

Unit 1 Test will be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Unit 1 Learning Targets**

At the completion of this unit students will be able to:

* Apply the concept of opportunity cost to a production possibilities curve
* Define absolute and comparative advantage. Apply them to trading relationships and explain how they inform decisions about specialization
* Identify and apply the law of demand and law of supply
* Demonstrate and explain the difference between a shift in the demand/supply curve and a movement along the demand/supply curve
* Analyze situations to determine if the demand/supply curves are shifting
* Explain why, at prices above or below the equilibrium price, market forces operate to move the price back toward equilibrium price.
* Predict the equilibrium price and quantity if there are changes in demand or supply
* Identify the four phases of the business cycle and the relationship to unemployment and production rates in the economy
* Explain the difference between price changes and inflation/deflation and why price stability is preferred

**SHOULD BE FILLED OUT/DEFINED BY: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Key Terms to Define (and learn!)**

Scarcity

Microeconomics

Macroeconomics

Trade off

Opportunity cost

Comparative Advantage

Absolute Advantage

Production Possibilities Curve

Supply

Demand

Specialization

Terms of Trade

Recession

Unemployment

Inflation

Subsidy

Marginal Analysis

Efficiency (Allocative v. Productive)

**Important Terms and Concepts (Opportunity Cost, PPF/PPC)**

Complete after you have watched the videos on opportunity cost / PPF

1. Resources used to produce goods and services
2. System in which allocation decisions are made in accordance with centralized direction
3. Breaking tasks into smaller jobs
4. Ability to produce goods less inefficiently than other producers
5. Decision on how to divide scarce resources among different uses
6. Instruments used to create the goods and services people desire
7. Graph of combination of goods that can be produced with available inputs and existing technology
8. Goods and services that firms produce
9. System in which decisions on resource allocation come from independent decisions of consumers and producers
10. Absence of waste
11. Forgone value of next best alternative
12. Tendency for the opportunity cost of an additional unit of output to rise as production increases
13. A decision that best serves the decision maker’s objectives

