



Macroeconomics Unit 1 Study Guide

Basic Economic Concepts

Topic 1.1- Scarcity **Topic 1.2- Opportunity Cost and the PPC**

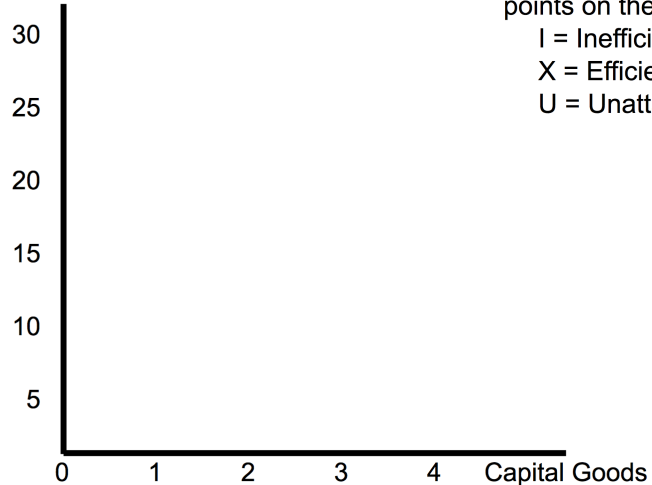
1. Define scarcity
2. Identify the four factors of production
3. Define capital goods
4. Define human capital

1. What is the difference between trade-offs and opportunity?
2. How does the PPC illustrate the ideas of scarcity and trade-offs?

Use the chart to create a PPC on the graph

	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumer goods	30	29	25	15	0

Consumer Goods



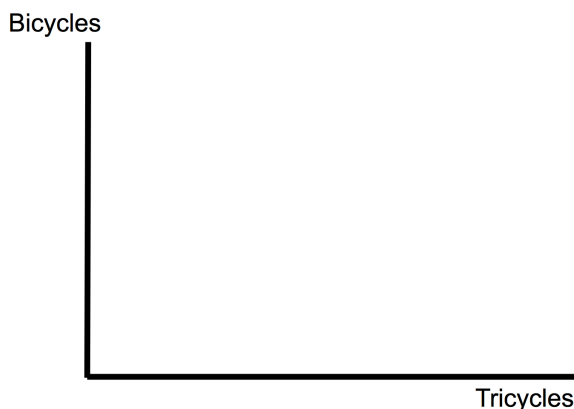
5. Label the following points on the graph:
I = Inefficient
X = Efficient
U = Unattainable

3. Assume combination D was produced rather than combination B. Will this economy's growth rate increase, decrease, or stay the same? Explain.

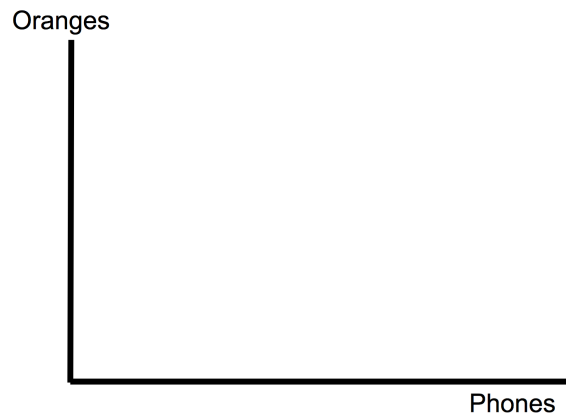
4. Calculate the opportunity cost for moving between these combinations:

- A to B
- B to C
- E to D
- C to A

6. Draw a PPC showing constant opportunity cost



7. Draw a PPC showing increasing opportunity cost



8. What is the difference between constant opportunity cost and increasing opportunity costs?



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Topic 1.2- (continued)- Answer the question then show what happens as a result of each scenario

9. Identify three things that shift the production possibilities curve.

Show what happens on the PPC as a result of each scenario.

10. A recession causes unemployment

11. Consumers want more pizza

12. More resources to produce cars

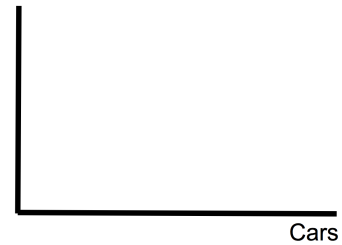
Pizza



Pizza



Pizza



Topic 1.3- Comparative Advantage and Trade

The table shows the amount of sugar and cars each country can make with the same number of resources

	Sugar (tons)	# Cars
Cuba	40	10
Mexico	50	100

- Which country has an absolute advantage in sugar?
- What is Cuba's opportunity cost for producing one car?
- Which country has a comparative advantage in cars and which has a comparative advantage in sugar?
- Identify the terms of trade that can benefit both countries. 1 car for _____ tons of sugar

The table shows the number of hours it takes to produce a ton of sausage and a ton of computers

	Sausage	Computers
Canada	2	6
UK	10	10

- Which country has an absolute advantage in sausage?
- What is Canada's opportunity cost for producing one computer?
- Which has a comparative advantage in computers and which has a comparative advantage in sausage?
- Identify the terms of trade that can benefit both countries. 1 computer for _____ tons of sausage

