

Intro/Production Possibility Curve Review

Name ANSWER Key - 2017

1. Identify and briefly describe the fundamental problem of economics -

SCARCITY - UNLIMITED WANTS, LIMITED RESOURCES

2. For each of the following choices, identify a possible opportunity cost for the choice:

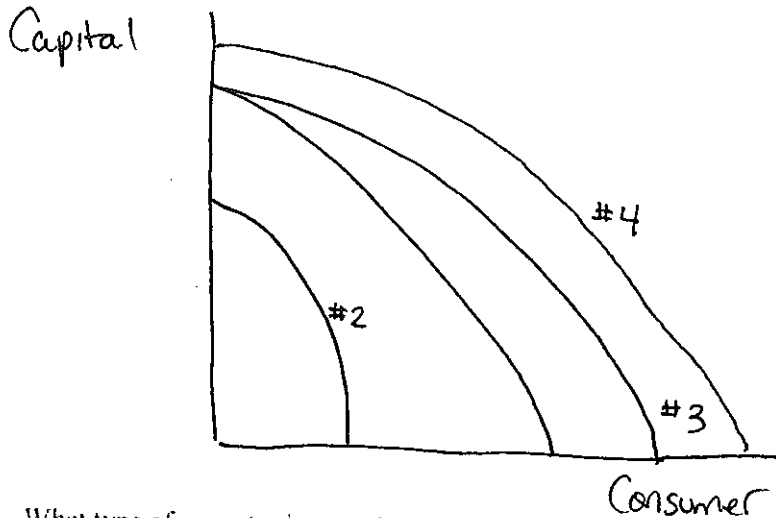
- a. you choose to go see the new Jet Li movie on Friday night watch TV @ home
- b. you choose to go to business school to get an MBA after college go find yourself
- c. you use the \$100 your grandmother gave you for your birthday to buy a new pair of sneakers invest in stock market

3. The foregone benefit when resources are used for one thing rather than another is the definition of:

Opportunity Cost

4. Because of the problem of scarcity, when an economy uses its resources to produce more of one type of good it must produce less of another. This trade-off can be graphically illustrated using a production possibility curve.

5. In the space below, draw the PPC as it appears on the board.



6. What type of opportunity cost is being illustrated by the curve- increasing, decreasing, zero, or constant?

7. Suppose all of the nation's industrial and textile workers went on strike and that this affected production in both the consumer and capital goods industries. Draw a new curve on your graph depicting the results of the strike. Label the curve #2.

8. Suppose a new technology is developed that allows agricultural production to triple without any additional resources (super-fertilizer perhaps). Draw a new curve on your graph depicting the results of this technology. Label the curve #3.

9. Suppose new sources of oil and coal are found throughout the U.S. Draw a new curve on your graph depicting the results of this discovery. Label the curve #4

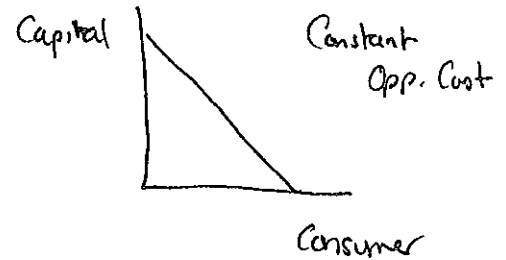
10. How would you describe a production possibility curve that demonstrates constant opportunity cost.

11. Identify two factors that can shift production possibility curves.

1.) Δ in technology

2.) Δ in Capital, Entrepreneurship, Land, Labor

3.) Δ in education / job training



Review for Quiz #1

Name _____

1. Use the concept of opportunity cost to explain:

a: why farmers often wait until a rainy day to do errands in town, while a man in a new suit will decide to forego his errands on the same day

What is the next best alternative that ~~are~~ they could do? Farmer will farm on a nice day!

b. why businesspeople often buy full fare tickets while people planning vacations fly when fares are lowest

↓ They need to travel, no time to plan!