1. \_\_\_\_\_\_\_\_\_ Resources

2. \_\_\_\_\_\_\_\_\_ Opportunity Cost

3. \_\_\_\_\_\_\_\_\_ Optimal decision

4. \_\_\_\_\_\_\_\_\_ Outputs

5. \_\_\_\_\_\_\_\_\_ Inputs

6. \_\_\_\_\_\_\_\_\_ Production Possibilities Frontier

7. \_\_\_\_\_\_\_\_\_ Principle of increasing costs

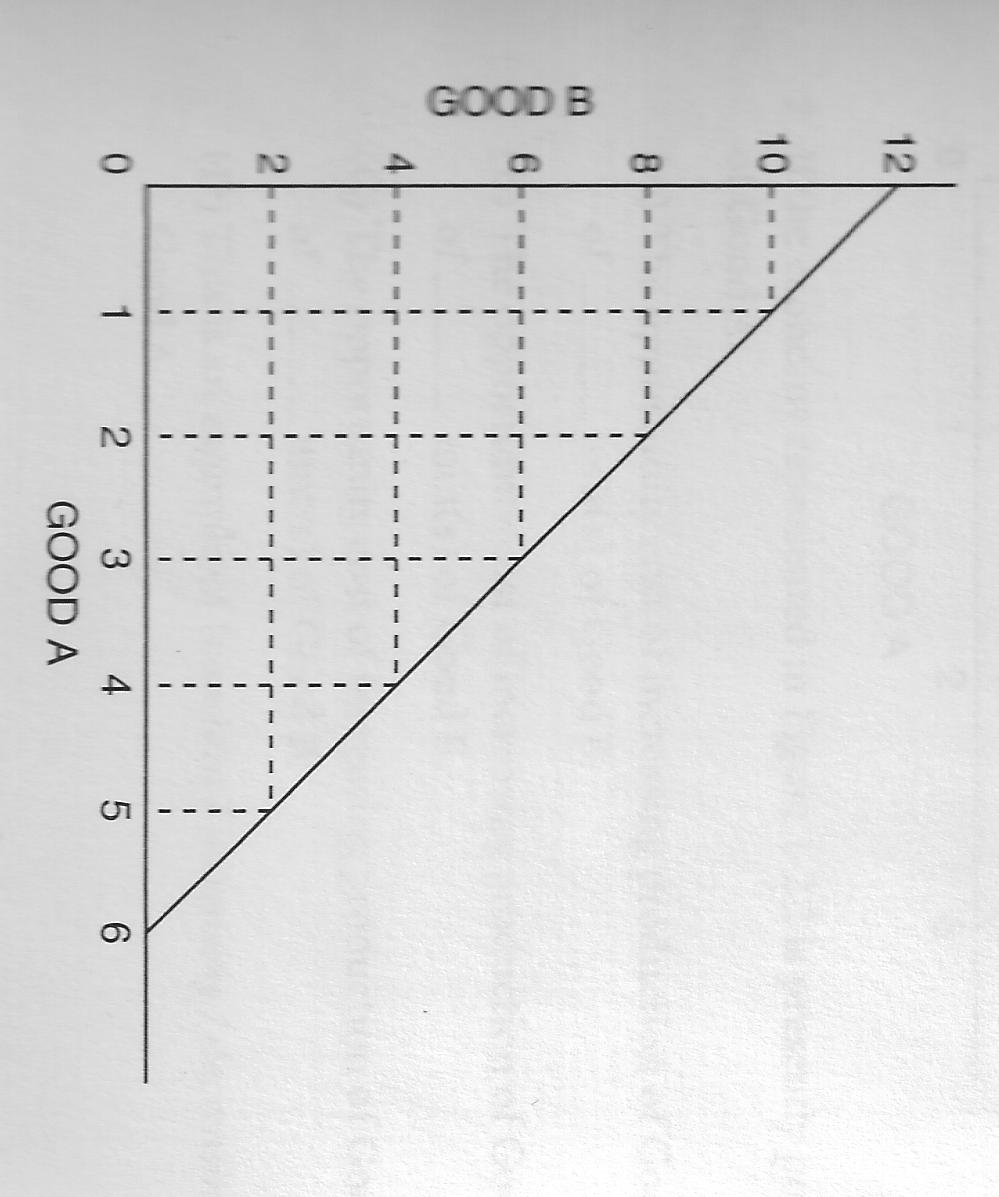
8. \_\_\_\_\_\_\_\_\_ Efficiency

9. \_\_\_\_\_\_\_\_\_ Allocation of resources

10. \_\_\_\_\_\_\_\_ Division of labor

11. \_\_\_\_\_\_\_\_ Comparative advantage

12. \_\_\_\_\_\_\_\_ Market system

**Scarcity, Opportunity Cost, and Production Possibilities Curves**

**Basic / Linear PPC**

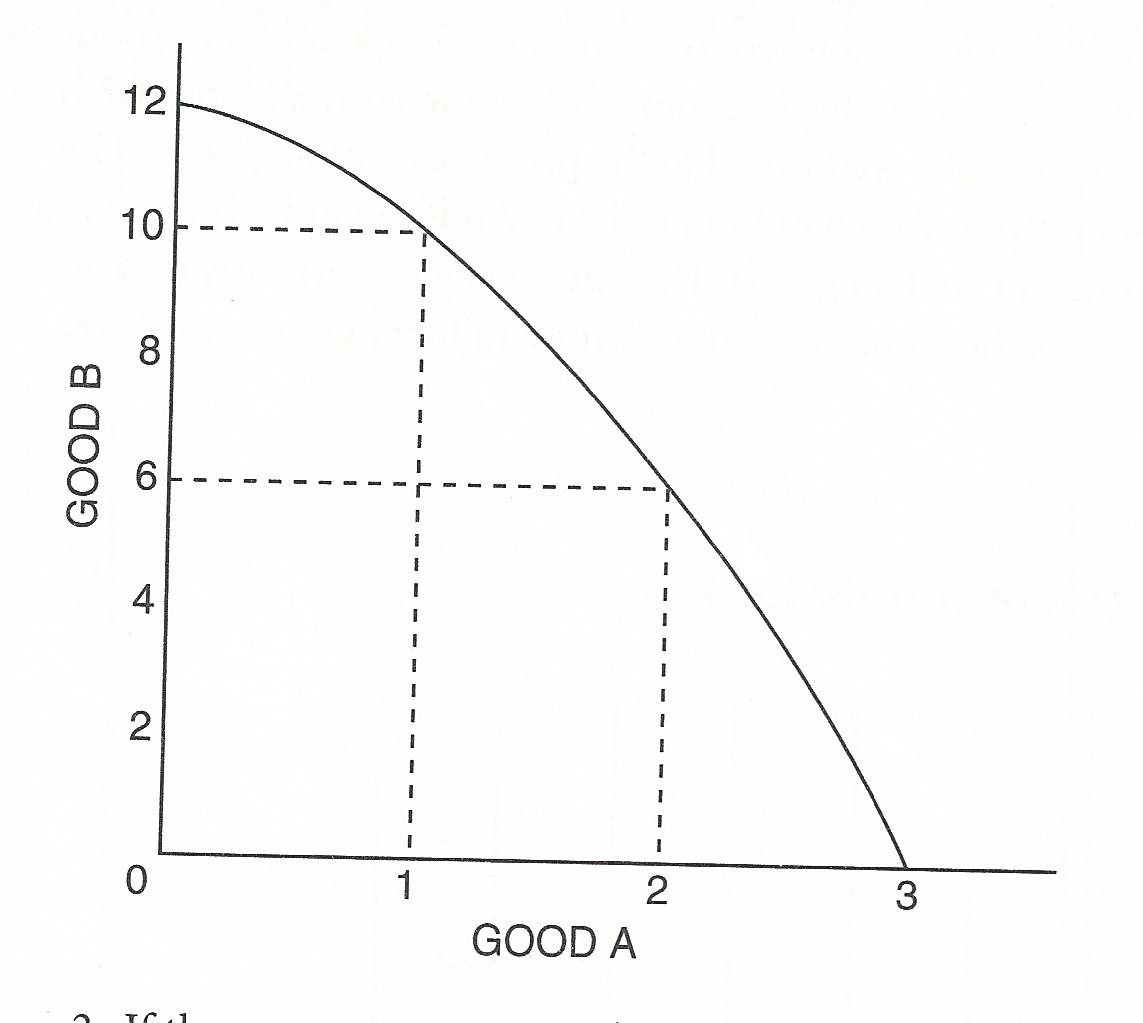
1. Assume the economy represented above is presently producing 12 units of Good B and 0 units of Good A:

…If we move from 0 units of A to 1 unit, what is the opportunity cost? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

…If we move from 1 unit of A to 2 units, what is the opportunity cost? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

…If we move from 2 units of A to 3 units, what is the opportunity cost? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What type of Opportunity cost does this represent? ***Increasing decreasing constant zero***

****

**Concave PPC**

2. IF the economy represented above is presently producing 12 units of Good B and 0 units of Good A:

…If we move from 0 units of A to 1 unit, what is the opportunity cost? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

…If we move from 1 unit of A to 2 units, what is the opportunity cost? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

…If we move from 2 units of A to 3 units, what is the opportunity cost? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What type of Opportunity cost does this represent? ***Increasing decreasing constant zero***

*Draw the following examples of opportunity cost as a PPF graph…*

Good A

Good B

Good A

Good B

Good B

Good A

Constant Opp Cost Increasing Opp Cost Zero Opp Cost

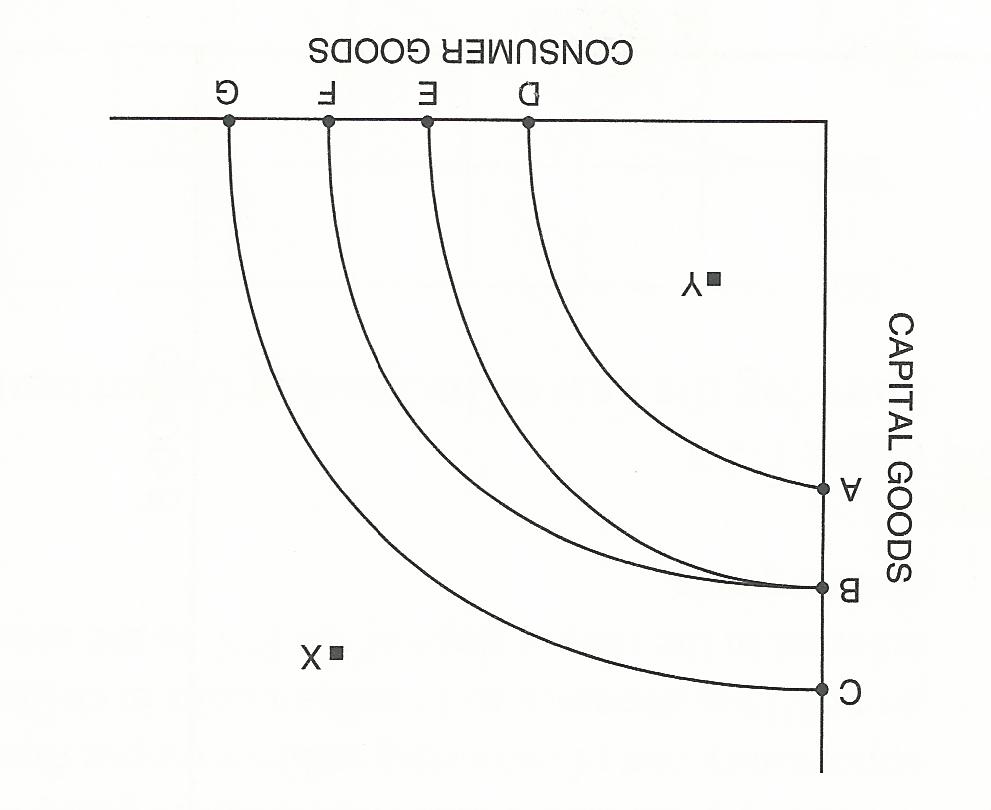
(Per Unit of Good B) (Per Unit of Good B) (Per Unit of Good B)

**Definitions…**

Capital Goods Consumer Goods

“the guns or butter” decision

**Production Possibilities Curve: Capital Goods and Consumer Goods**

****

**For each question below the economy starts at curve BE!**

1. Suppose there is a major technological breakthrough in the consumer-goods industry, and the new technology is widely adopted. Which curve in the diagram would represent the new PPC? (Indicate with the two letters)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. Suppose a new government comes into power and forbids the use of automated machinery and modern production techniques in all industries. Which curve in the diagram would represent the new PPC?

