

## Individual Student Responses – JiTT Exercise #1

### Topic: Sunk costs (vs. marginal costs)

Total responses: 18

Total responses used in class: 5

#### Question 1: Short Answer/Essay

Last year my wife and I made plans to take our family (3 children) to the beach for the Labor Day weekend, accompanied by another family (with four children). Each family paid a non-refundable beach rental payment of \$350 a couple of months prior to the trip. As Labor Day approached we watched the weekend weather report with growing interest. Bad news! The weather forecaster was predicting rain for the entire weekend! As we packed up the car to go to the beach, I asked my wife if perhaps we should stay home for the weekend, rather than going to the beach. After all, we had recently moved into a new house that needed unpacking (and painting) and the beach forecast was for rain, rain, rain. She responded, "We've already paid \$350 for the beach rental, of course we're going to the beach!" Was my wife's argument "rational," in an economic sense? Why or why not?

Recall that "rational people will undertake an activity as long as the additional benefit of the activity is greater than the additional cost of the activity."

1. Your wife's argument was not rational. There is only one marginal benefit, that is, your money would be used for the purpose intended, which is for the beach rental. The marginal cost would be, the bad weather, normally when it rains people stay inside and you could do that at home and in the comfort of your own without another family around you all day. You could save the gas it would take to drive to the beach. You could stay at home and finish unpacking and start painting on your new house. You could save time and spend it at home. There are lot of activities you can do at home in nice sunny weather verses bad weather.
2. I think I would decide to go to the beach, rather than staying home to unpack and paint. I think the wife's decision to go to the beach was a good economic decision. To me, the additonal benefit of the activity is greater than the additonal cost of the activity. I feel like if I have already paid for a \$350 trip, if I fail to go I will be wasting money. There will always be more time to paint and unpack. Even if it is raining at the beach, the family might have the additional benefit of spending some quality time together. My opinion of wasting money is alot more important to me than wasting time. I would rather waste time over money any day.
3. Your wife's argument was rational in an economic sense because one of the major marginal costs were the actual fee for the trip. Everything else was time related, and if she felt that the benefits of the \$350 vacation outweighed the "cost" of time she would have spent unpacking and painting, then her arguement was rational.

4. I think your wife argument was rational in a economic sense. You had already paid the money to go. Maybe you will not be able to go to the beach but at least it is a get away. If there is no refund then you have wasted \$350.
5. Yes, her argument was rational. Since the \$350 was already paid and it was nonrefundable, there was no need to waste the money. Just because of the rain, you can still do inside activities. There isn't much additional cost other than the amount of money that will be spent for food, gas, and pleasure. Unpacking the house could be done when you return.
6. Yes, your wife argument was rational in an economic sense. You as a family had just spent \$350 for a beach rental, which is non-refundable. If your family stays home for Labor Day weekend, you would have saved money. You would have not spent money on gas. You would have not spent money on food, and any other costly expenses on the beach trip. You would have just paid \$350 for the beach rental. Which in your case you be great additional benefit over greater additional cost of the activities due to the weather forecast.
7. Your wife's argument was not rational in an economic sense, because although you're losing \$350 for the beach rental, you still have a new house that needs unpacking and painting. With little kids and even with the adults going to the beach in the rain, one could assume that someone (if no more people) will get sick. Then in addition to the rental fee and fees for lodging and food, you'll have to dish out money for medical fees. Afterwards, you'll still have a new house that still eventually needs unpacking and painting. In an economic sense, the marginal costs outweigh those that are necessary from square one.
8. No because you will spend most if not all of your vacation inside due to the rain. That time could be spent working on your house. You also save money because you're at home versus being on vacation where you'd spend money on keepsakes, gifts and other needless items. By not going, you also save money on gas and food. The marginal cost of going to the beach outweigh the marginal benefits and thus it is not rational to go the beach
9. With the situation concerning you and your wife's beach vacation I don't view your wife's argument as a rational argument. If the weather at the beach was forecast to be unpleasant I don't see the additional benefit being greater than the additional cost of the activity. Though the three hundred and fifty dollars had been spent, the weekend at the beach would not have been enjoyable making the trip pointless, and worthless. The time used on the trip could have been put into a greater benefit such as painting the new house and unpacking, thus giving a greater benefit. In my opinion traveling to the beach would have created a greater lose, due to you being out of the money and also having a wasted weekend that could have given another benefit.
10. In an economic sense, Yes I think her argument was rational because the Marginal benefit was the \$350 already spent. Plus, she might have just wanted to go on a vacation and relax. While the marginal cost would be staying home doing house chores. However, I guess it also depends on the person and the children.
11. yes, because the expense of going to the beach was allready paid one month prior to that weekend.
12. Yes her argument is rational at first glance. Because yes you would be losing \$350 a night. But let give this a little more thought. Lets compare what you will lose if you

do go and what you would gain by not going." Lets say the family is from Greensboro" First you will have the cost of gas about \$100. Then you will have hidden costs such as wiper blades and more use of your brakes. Then you have additional costs such as cost of activities to take place of going to the public beach where there is no cost so lets say an extra \$400. Next lets say you were planning on cooking out for supper now its raining and now you must go out to eat that more money lets say supper for five and tip for two night \$150. Lastly what happens when it rains a the beach people go inside you may order a movie or rent a movie go shopping or what ever it may be so lets say an extra \$200. Ok so instead of staying home you have spent an extra \$850. So you can see that would not be rational, and dont forget by staying home and doing work around the house you would not have to take a day off so there is more money saved so one can see she was not very rational.

13. To a rational person the argument would not stand. Simply because after listing the marginal costs and the marginal benefits the costs were greater. I listed the costs as gas, time that could be spent unpacking, the non-refundable \$350, food, activities, and souvenirs. The benefits were the vacation time away from home, an unforgettable summer for the kids, and bonding time (which could turn into networking) with the other family. Clearly, there are more costs than benefits. However, I do not agree with not going either. If the children wanted to go in spite of the rain then I would take the trip because after all things like that matter and that it something they will never forget. That is worth more than any marginal cost. Plus the weather channel is not always accurate.
14. There is no benefit in going to the beach while raining, it's all cost. The benefit of staying home is the painting and unpacking. She was not being rational because there it was all cost.
15. No, this argument is irrational because when the two families go to the beach they are going to have no choice but to confine themselves to the boundaries of the beach house. Therefore it would be more rational and productive decision to stay at home and work on unpacking and painting the new house.
16. Marginal cost versus the marginal benefit provides a formula for making rational decisions. In this situation the marginal cost was previously calculated (assuming) including the beach rental payment, gas, food, and pocket money. The benefits in the primary evaluation must have exceeded the cost because the family decided to go on the trip. The family made the rational decision after weighing the benefits versus cost to take the trip. If the benefits of the trip were more than the costs the weather should not alter the decision because that would make them irrational. The cost of the trip was already determined to be less than the benefit so their rational decision should not change.
17. Brian Withrow I believe that your wife's decision was a rational one in an economic standpoint because the non-refundable \$350 deposit could have been used for some other type of activity for the new home. Eventhough the weather did not suit your standards it would be irrational to waste \$350 by not taking the vacation.
18. Well i personally feel that her argument is very rational, because the trip was already paid for and the trip was going to be restfull something that was more worth her time than unpacking at that time. So i think that she was right not to waste that money and

take the trip rather than stay home, and unpack, which is far less relaxing than the beach.