

Decision Making/Cost-Benefit Analysis

<http://www.econedlink.org/tool/184/>

Chances are you make economic decisions every day and, whether you realize it or not, you probably make those decisions by analyzing the costs and benefits of your alternatives.

Cost-benefit analysis is the process of examining the costs and benefits of available alternatives and arriving at a decision. The PACED Decision-Making Process is a particularly useful way to solve problems in a rational and systematic manner. Let's go through the PACED Decision-Making Process by considering a decision that many students face, whether or not to take a part-time job.

Emma would like to have more money, but doesn't want to give up her free time. The PACED Decision-Making Process has five steps. First, identify the problem. What decision is Emma trying to make? She needs to decide whether or not to take a part-time job. Next, identify the alternatives. What options are available to Emma? She has two alternatives, to take a job, or not to take a job. Next, identify the criteria that are important to the decision. What does Emma hope to accomplish? Emma has had her eye on a new trail bike for quite a while, but hasn't had the money to buy it. She also enjoys playing basketball and spending time with her friends. Also, good grades are important to Emma and she wants to have plenty of time to study.

Now evaluate each alternative on the basis of each criterion. With the money from a part-time job, Emma could save up and buy the trail bike she wants, but if she takes the part-time job, Emma will have much less free time for playing basketball, being with her friends and studying. Finally, make a decision based on the evaluation. After going through the process, Emma decides not to take the job, deciding that for her, the benefits that she would receive from taking the job would not outweigh the costs.

The decisions that we make every day, are based on our own personal evaluation of the costs and benefits. Would everyone make the same decision? Probably not, different people have different preferences, face different life situations and must make decisions based on their own personal judgment.