



BIG PICTURE IDEAS

- #1. Economics focuses on **scarcity** and how it requires individuals, businesses, and governments to make choices.
- #2. The production **possibilities** curve shows the different combinations of two goods that can be produced using all of a country's **resources/factors of production** to the fullest.
- #3. The PPC can **shift** outward when there are more resources or more productivity from new **technology**.
- #4. Countries that have a **comparative** advantage can specialize in the production of specific goods and trade with other countries at a lower **opportunity** cost than if they produce everything on their own.
- #5. Changes in markets can be explained using a **demand** and **supply** graph.

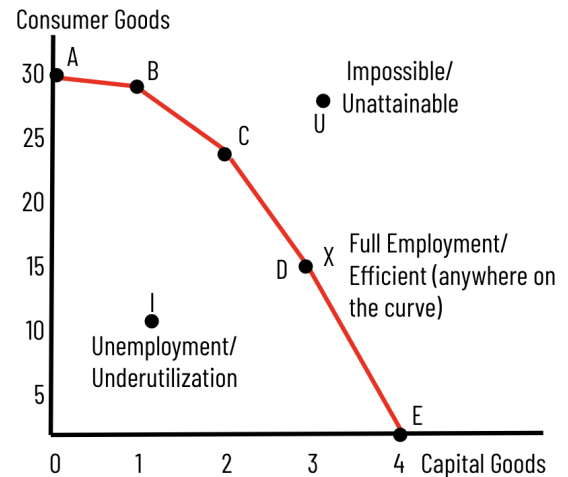
■ Topic 1.1- Scarcity

1. Scarcity is the idea that individuals and society have unlimited **wants/desires** but limited **resources**.
2. The four factors of production are **land**, labor, **capital**, and entrepreneurship.
3. What is the difference between physical capital and human capital? **Physical capital** are tools, machines, or manufacturing equipment used to produce goods and services. **Human capital** is skills, knowledge, and experience that workers need to produce things.

■ Topic 1.2- Opportunity Cost and the PPC

Use the chart to create a PPC on the graph. Label a point showing each of the following: I = Inefficient, X = Efficient, U = Unattainable

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



4. What is the opportunity cost for moving between these combinations?

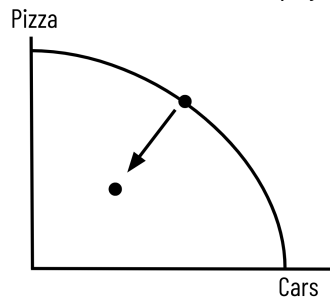
From A to B **1 Consumer good** From E to D **1 Capital good**
 From B to C **4 Consumer goods** From C to A **2 Capital goods**

5. Assume combination D was produced rather than combination B. Will this economy's growth rate increase, decrease, or stay the same? Explain. **There will be more economic growth at combination D because more capital goods are being produced. Capital goods are a resource and can be used to make more goods in the future.**

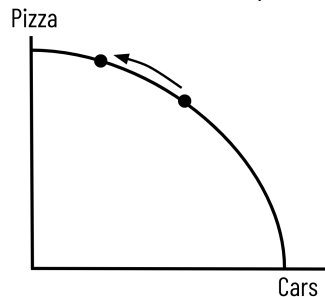
6. Products with **constant** opportunity cost have similar resources and result in a straight line PPC. Products with **increasing** opportunity cost have different resources and result in a bowed out PPC.

Draw the PPC curve for each of the following scenarios using pizza and cars.

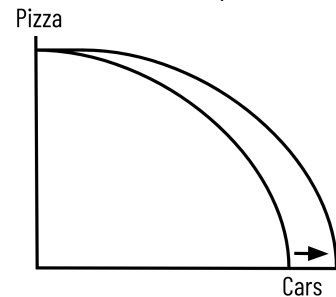
7. A recession causes unemployment



8. Consumers want more pizza



9. More resources to produce cars





MACROECONOMICS UNIT 1

Basic Economic Concepts



■ Topic 1.3- Comparative Advantage and Trade

10. There are two types of comparative advantage questions: **Output** questions and **Input** questions.

The table shows the number of planes and cars each country can make with the same number of resources. **This is an output question**

	Number of Planes	Number of Cars
Italy	10 (1 Plane costs 4 Car)	40 (1 Car costs 1/4 Plane)
Germany	25 (1 Plane costs 2 Cars)	50 (1 Car costs 1/2 Plane)

