



Friction Costs: Worksheet

Section One: Define each of the following terms. Then provide a real world example.

1. Direct cost
2. Indirect cost
3. Opportunity cost
4. Friction cost

Section Two: For each of the following scenarios, identify what the direct costs are, what the indirect costs are, and what the total friction cost is in dollars.

1. You are shopping online for some new swimsuits for the summer. Before checking out, the total for your cart comes out to be \$53.43. Once you checkout, the added sales tax is \$6.24. The fee for shipping and handling is \$5.50.



2. An individual is looking to invest in stocks. They decide to invest \$2,000 in a diversified portfolio through the help of a financial advisor. That advisor charges a commission fee that ends up being \$350 out of the money that you make. There is also a small management fee that is \$45.

3. A town is considering a proposal to open a new library. The materials and labor are estimated to cost the city \$3.5 million. There are several zoning and land fees totaling \$20,000. The maintenance of the library including staff and bills will be \$400,000 per year. The town also needs to repair several government buildings. Updating the buildings instead of building the library would save the city \$250,000.