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

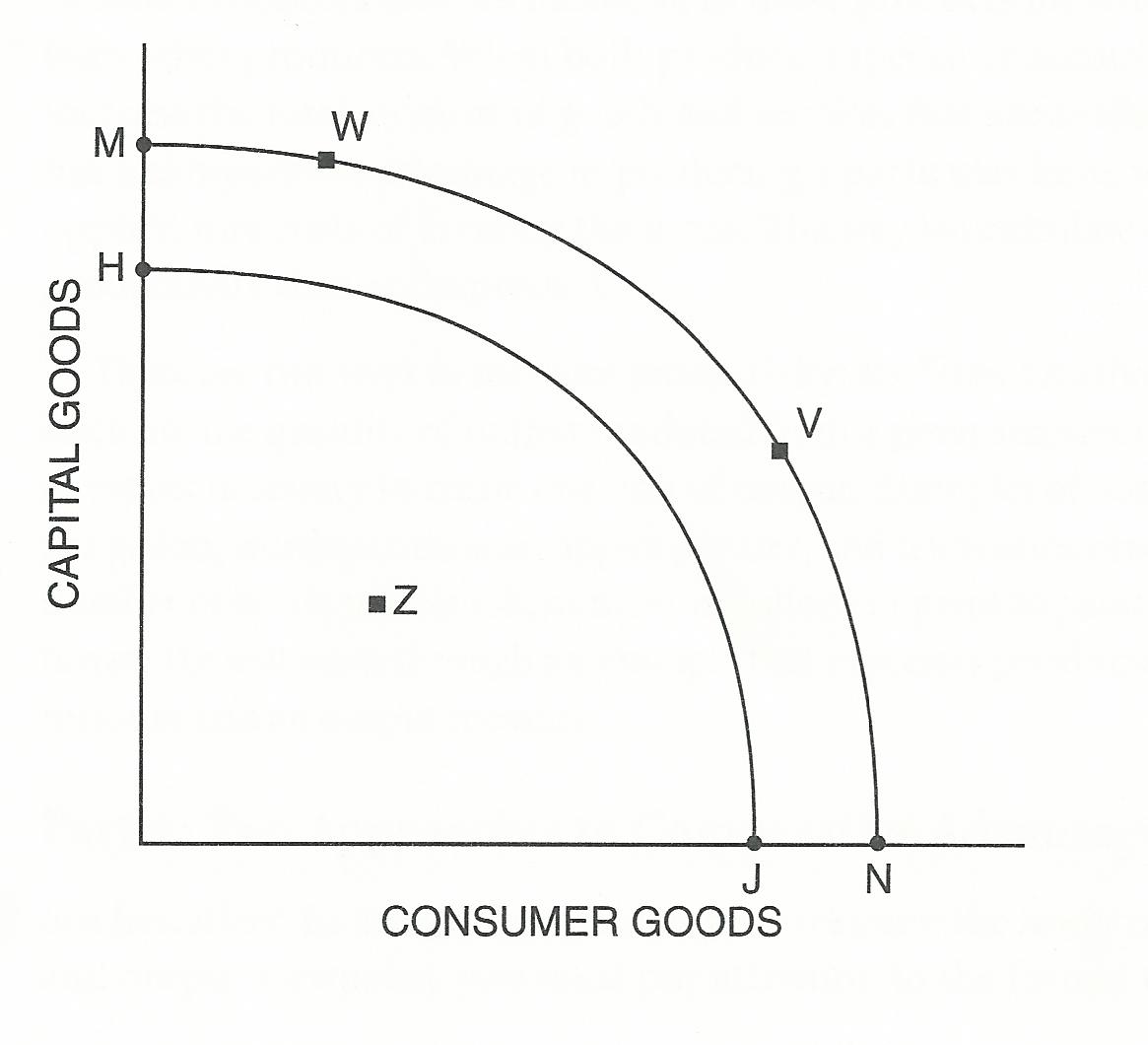
3. Suppose massive new sources of oil and coal are found within the economy, and there are major technological innovations in both industries. Which curve in the diagram would represent the new PPC?

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4. If BE represents a country’s current PPC, what can you say about a point like X?

5. If BE represents a country’s current PPC, what can you say about a point like Y?

**PPC: Economic Growth**

****

1. What change would cause the PPC to shift from the original curve (HJ) to the new curve (MN)?

2. Under what conditions might an economy be operating at Point Z?

3. Why might a government implement a policy to move the economy from Point V to Point W?

**Comparative Advantage**

1. Anna and Barry can grow the following amounts of potatoes and cabbage with a week of labor.

|  |  |  |
| --- | --- | --- |
|  | Potatoes per week | Cabbage per week |
| Anna | 100 units | 200 units |
| Barry | 120 units | 150 units |

1. This is an example of an INPUT problem or an OUTPUT problem?

B. What is the opportunity cost for each producer in making these products?

Anna’s OC of producing a unit of potatoes is \_\_\_\_\_\_ units of cabbage.

Barry’s OC of producing a unit of potatoes is \_\_\_\_\_\_ units of cabbage.

Anna’s OC of producing a unit of cabbage is \_\_\_\_\_\_\_ units of potatoes.

Barry’s OC of producing a unit of cabbage is \_\_\_\_\_\_\_ units of potatoes.

C. Who has the comparative advantage?

Potatoes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Cabbage \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. Henry and John are fisherman who catch bass and catfish. This chart shows how many of each type of fish they can catch in one day.

|  |  |  |
| --- | --- | --- |
|  | Bass | Catfish |
| Henry | 4 bass | 6 catfish |
| John | 24 bass | 12 catfish |

1. This is an example of an INPUT problem or an OUTPUT problem?

B. What is the opportunity cost for each producer in making these products?

Henry’s OC of catching one Bass is \_\_\_\_\_\_ Catfish.

John’s OC of catching one Bass is \_\_\_\_\_\_ Catfish.

Henry’s OC of catching one Catfish is \_\_\_\_\_\_\_ Bass.

John’s OC of catching one Catfish is \_\_\_\_\_\_\_ Bass.

C. Who has the comparative advantage?

Bass \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Catfish \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3. This chart shows how many days it takes the ABC Corporation and the XYZ Corporation to produce one unit of cars and one unit of planes.

|  |  |  |
| --- | --- | --- |
|  | Cars | Planes |
| ABC Corp | 8 days | 10 days |
| XYZ Corp | 15 days | 12 days |

1. This is an example of an INPUT problem or an OUTPUT problem?

B. What is the OC for each corporation in producing these goods?

ABC’s OC of producing a unit of cars is \_\_\_\_\_\_\_\_\_\_\_\_\_ units of planes.

XYZ’s OC of producing a unit of cars is \_\_\_\_\_\_\_\_\_\_\_\_\_ units of planes

ABC’s OC of producing a unit of planes is \_\_\_\_\_\_\_\_\_\_\_\_ units of cars.

XYZ’s OC of producing a unit of planes is \_\_\_\_\_\_\_\_\_\_\_\_ units of cars.

C. Who has the comparative advantage?

Cars \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Planes \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4. Here are the numbers of acres needed in India and China to produce 100 bushels of corn or 100 bushels of rice for each month.

|  |  |  |
| --- | --- | --- |
|  | India | China |
| Corn | 9 acres | 8 acres |
| Rice | 3 acres | 2 acres |

1. This is an example of an INPUT problem or an OUTPUT problem?

B. What is the OC for each country in producing these goods?

India’s OC of growing 100 bushels of corn is \_\_\_\_\_\_\_\_\_\_\_\_ bushels of rice.

China’s OC of growing 100 bushels of corn is \_\_\_\_\_\_\_\_\_\_\_\_ bushels of rice.

India’s OC of growing 100 bushels of rice is \_\_\_\_\_\_\_\_\_\_\_\_ bushels of corn.