2. Identify one primary purpose of economic incentives:

Inform incentives (prices / bogo) + Act

3. Mark an "S" at the end of the statement if you think the item is scarce. Mark "NS" if the item is not scarce.

A. Old economics textbooks collected in a bookcase near the teacher's desk with a sign that says "Free books, take as many as you want." The books have been there for 3 years NS.

B. Old economics books collected in the bookcase near the teacher's desk with a sign that says "Free books, take as many as you want." Another sign posted in the hallway says \$5 paid for any recycled textbook. Bring books to the Principal's office. S

C. One economics textbook, five students who want to do well in the economics course, and an important test in class the next day. S

D. One economics textbook, five students who are not taking economics, and an important economics test the next day NS.

E. Petroleum in Japan, a country without its own oil reserves or oil fields. S

F. Petroleum in Saudi Arabia, a country with many oil fields and oil reserves. S

4. True or False: A good with NO opportunity cost is a free good because it is not scarce.

Are =

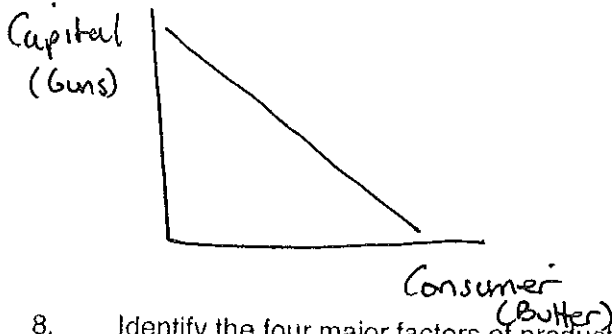
5. Identify one explicit cost of going to college and identify the opportunity cost of going to college

Getting a job / Joining the Military

6. When Joe was complaining about the weight he had gained over the summer, his friend remarked, "You have no excuse, you're just lazy. Going for a run every day doesn't cost anything and you still won't do it" Is Joe's friend correct from an economic standpoint? Why or why not?

No → there is an economic cost (opportunity cost) **53**

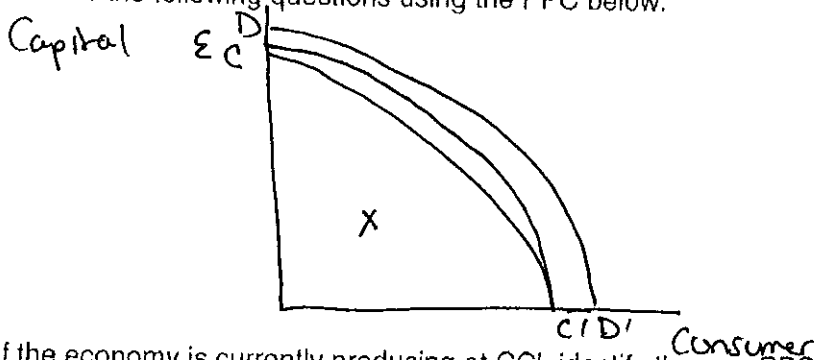
7. Because of the problem of scarcity, when an economy uses its resources to produce more of one type of good, it must produce less of another. This trade-off can be graphically illustrated using a production possibility curve. Draw a production possibility curve below that depicts a constant opportunity cost. Label the axis with any goods (or type of goods) you want.



8. Identify the four major factors of production (productive resources) and provide an example of each:

FACTOR OF PRODUCTION	EXAMPLE
Capital	Computer (Manmade)
Entrepreneurship	Fireworks Night (Managerial Skill)
Land	Grass (Natural)
Labor	WORK FORCE