- Which country has an absolute advantage in planes? **Germany because they can produce more planes than Italy (25 > 10)**
- What is Italy's opportunity cost for producing one car? **1/4 plane**
- Which country has a comparative advantage in producing planes? Explain. **Germany has a comparative advantage in producing planes because it has a lower opportunity cost (2 Cars < 4 Cars)**
- Identify the terms of trade that can benefit both countries.
1 plane for **3 cars**
(Any number between 2 and 4 is correct)

The table shows the number of **hours** it takes to produce one ton of beef or one boat. **This is an input question**

	Ton of Beef	One Boat
Chile	20 (1 Beef costs 1/3 Boat)	60 (1 Boat costs 3 Beef)
Brazil	10 (1 Beef costs 1/2 Boat)	20 (1 Boat costs 2 Beef)

- Which country has an absolute advantage in beef? **Brazil because they can produce one ton of beef with fewer hours (10 < 20)**
- What is Chile's opportunity cost for producing beef? **1/3 boat**
- Which country has a comparative advantage in producing boats? Explain. **Brazil has a comparative advantage in producing boats because it has a lower opportunity cost (2 beef < 3 beef)**
- Identify the terms of trade that can benefit both countries.
1 boat **2.5 tons of beef**
(Any number between 2 and 3 is correct)

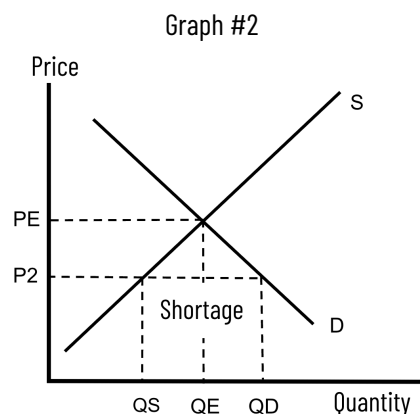
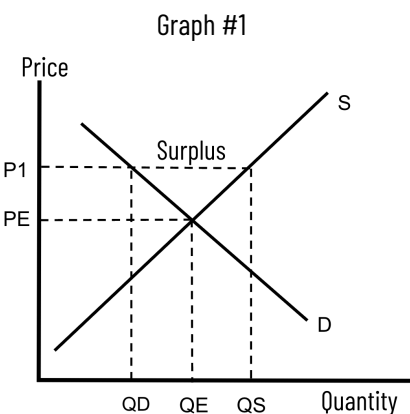
■ Topic 1.4- Demand

- The law of demand states there is an inverse (or negative) relationship between **price** and **quantity demanded**.
- Why is the market demand curve downward sloping? **Buyers (consumers) are willing to buy more units when the price falls and less units when the price increases.**
- What are the five shifters of demand? **Tastes and preferences, number of consumers, price of related goods (Substitutes and complements), income, future expectations.**

■ Topic 1.5- Supply

- The law of supply states there is a direct (or positive) relationship between **price** and **quantity supplied**.
- Why is the market supply curve upward-sloping? **Higher prices give profit-seeking firms an incentive to produce more output**
- What are the five shifters of supply? **Prices of resources, number of producers, technology, government action (taxes, subsidies, regulations), expectations of future profit**

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

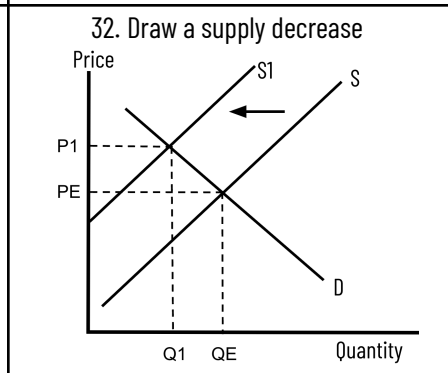
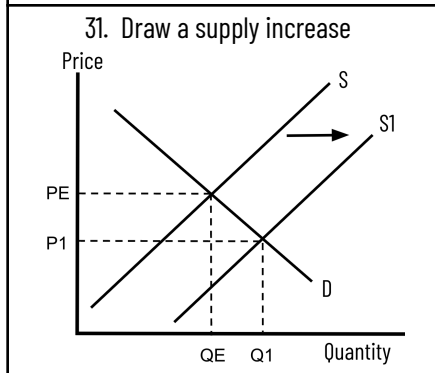
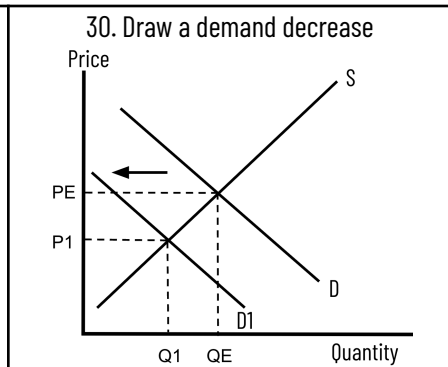
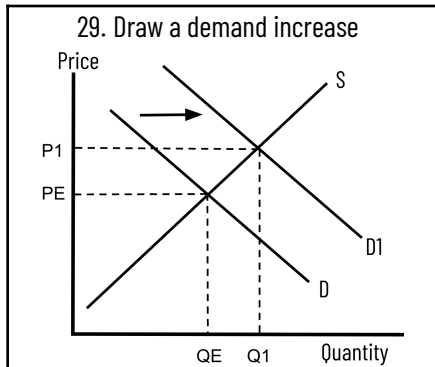


