

Unit I: Basic Economic Concepts

Problem Set #1 (60 Points)

Directions: Evaluate the assigned problem set, write corrections on the paper you are evaluating; on the top of the first page write their score clearly and circle it, write “graded by” with you name.

1. Complete each of the following tasks with short *paragraphs*:
 - A. Define scarcity and explain how it is related to choices and trade-offs **3 points**
 - 1 Point-Define-Scarcity (the idea that we have unlimited wants, but limited resources)
 - 1 Point-Define Tradeoffs (all the things given up when a choice is made)
 - 1 Points- Connect the two concepts (since you cannot have everything you want you need to give up some things)
 - B. Fully explain the difference between the following (USE EXAMPLES FOR EACH): **21 points**
 - i. 1 Point-Define Tradeoffs (all the things given up when a choice is made)
 - 1 Point-Define Opportunity Cost (the most or BEST desirable alternative)
 - 1 Points- Example
(ex: the trade offs of going to school are going to the beach, going to Disneyland, etc. The opportunity cost is the one best alternative)
 - ii. 1 Point-Define Price (The amount the consumer pays)
 - 1 Point-Define Cost (the amount the producer pays to make the product)
 - 1 Points- Example
 - iii. 1 Point-Define normative (Statements that include value judgments)
 - 1 Point-Define positive (Statements that DO NOT include value judgments)
 - 1 Points- Example
 - iv. 1 Point-Define Consumer Goods (goods created for direct consumption)
 - 1 Point-Define Capital Goods (goods that make consumer goods)
 - 1 Points- Example
 - v. 1 Point-Define Allocative Efficient
 - 1 Point-Define Productively Efficient
 - 1 Points- Example
 - vi. 1 Point-Define Resource Market (factors of production are bought and sold)
 - 1 Point-Define Product Market (consumer goods are bought and sold)
 - 1 Points- Example
 - vii. 1 Point-Define Free Market (Economic questions- what to produce, how, and for whom are decided through supply and demand)
 - 1 Point-Define Centrally Planned (Government or central authority answers economic questions)
 - 1 Points- Example- 2. Draw a Production Possibilities Graph for the Ford Motor Co. using the following information: **5 points**
 - (1point) The axis have numbers
 - (1point) One axis is labeled “Trucks”
 - (1point) The other axis is labeled “Cars”
 - (1point) EVERY point is plotted correctly

(1point) ALL points are labeled A,B,C,D,E,F,G

- A. What are the consequences of Ford producing at combination A? Combination G? In reality, are either combinations desirable? Why? Why not? **5 points**
- 1 Point-At combo A, Ford is using all the resources to make Cars
 - 1 Point-At combo G, Ford is using all the resources to make Trucks
 - 2 Point-Neither combo is desirable
 - 1 Points- Consumers likely want trucks and cars. If Ford only makes one or the other they are going to loose profit. Combinations A and G are not allocatively efficient.
- B. Plot the combination with 30 cars and 40 trucks and label it “Y.” Plot the combination with 40 cars and 50 trucks and label it “X.” Explain what is happening at these points? **5 points**
- 1 Point-Correctly plotted and labeled point Y at 30 cars and 40 trucks
 - 1 Point-Correctly plotted and labeled point X and 40 cars and 50 trucks
 - 1 Point- Combo X is unattainable because there are not enough resources
 - 1 Points- Combo Y is inefficient because more of either goods can be produced without giving up the other.
 - 1 Points- Explanations that there are not enough resources to reach combination X
- C. Explain, with examples, how your graph shows 5 concepts: opportunity costs, efficiency, unemployment, the law of increasing opportunity costs, and economic growth. **11 points**
- Opportunity Cost (2 Points)
 - 1 Point- The PPF demonstrates opportunity cost by showing exactly how much of a good is forgone when additional units of another good are being produced.
 - 1 Point- Numeric example of opportunity cost
 - Efficiency (3 Points)
 - 1 Point- Productive efficiency is demonstrated on the PPF as points on the curve. These different combinations show that the economy is using all its resources to produce the maximum amount of products
 - 1 Point- Example. Ex: Point D
 - 1 Point-Allocative efficiency involves making the combination of goods most desired by society. This can be demonstrated by the PPF by moving along the curve towards optimal combinations determined by society.
 - Unemployment (2 Points)
 - 1 Point- Unemployment on the PPF is shown by any point within the curve. These points show an inefficient use of resources since more of both goods can easily be produced without giving up more of either good.
 - 1 Point- Numerical example inside curve
 - Law of Increasing opportunity Cost (2 Points)
 - 1 Point- The law of increasing opportunity cost can be shown using a PPF by bowing out the curve away from the origin.
 - When the curve is bowed out, production of additional units of one good results in increasing losses in the production of the other good.
 - 1 Point- Example showing that opportunity cost increase.
 - Economic Growth (2 Points)
 - 1 Point- If the graph were to shift outward there would be economic growth because more of both goods could be produced
 - 1 Point- Example describing how the PPC can shift outward do to a change in resources, technology, or trade.