China’s OC of growing 100 bushels of rice is \_\_\_\_\_\_\_\_\_\_\_\_ bushels of corn.

C. Who has the comparative advantage?

Corn \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Rice \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

5. This chart shows how many cans of olives and bottles of olive oil can be produced in Zaire and Columbia from one ton of olives.

|  |  |  |
| --- | --- | --- |
|  | Zaire | Columbia |
| Olives | 60 cans | 24 cans |
| Olive Oil | 10 bottles | 8 bottles |

1. This is an example of an INPUT problem or an OUTPUT problem?

B. What is the OC for each country in producing these goods?

Zaire’s OC of producing 1 can of olives is \_\_\_\_\_\_\_\_\_\_\_\_ bottles of olive oil

Columbia’s OC of producing 1 can of olives is \_\_\_\_\_\_\_\_\_\_\_\_ bottles of olive oil

Zaire’s OC of producing 1 bottle of olive oil is \_\_\_\_\_\_\_\_\_\_\_\_ cans of olives

Columbia’s OC of producing 1 bottle of olive oil is \_\_\_\_\_\_\_\_\_\_\_\_ cans of olives.

C. Who has the comparative advantage?

Olives \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Olive oil \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

6. Here are the numbers of hours needed in Redland and Blueland to produce a unit of televisions and a unit of computers.

|  |  |  |
| --- | --- | --- |
|  | Televisions | Computers |
| Redland | 18 hours | 6 hours |
| Blueland | 16 hours | 4 hours |

1. This is an example of an INPUT problem or an OUTPUT problem?

B. What is the OC for each country in producing these goods?

Redland’s OC of producing 1 unit of televisions is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ units of computers

Blueland’s OC of producing 1 unit of televisions is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ units of computers

Redland’s OC of producing 1 unit of computers is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ units of televisions.

Blueland’s OC of producing 1 unit of computers is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ units of televisions

C. Who has the comparative advantage?

Televisions \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Computers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Important Terms and Concepts (Supply and Demand)**

Complete after you have watched the videos on supply and demand basics

1. \_\_\_\_\_\_\_\_\_ Invisible hand

1. Observation that in a free market, price tends to a level where quantity supplied equals quantity demanded
2. Legal minimum price that may be charged
3. Graph depicting how quantity demanded changes as price changes
4. Change in price causing a change in quantity supplied or demanded
5. Number of units consumers want to buy at a given price
6. Individual actions to pursue self-interest in a market system promote social well-being
7. Table depicting how the quantity demanded changes as price changes
8. Situation in which there are no inherent forces producing change
9. Table depicting how quantity supplied changes as price changes
10. Legal maximum price that may be charged
11. Number of units producers want to sell at a given prices
12. Table depicting the changes in both quantity demanded and quantity supplied as price changes
13. Change in a variable other than price that affects quantity demanded
14. Excess of quantity supplied over quantity demanded
15. Graph depicting the changes in both quantity supplied and quantity demanded as price changes
16. Excess quantity demanded over quantity supplied
17. Graph depicting how quantity supplied changes as price changes

2. \_\_\_\_\_\_\_\_\_ Quantity Demanded

3. \_\_\_\_\_\_\_\_\_ Demand Schedule

4. \_\_\_\_\_\_\_\_\_ Demand Curve

5. \_\_\_\_\_\_\_\_\_ Shift in demand curve

6. \_\_\_\_\_\_\_\_\_ Quantity Supplied

7. \_\_\_\_\_\_\_\_\_ Supply Schedule

8. \_\_\_\_\_\_\_\_\_ Supply Curve

9. \_\_\_\_\_\_\_\_\_ Supply-Demand Diagram

10. \_\_\_\_\_\_\_\_ Shortage

11. \_\_\_\_\_\_\_\_ Surplus

12. \_\_\_\_\_\_\_\_ Equilibrium

13. \_\_\_\_\_\_\_\_ Law of supply and demand

14. \_\_\_\_\_\_\_\_ Price ceiling

15. \_\_\_\_\_\_\_\_ Price floor

**Demand: Do you get it?**

Test your understanding by answering the following questions…

1. All other things held constant, which of the following would NOT cause a change in the demand (shift in the demand curve) for motorcycles?

a. a decrease in consumer incomes

b. a decrease in the price of motorcycles

c. an increase in the price of bicycles

d. an increase in people’s tastes and preferences for motorcycles.

2. “Rising oil prices have caused a sharp decrease in the demand for oil”. Speaking precisely, and using terms as economists define them, choose the statement that best describes this quotation.

a. the quotation is correct: an increase in price causes an increase in demand

b. the quotation is incorrect: an increase in price causes an increase in demand, not a decrease in demand.

c. the quotation is incorrect: an increase in the price causes a decrease in the quantity demanded, not an a decrease in demand.

d. the quotation is incorrect: an increase in prices causes an increase in the quantity demanded, not a decrease in demand.

3. “As the price of domestic automobiles has risen, customers have found foreign autos to be a better bargain. Consequently, domestic auto sales have been decreasing, and foreign auto sales have been increasing.” Using only the information in this quotation and assuming everything else remains constant, which of the following best describes this statement?

a. A shift in the demand curves for both domestic and foreign automobiles

b. A movement along the demand curve for both foreign and domestic automobiles

c. A movement along the demand curve for domestic autos, and a shift in the demand curve for foreign autos

d. A shift in the demand curve for domestic autos, and a movement along the demand curve for foreign autos

**Supply: Do you get it?**

Test your understanding by answering the following questions…

1. All other things held constant, which of the following would NOT cause a change in the supply of beef?

a. A decrease in the price of beef

b. A decrease in the price of cattle feed

c. An increase in the price of cattle feed

d. An increase in the cost of transporting cattle to market

2. “Falling oil prices have caused a sharp decrease in the supply of oil.” Speaking precisely, and using terms as economists define them, choose the statement that best describes the quotation.