Topic 1.4- Demand

1. What is the law of demand?

$P \uparrow Q_d$ _____
 $P \downarrow Q_d$ _____

2. Why is the market demand curve downward sloping?

3. What are the five shifters of demand?

Topic 1.5- Supply

1. What is the law of supply?

$P \uparrow Q_s$ _____
 $P \downarrow Q_s$ _____

2. Why is the market supply curve upward-sloping?

3. What are the five shifters of supply?

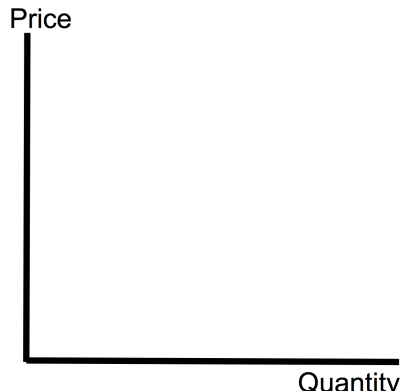
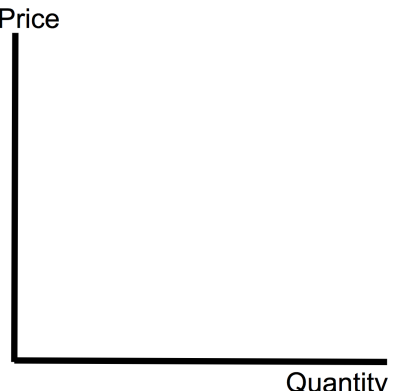


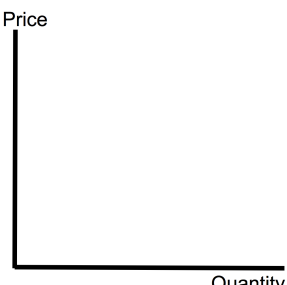
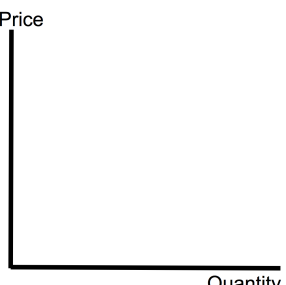

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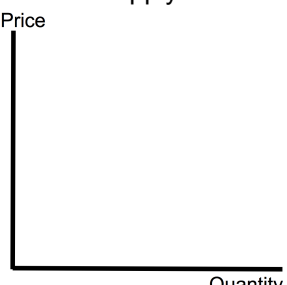
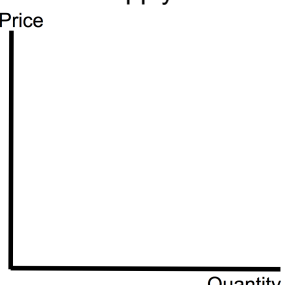

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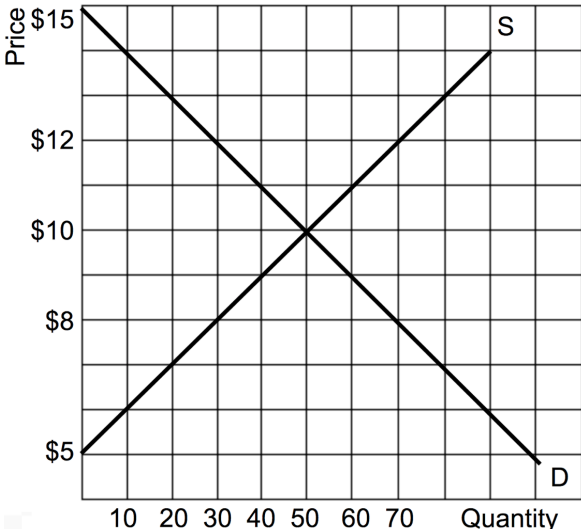


Topic 1.6- Market Equilibrium, Disequilibrium, and Changes in Equilibrium

<p style="text-align: center;">Graph #1</p> 	<p style="text-align: center;">Graph #2</p> 	<p>1. Draw a shortage on graph #1. Label price (P_1), quantity supplied (Q_s), and quantity demanded (Q_d).</p> <p>2. Draw a surplus on graph #2. Label price (P_2), quantity supplied (Q_s), and quantity demanded (Q_d).</p> <p>3. On graph #2, what happens to the quantity demanded (Q_d) and quantity supplied (Q_s) if market forces return the market to equilibrium? Q_d ____ Q_s ____</p>
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<p>4. Draw a demand decrease</p>  <p style="text-align: right;">P ____ Q ____</p>	<p>5. Draw a demand increase</p>  <p style="text-align: right;">P ____ Q ____</p>	<p>8. What is the double shift rule? </p> <p>9. Draw an increase in demand AND an increase in supply. What happens to the equilibrium price and quantity?</p>  <p style="text-align: right;">P ____ Q ____</p>
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<p>6. Draw a supply decrease</p>  <p style="text-align: right;">P ____ Q ____</p>	<p>7. Draw a supply increase</p>  <p style="text-align: right;">P ____ Q ____</p>	
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	<p>Use the market for pizza to the left to complete the following:</p> <p>10. Calculate the amount of the shortage when the price is \$8.</p> <p>11. Calculate the amount of the surplus when the price is \$11.</p> <p>12. Identify a specific scenario that would cause the equilibrium price to increase and the equilibrium quantity to decrease.</p> <p>13. Identify a specific scenario that would cause the equilibrium price and quantity to decrease.</p> <p>14. Explain the difference between a change in demand and a change in quantity demanded.</p>
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