

1.	_____	/24
2.	_____	/26
3.	_____	/20
4.	_____	/10
Total:		/80

Name: _____

Team: _____

AP Macro Unit 1: Basic Economic Concepts Problem Set #1

1. Complete each of the following tasks with SHORT paragraphs:

- A. Explain the relationship between scarcity, choices, and trade-offs (____/5)
- B. Differentiate between the following terms: price, costs, and opportunity cost (____/4)
- C. Fully explain the difference between the following (USE EXAMPLES AND THE BOOK):
 - i. Consumer Goods and Capital Goods (____/3)
 - ii. Normative and Positive Economics (____/3)
 - iii. Allocative and Productive Efficiency (____/3)
 - iv. Free-Market and Centrally Planned Economies (____/3)
 - v. Resource Markets and Product Markets (____/3)

2. Draw Production Possibilities Graph for the Ford Motor Co. using the following information: (____/5)

	A	B	C	D	E	F	G
Cars	0	10	18	25	30	33	35
Trucks	45	42	39	33	25	15	0

- A. What are the consequences of Ford producing at combination A? Combination G? In reality, are either combinations desirable? Why? Why not? (____/5)
- B. Plot the combination with 20 cars and 40 trucks and label it "X." Plot the combination with 25 cars and 20 trucks and label it "Y." Explain what is happening at these points? (____/5)
- C. Explain, with examples, how your graph shows 5 concepts: opportunity costs, efficiency, unemployment, the law of increasing opportunity costs, and economic growth. (____/11)

3.

Use the PPF-A and PPF-B on the back of this paper to answer the following:

- 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? (____/5)
- 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? (____/5)
- C. Which PPF shows increasing opportunity costs? Use numerical examples to explain why? (____/5)
- D. Fully explain three specific situations that would shift PPF-B outward. Draw and label these changes on three separate graphs. (____/5)

4.

Fill out Advantage worksheet. (____/10)

Name: _____

Team: _____

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.

