

Chapter 22 : Business Choices

1. Opportunity Cost

Choices from different ways that resources can be used; for example

- Individuals have to choose how to spend their limited budgets.
- Business choose between spending money on advertising or training.
- Government decides to spend money on military or education.

When choice is made it has opportunity cost which is the benefit loses from the next best alternative foregone.

2. Non-monetary opportunity cost

- Opportunity cost is difficult to quantify
- Opportunity cost can sometimes be personal :

3. Business choices and trade-offs

- One important trade off is between risk and reward : taking higher risk get higher rewards
- One important decision for entrepreneur is whether to set up a business in the first place.

The benefit of running business may include :

- Independence as owners are in complete control and free to make decision.
- Flexibility : owners can choose a life balance.
- Chance to get more money
- Job satisfaction from sense of achievement
- Chance to become rich

HOWEVER, there is **trade off**

- Losing regular salary from employment.
- Employment may offer holiday pay, sick leave.

Running a business is very challenging :

- Owners of small business have to do everything - A lack of free time
- Owners need a variety of skills and responsibility - It has unlimited liability for sole trader