3. Use the PPF-A and PPF-B on the back of this paper to answer the following: **4 points**
- A. On PPF-A, what is the opportunity cost from point a to b in terms of guns? What about moving from b to c? What generalizations can you make?
- $a \rightarrow b = 5$ guns, $e \rightarrow c$ (per unit) 5 guns
- B. On PPF-B, what is the opportunity cost from point a to b in terms of guns? What is the PER UNIT OPPORTUNITY COST from moving from c to e?
- $a \rightarrow b = .5$ guns, $b \rightarrow c = 1.5$ guns
 - increasing opportunity cost
- C. Which PPF shows increasing opportunity costs? Use numerical examples to explain why?
- Graph B
- D. Fully explain three specific situations that would shift PPF-B outward. Draw and label these changes on three separate graphs.
- 3 correct and appropriate situations
 - 3 separate correctly labeled graphs
4. The following figures represent the amount that can be produced with a fixed amount of factor inputs. **6 points**
- A. Which country has an absolute advantage in producing shirts? Which country has an absolute advantage in producing TVs? Explain how you got your answer?
- China has the AA for shirts and TVs
- B. Define "Per Unit Opportunity Costs". What is China's opportunity cost for producing one shirt? What is India's opportunity cost for producing one TV?
- Per Unit Opportunity Cost- much of a good is sacrificed in order to gain *one additional unit* of an alternative good
 - China: 1 shirt = .5 TV
 - India: 1 TV = 4 shirts
- C. Identify which country has a comparative advantage in shirts? Which country has the comparative advantage in TV? Explain how you got your answer?
- India has the CA in shirts, China has the CA in TVs
- D. Explain why these countries can benefit from trade. Identify a terms of trade that would benefit both countries?
- Explanation of benefits of trade.

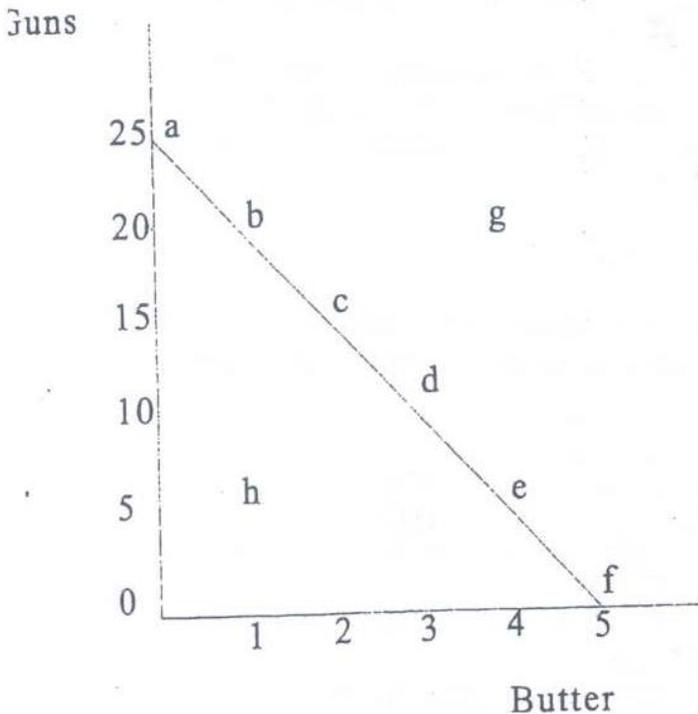
MICRO UNIT I

(8-14%)

Basic Economic Concepts

The study of microeconomics requires students to understand that, in any economy, the existence of limited resources along with unlimited wants results in the need to make choices. An effective AP course, therefore, begins by introducing the concepts of opportunity costs and trade-offs, and illustrates these concepts by using the production possibilities curve or other analytical examples. The course can then proceed to a consideration of how different types of economies determine which goods and services to produce, how to produce them, and to whom to distribute them. It is important that students understand why and how specialization and exchange increase the total output of goods and services. Students need to be able to differentiate between absolute and comparative advantage, to identify comparative advantage from differences in output levels and opportunity costs, and to determine the basis under which mutually advantageous trade can take place between countries. Specific examples from actual economic situations can be used to illustrate and reinforce the principles involved. The importance of property rights, the role of incentives in the functioning of free markets, and the principle of marginal analysis should be highlighted.

(A)



Guns

(B)