a. the quotation is correct: a decrease in price causes a decrease in supply

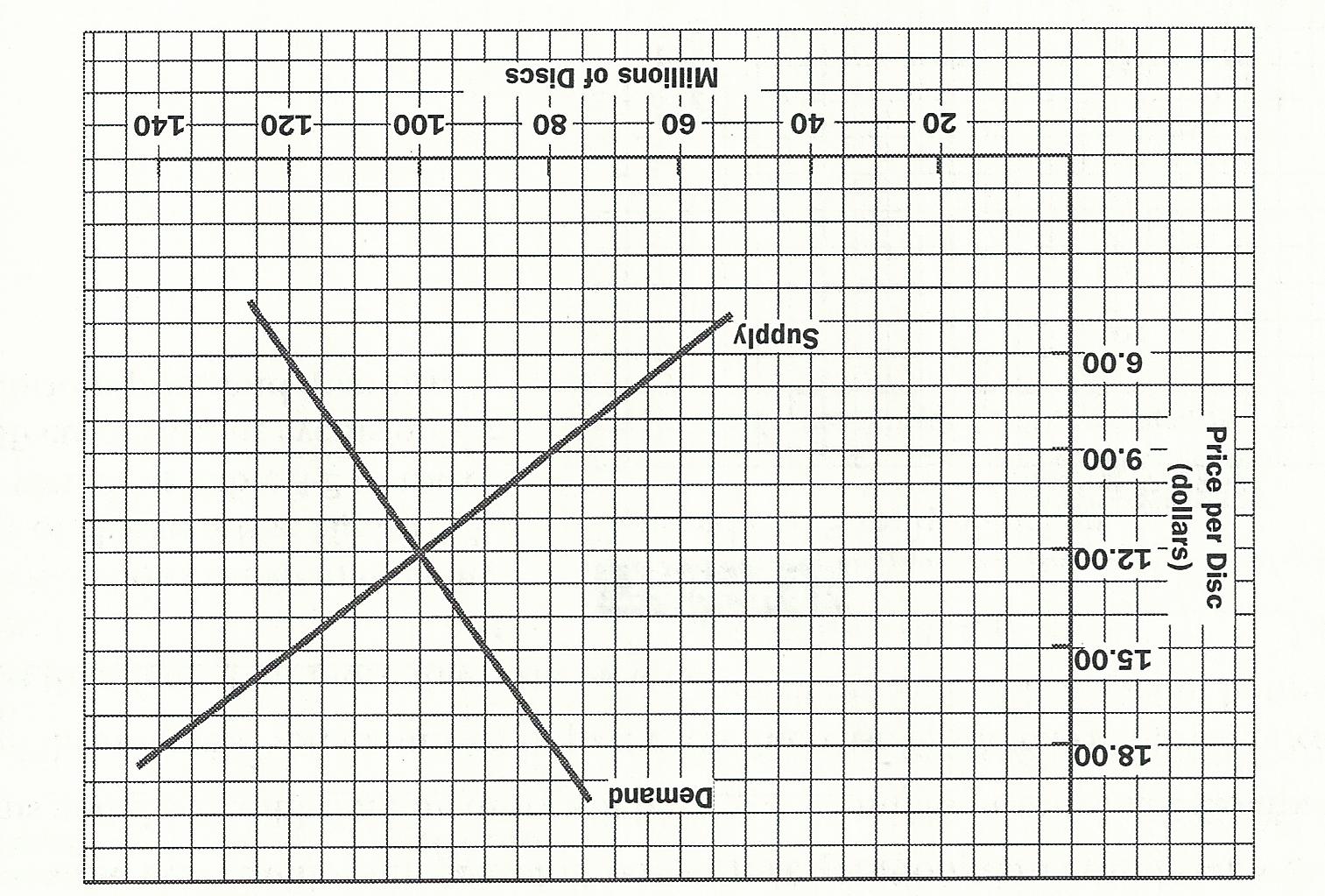
b. the quotation is incorrect: a decrease in price causes an increase in supply, not a decrease in supply

c. the quotation is incorrect: a decrease in price causes an increase in the quantity supplied, not a decrease in supply.

d. the quotation is incorrect: a decrease in price causes a decrease in the quantity supplied, not a decrease in supply.

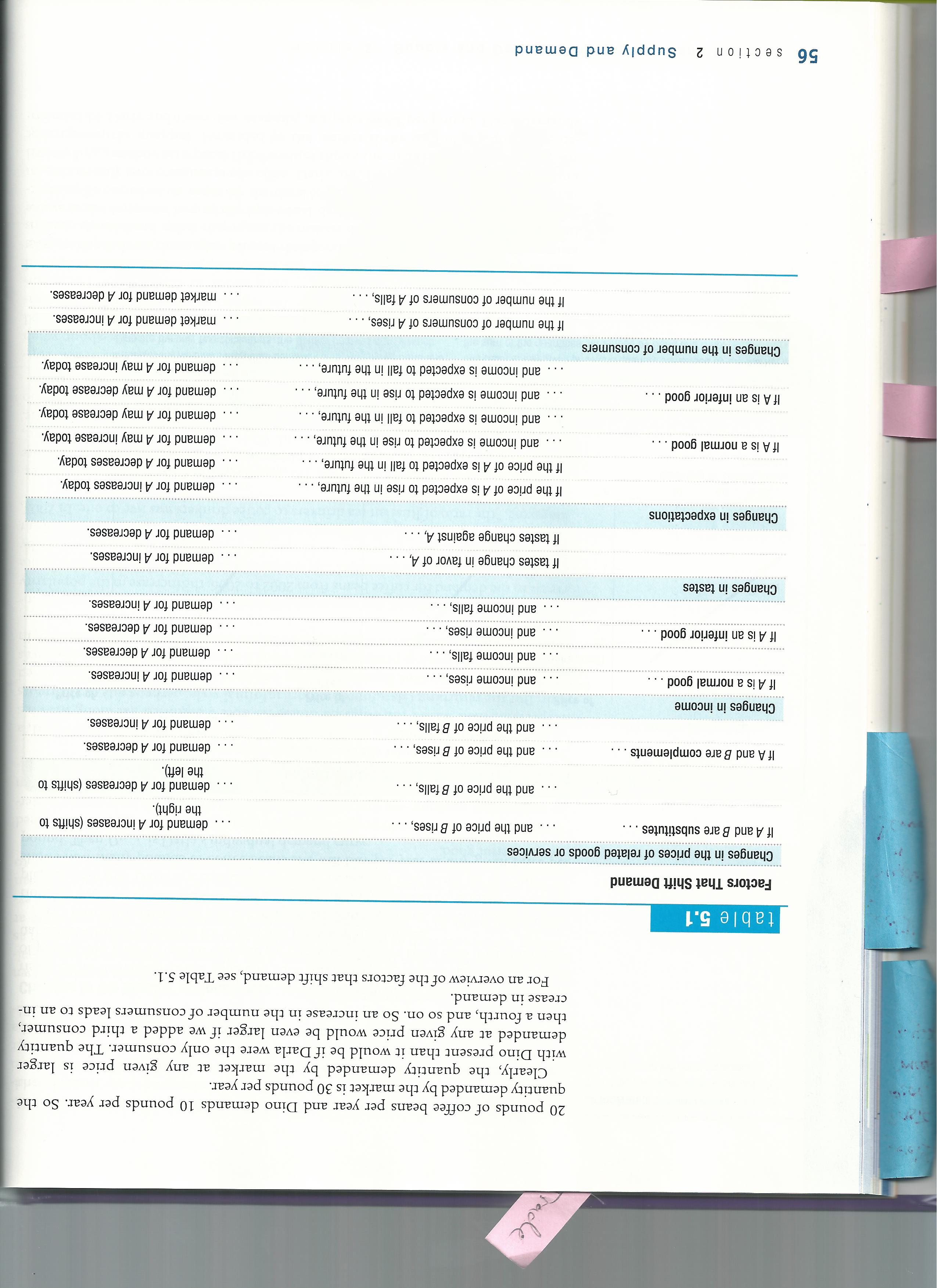
**Learning Prep: Price controls (Ceilings and floors)**

The following graph shows the market for DVDs. Complete the table below to examine the impact of alternative price ceilings and price floors on the Qd and the Qs. What conclusion can you draw about when ceilings and floors will affect market outcomes.



|  |  |  |  |
| --- | --- | --- | --- |
|  | Quantity Demanded | Quantity Supplied | Shortage or Surplus or Equilibrium |
| Price ceiling = $18 |  |  |  |
| Price ceiling = $9 |  |  |  |
| Price floor = $15 |  |  |  |
| Price floor = $6 |  |  |  |