- Draw a surplus on graph #1. Label the price (P1) and quantity supplied (Qs) and demanded (Qd).
- Draw a shortage on graph #2. Label the price (P2) and quantity supplied (Qs) and demanded (Qd)
- If market forces begin to return graph #2 to equilibrium the quantity demanded will **decrease** and quantity supplied will **increase**.



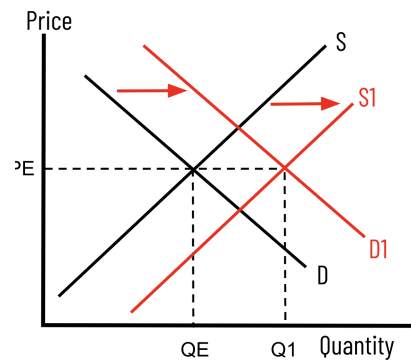
■ Topic 1.6- Market Equilibrium, Disequilibrium, and Changes in Equilibrium

28. A change in **price** does not shift the demand curve or the supply curves. Instead, it moves along the curves.



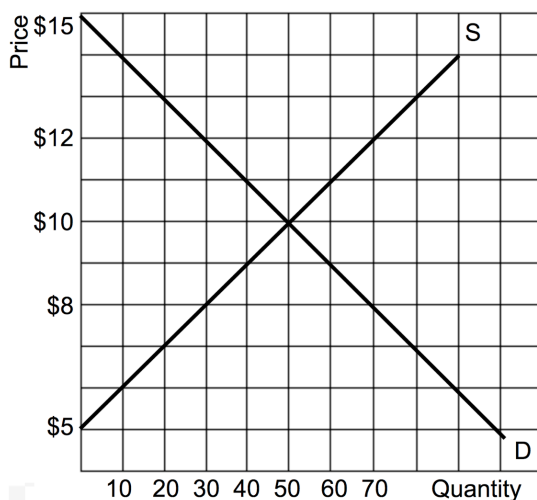
33. What is the double shift rule? **When two curves shift at the same time, EITHER price or quantity will be indeterminate.**

34. Draw an increase in demand AND an increase in supply. What happens to the equilibrium price and quantity? **Price will be indeterminate and quantity will increase**



35. For each scenario, identify the initial change (↑, ↓, or no change) in demand or supply, price, and quantity of electric cars.

Scenario	Demand	Supply	Price	Quantity
Increase in the price of gas-powered cars, a substitute for electric cars	↑	NC	↑	↑
The effect on car manufactures from a significant increase in the price of labor	NC	↓	↑	↓
Decrease in the global incomes discourages foreigners from purchasing electric cars	↓	NC	↓	↓
Decrease in the price of robotic technology used to produce electric cars	NC	↑	↓	↑
The government prevents the price of electric cars from increasing (price ceiling)	NC	NC	↓	↓



Use the market for pizza to the left to complete the following:

- 36. Calculate the amount of the shortage when the price is \$8. **40 pizzas**
- 37. Calculate the amount of the surplus when the price is \$11. **20 pizzas**
- 38. Identify a specific scenario that would cause the equilibrium price to increase and the equilibrium quantity to decrease. **Anything that causes the supply to decrease (e.g. tax on pizzas, increase in cost of cheese, etc.)**
- 39. Identify a specific scenario that would cause the equilibrium price and quantity to decrease. **Anything that causes the demand to decrease (e.g. fewer consumers, price decrease of a substitute good, people prefer less pizza, etc.)**
- 40. Explain the difference between a change in demand and a change in quantity demanded. **A change in quantity demanded is movement along the curve due to a change in the own-price. A change in demand is when the entire demand curve shifts due to a change in one of the shifters**