Pairs with

Expected Value Thinking and the 10/10/10 Rule.

Example: a weekend freelance gig

Date: Sat, Jun 7

The choice

Taking a weekend freelance project for 600 dollars

Gain versus give up

|                                                                                             |                                                                                                |
|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| <p>What I gain</p> <p>600 dollars, and a strong new portfolio piece for future clients.</p> | <p>What I give up</p> <p>A full weekend of rest and time with family. Can't get that back.</p> |
|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|

Worth the trade-off? Yes, it goes straight to the down payment

## Opportunity Cost Comparison

Date: \_\_\_\_\_

## The choice

## Gain versus give up

| What I gain | What I give up |
|-------------|----------------|
|             |                |

**Worth the trade-off?** \_\_\_\_\_