**Factors that shift demand… KNOW THIS CHART!**

****

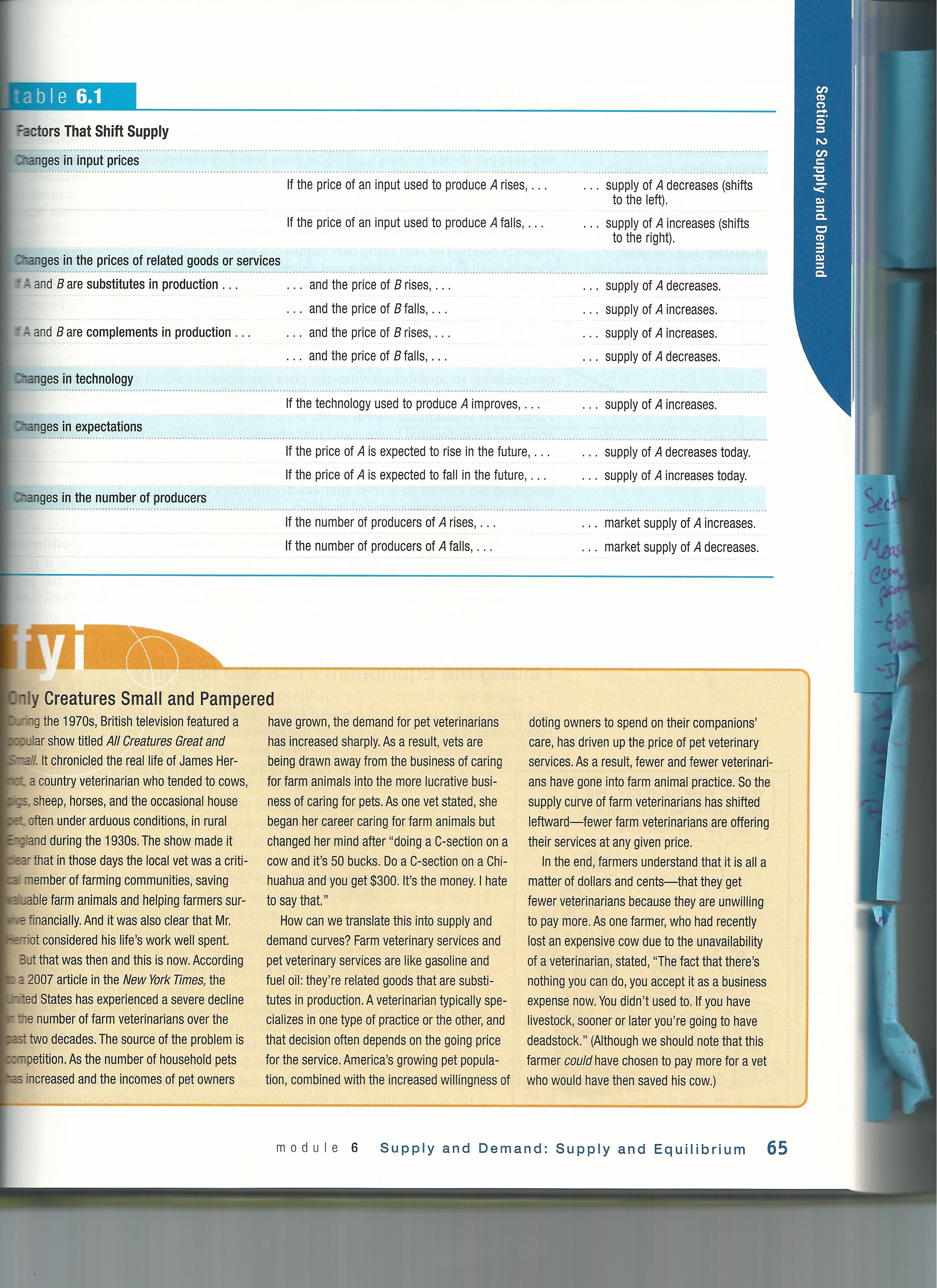
**Shifts in Demand: Impact of events on Demand for US-Made Autos**

|  |  |  |  |
| --- | --- | --- | --- |
| **Headline** | **Will consumers buy more of less US autos?** | **Is there a change in demand (ΔD) or a change in quantity demanded (ΔQD)?** | **Does the Demand curve for US autos shift to the right or left or not shift?** |
| 1. Consumers’ income drops | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. Millions of Immigrants Enter the US | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. Price of Foreign Autos Drop | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. Major Cities add inexpensive bus lines | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. Price of US Autos rises | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. Price of US Autos expected to rise soon | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. Families look forward to summer vacations | *More / Less* | ΔD / ΔQD | Right / Left / No shift |
| 1. US auto firms launch effective ad campaigns | *More / Less* | ΔD / ΔQD | Right / Left / No shift |

**Indicate in the chart the reasons for change in Demand for US Autos (given the headlines above)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Headline Number…** | | | | | | | |
| **Reason** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** |
| A change in consumer expectations |  |  |  |  |  |  |  |  |
| **A change in consumer tastes** |  |  |  |  |  |  |  |  |
| **A change in the number of consumers in the market** |  |  |  |  |  |  |  |  |
| **A change in income** |  |  |  |  |  |  |  |  |
| **A change in the price of a substitute good** |  |  |  |  |  |  |  |  |
| **A change in the price of a complementary good** |  |  |  |  |  |  |  |  |

**Factors that shift supply… KNOW THIS CHART Too!**

****

**Shifts in Supply: Impact of events on supply of US-made autos**

|  |  |  |  |
| --- | --- | --- | --- |
| **Headline** | **Should US auto firms produce more or less?** | **Is there a change in supply (ΔS) or a change in quantity supplied (ΔQS)?** | **Does the supply curve of cars shift to the right or left or no shift?** |
| 1. Auto workers’ Union Agrees to wage cuts | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. New robot technology increases efficiency | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. Price of US Cars increases | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. Nationwide Auto workers strike begins | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. Cost of Steel decreases | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. Major auto producer goes out of business | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. Buyers reject New car models | *More / Less* | ΔS / ΔQS | Right / Left / No shift |
| 1. Government gives car producers a subsidy | *More / Less* | ΔS / ΔQS | Right / Left / No shift |

**Indicate in the chart the reasons for change in Demand for US Autos (given the headlines above)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Headline Number…** | | | | | | | |
| **Reason** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** |
| **A change in costs of inputs to production process** |  |  |  |  |  |  |  |  |
| **A change in technology** |  |  |  |  |  |  |  |  |
| **A change in the number of producers in the market** |  |  |  |  |  |  |  |  |
| **Government policies** |  |  |  |  |  |  |  |  |

**Learning Prep:**

This figure shows the demand and supply of chicken. Use the figure while you fill in the table for use in class. Trace the effects of various events on the equilibrium price and quantity.