9. Answer the following questions using the PPC below:

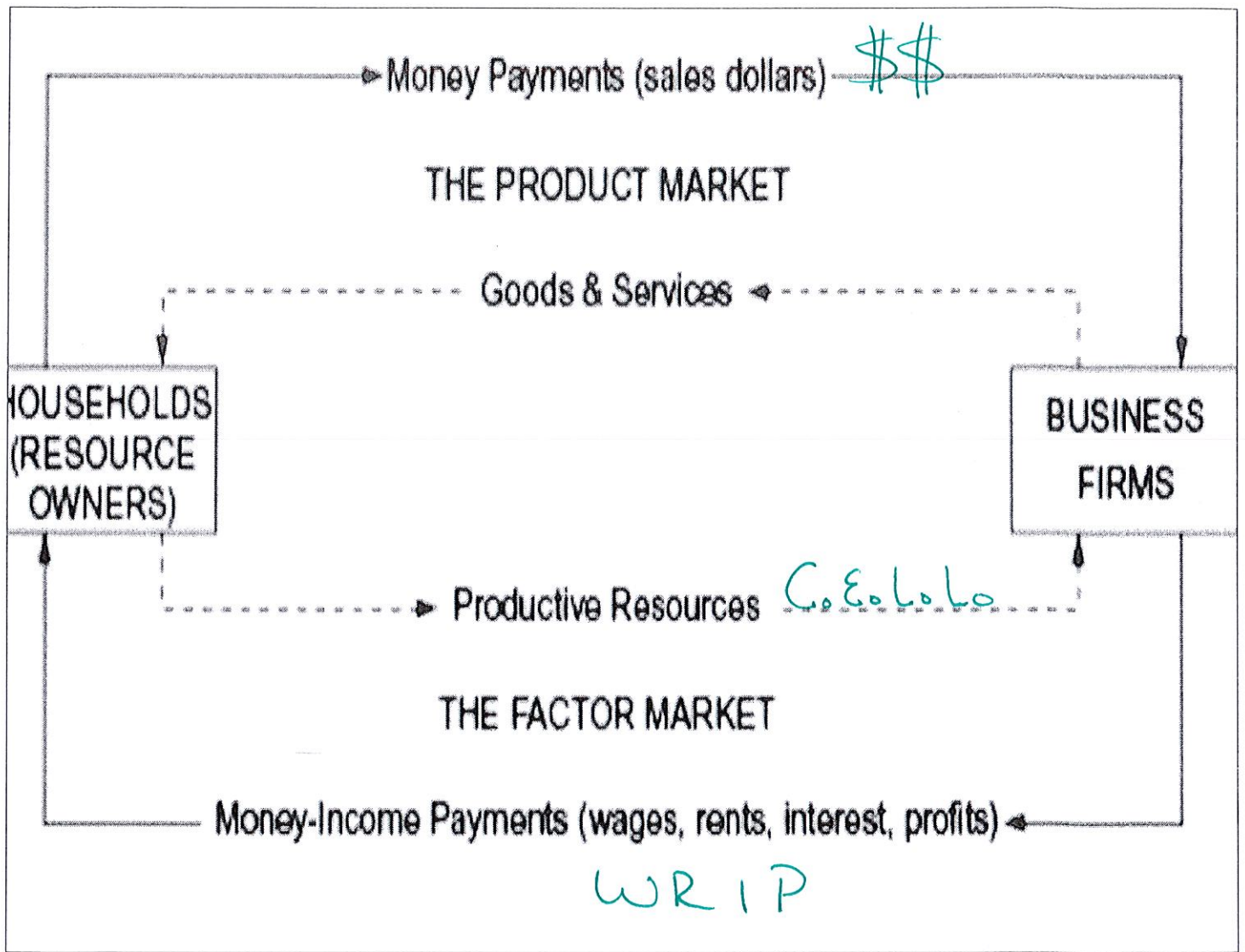


- If the economy is currently producing at CC' , identify the new PPC if major sources of oil and coal were discovered. DD'
- Suppose a technological breakthrough occurs that affects ONLY the production of capital goods. Draw a new PPC that reflects this change. And label it appropriately. EC
- Suppose an economy is operating at point X. Which of the following may be occurring (circle all that apply):

- High unemployment
- Economy not utilizing all resources
- War
- Natural Disaster
- Recession

10. What are the primary methods for achieving economic growth so that a PPC is able to move out and more of all types of goods are able to be produced?

- Δ in technology
- Δ in CELL
- Δ in job training/education



Injections

- Govt. Spending
- Exports

Leakages

1. Taxes
2. Imports
3. Savings