Thinking at the Margin

Rational choices happen one extra unit at a time: is it worth it?

Name: _____ Date: _____

OBJECTIVE

Explain that rational decisions compare marginal benefit to marginal cost, and describe how individuals, businesses, and governments respond to incentives.

1. Marginal benefit vs. marginal cost

Jordan is deciding how many hours to study for a test tonight. Fill in a reasonable marginal benefit and marginal cost for each additional hour.

Hour	Marginal benefit (extra points gained)	Marginal cost (what's given up)
1st hour		
2nd hour		
3rd hour		
4th hour		

At what hour would a rational student stop studying? _____ Why: _____

2. The rule

Rational decisions occur when marginal benefit ≥ marginal cost. Once one more unit costs more than it's worth, stop.

3. Sort the incentives

Positive incentive (encourages behavior) or negative incentive (discourages it)?

Scenario	Positive / Negative
A tax credit for buying an electric car	
A late fee on an overdue library book	
A bonus for hitting a sales target	
A fine for littering	
Free shipping over $50	

Decisions aren't purely logical, emotional and social pressure change what counts as a 'benefit.' Look back at your marginal benefits in the table above and circle any that were emotional rather than strictly financial.

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DISCUSS

Find a recent news headline about a company or government 'cutting back' or 'ramping up' something, production, hiring, spending. Identify the marginal benefit and marginal cost that most likely drove that real decision.

4. Think of a real purchase you almost didn't make. What incentive (positive or negative) tipped your decision?