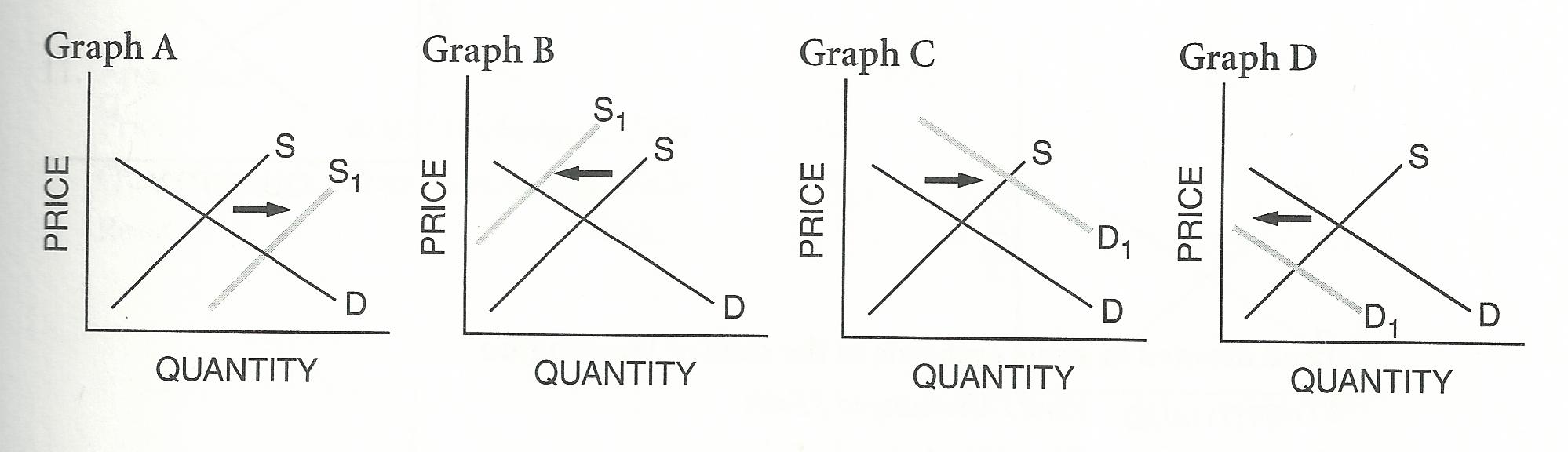
Market: Chicken

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Event | Which curve shifts? | Is the direction left or right? | Does Eq price rise or fall? | Does Eq Qty rise or fall?  P  Q  D  S |
| A sharp increase in the price of beef leads many consumers to switch from beef to chicken. |  |  |  |  |
| A bumper grain crop cuts the cost of chicken feed in half. |  |  |  |  |
| Extraordinarily cold weather destroys a significant number of chickens. |  |  |  |  |
| A sudden interest in Eastern religions converts many chicken eaters to vegetarians. |  |  |  |  |

**Graphing the changes in Supply and Demand**

*The supply and demand for Jelly Beans*

(Fill in the answers with the graph that applies to each situation)



1. The prices of sugar, a key ingredient in producing jelly beans, increases. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. The price of bubble gum, a close substitute for jellybeans, increases. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

3. A machine is invented that makes jellybeans at a lower cost. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

4. The government places a tax on foreign jellybeans, which have a considerable share of the market. \_\_\_\_\_\_\_\_\_\_\_\_\_

5. The price of soda, a complementary good for jellybeans, increases. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

6. Widespread prosperity allows people to buy more jellybeans. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

***Apples, Pears, and Pies***

Connecticut ships large amounts of apples to all parts of the US by rail. Indicate the effects on prices and quantity for each situation, and complete the graphs below, showing how a hurricane destroys apples before they are picked in Connecticut might affect the price and quantity of each commodity. Be ready to explain your reasoning…

***1. Apples in Boston***

P

Q

D

S

Price: Rises Unchanged Falls

Quantity: Rises Unchanged Falls

Reason:

***2. Land devoted to apple orchards in the state of Washington***

P

Q

D

S

Price: Rises Unchanged Falls

Quantity: Rises Unchanged Falls

Reason:

3. ***Apples grown in the state of Washington***

P

Q

D

S

Price: Rises Unchanged Falls

Quantity: Rises Unchanged Falls

Reason:

Continued on next page

***4. Pears***

P

Q

D

S

Price: Rises Unchanged Falls

Quantity: Rises Unchanged Falls

Reason:

***5. Apple pies***

P

Q

D

S

Price: Rises Unchanged Falls

Quantity: Rises Unchanged Falls

Reason:

**Extra Learning Practice: Shifting Supply and Demand**

The following questions refer to a group of related markets in the US during a given time period. Assume that the markets are perfectly competitive (no forces at play other than price) and that the supply and demand model is completely applicable. Trace the effects of the assumed change, OTHER THINGS CONSTANT. Work your way from left to right. Shift only one curve in each market.

*Assume that a new fertilizer dramatically increases the amount of wheat that can be harvested with no additional labor or machinery. Also assume that this fertilizer does not affect potato farming and that people are satisfied to eat either bread made from wheat flour or potatoes.*

P

Q

S

D

P

Q

S

D

P

Q

S

D

P

Q

S

D

Wheat

Potatoes

Wheat Harvesting Machinery

**Demand**

**Supply**

**Equilibrium Price**

**Equilibrium Quantity**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

Bread

*See next page for another practice problem set*

*Assume beef and pork are perfect substitutes. The price of pork rises dramatically. Ketchup is a complement to beef; mustard is a complement to pork.*

P

Q

S

D

P

Q

S

D

P

Q

S

D

P

Q

S

D

Beef

Ketchup

Mustard

**Demand**

**Supply**

**Equilibrium Price**

**Equilibrium Quantity**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

**↑ = ↓**

Feed for cattle

**The Business Cycle and Macroeconomics**

*Draw the business cycle and label the following:* Peak Recession trough recovery

Double Dip Recession Depression

**Draw the business cycle as a function of the unemployment rate…**

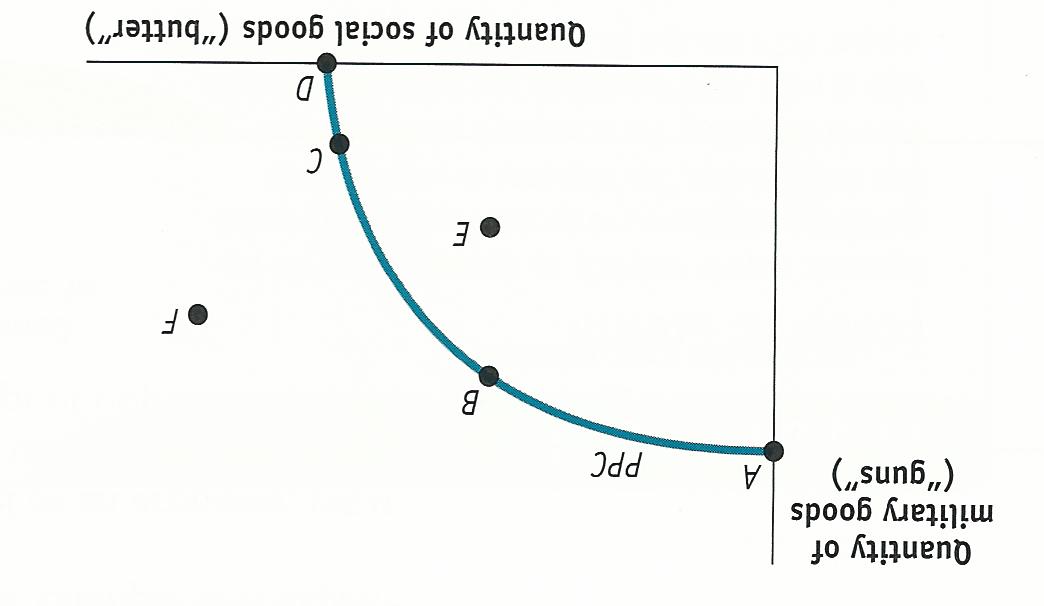
***Free Response question practice…***

Things to note on writing the FRQ’s for the AP Macroeconomics exam

|  |  |
| --- | --- |
| JTFJ | “Just the Facts Jack/Jane” … don’t write a thesis, intro, or 5 paragraph essay. This is economics and it requires a concise answer. |
| ADQ | “Answer the D--- Question!”… Much like above, don’t go into a deep analysis if it is not asked for. Don’t answer other questions in the same question. Don’t use this as an opportunity to show off what you know. If you don’t know the answer or how to get to the answer don’t spend time explaining the concepts “around” the answer. They just want an answer…don’t B--- S--- your way on the question. |
| Multiple parts | Questions are in multiple parts and points are awarded for each part independently. You should attempt to answer ALL parts. Even if a later answer depends on a previous answer you might still get credit even if the previous answer was wrong. If you follow the logic they might give you points.  Use the same outline or letters from the question as written. It helps the faculty scorer IMMENSELY! |
| SICE | **Show** means to diagram or graph a macroeconomic effect. It is possible to get partial points, so always take a shot at these and be sure to label them fastidiously.  **Identify** usually means just that: Identify the result of something happening. A short, direct response is expected (and desired). Example: 'Unemployment will rise.' If the question does not explicitly ask for explanation, don't bother writing one.  **Calculate** usually will mean to apply a formula that you (hopefully) have mastered with practice. Keep a running page in your notebook of the formulas we use… there will be A LOT of them.  **Explain** should leap off the page when you see it in an FRQ. That means you are expected to both indicate what will happen and offer an explanation as to why or how it happens. |
| Master the graphs / models | You should always be thinking of the models when answering the questions in both the MC and FRQ sections. Know how to label ALL of the parts and show your logic clearly on the graph. Sometimes an answer on the FRQ will not require any words! A well constructed and labeled graph will do the trick. |

**The Production Possibilities Curve model FRQ Due in class on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

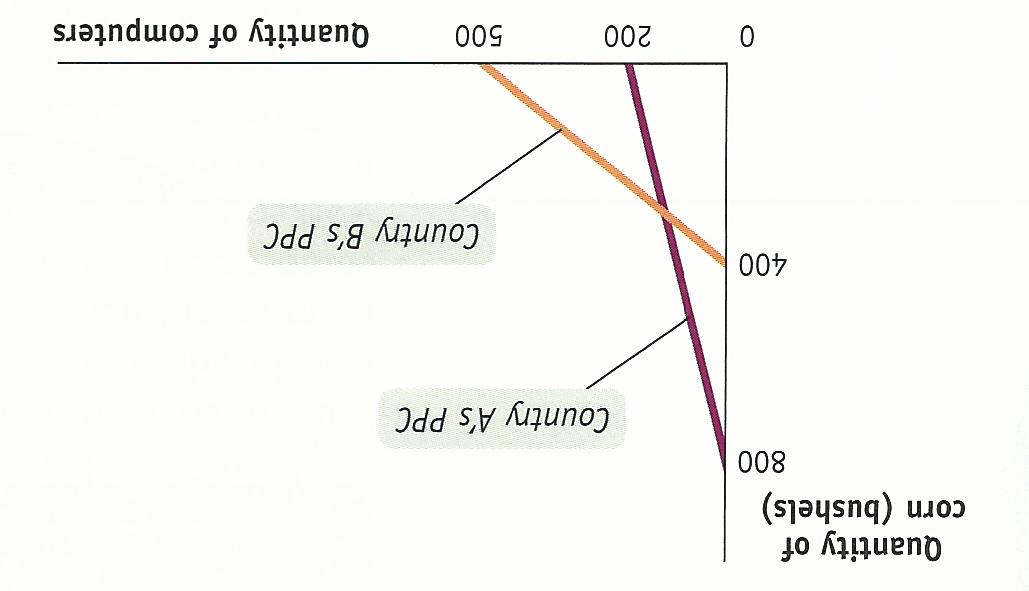
1. Refer to the graph below. Assume that the country is producing at point C.



1. Does this country’s production possibilities curve exhibit increasing opportunity costs? Explain.
2. If this country were to go to war, the most likely move would be from point C to which point? Explain.
3. If the economy entered into a recession, the country would move from point C to which point? Explain.
4. Assume that an economy can choose between producing food and producing shelter at a constant opportunity cost. Draw a correctly labeled production possibilities curve for the economy. On your graph:
   1. Use the letter E to label one of the points that is efficient in production
   2. Use the letter U to label one of the points at which there might be unemployment.
   3. Use the letter I to label one of the points that is not feasible

**Comparative Advantage and Trade DUE in class on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1. Refer to the graph below to answer the following questions.

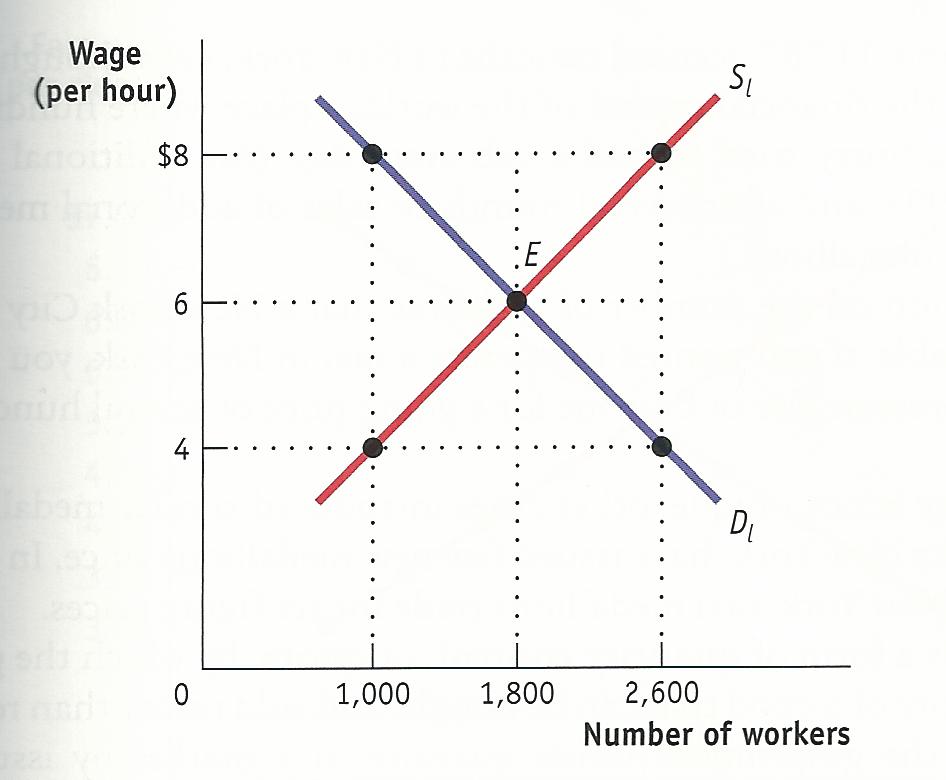


1. What is the opportunity cost of a bushel of corn in each country?
2. Which country has absolute advantage in computer production? Explain
3. Which country has a comparative advantage in corn production? Explain
4. If each country specializes, what good will Country B import? Explain.
5. What is the minimum price Country A will accept to export corn to Country B? Explain.

**Price Ceilings and Price Floors Due in class on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1. Refer to the graph below to answer the following questions.

(Nota Bene: Sl = the supply of labor or workers; Dl= the demand for labor or number of jobs)



1. What are the equilibrium wage and quantity of workers in this market?
2. For it to be effective, where would the government have to set a minimum wage?
3. If the government set a minimum wage at $8,
4. How many workers would supply their labor?
5. How many workers would be hired?
6. How many workers would want to work that did NOT want to work for the equilibrium wage?
7. How many previously employed workers would no longer have a job?

**Business Cycle and Macroeconomics FRQ DUE in class on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

1. Define an expansion and economic growth, and explain the difference between the two concepts. (3 points)
2. Define inflation, and explain why an increase in the price of donuts does not indicate that inflation has occurred. (2 points)