



Microeconomics

Unit 1 Practice Sheet

Part 1- Production Possibilities- Assume that the table below shows the economy of Cliffordland.

	A	B	C	D	E
Capital Goods	0	2	4	6	8
Consumer Goods	30	28	25	15	0

1. Calculate the opportunity cost of switching from combination A to producing B.
2. Calculate the opportunity cost of switching from combination B to producing D.
3. Calculate the opportunity cost of switching from combination B to producing A.
4. Calculate the opportunity cost of switching from combination D to producing B.
5. Is this an example of increasing opportunity cost or constant opportunity cost? Explain. **i**
6. Assume the economy of Cliffordland intentionally decides to produce combination D rather than combination B. What is the long-term trade-off of this decision? Explain.

Part 2- FRQ Practice- Complete the following question from the 2016 AP exam (Question 2).

2. Martha has a fixed budget of \$20, and she spends it all on two goods, X and Y. The price of X is \$4 per unit, and the price of Y is \$2 per unit. The table below shows the total benefit, measured in dollars, Martha receives from the consumption of each good.

Quantity of X	Total Benefit from X	Quantity of Y	Total Benefit from Y
0	\$0	0	\$0
1	\$16	1	\$10
2	\$28	2	\$18
3	\$36	3	\$24
4	\$40	4	\$28
5	\$41	5	\$30

- (a) What is Martha's marginal benefit of the fifth unit of good X?
- (b) Calculate the total consumer surplus if Martha consumes 5 units of X. Show your work.
- (c) Martha is currently consuming 4 units of X and 2 units of Y. Use marginal analysis to explain why this combination is not optimal for Martha.
- (d) What is Martha's optimal combination of goods X and Y?
- (e) Indicate whether each of the following will cause the optimal quantity of good Y to increase, decrease, or stay the same.
 - (i) The price of good Y doubles.
 - (ii) Martha's income falls to \$10 with no changes in prices.
 - (iii) Martha's income doubles, and the price of both goods double.



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Part 3- Comparative Advantage- Answer the following questions to verify that you fully understand opportunity cost, absolute advantage, comparative advantage, and terms of trade.

	Units produced per hour	
	Beef	Peppers
China	20	5
France	8	4

	Hours needed to produce one unit	
	Planes	Cars
Mexico	12	6
Bolivia	25	5

1. Is this an output problem or an input problem?
2. What is China's opportunity cost of producing 1 pepper?
3. What is France's opportunity cost of producing 1 beef?
4. What is China's opportunity cost of producing 1 beef?
5. What is France's opportunity cost of producing 1 pepper?
6. Who has the absolute advantage in producing beef?
7. Who has the absolute advantage in producing peppers?
8. Who has the comparative advantage in producing beef?
9. Who has the comparative advantage in producing peppers?
10. What would acceptable terms of trade be between China and France?
11. Is this an output problem or an input problem?
12. What is Mexico's opportunity cost of producing 1 plane?
13. What is Bolivia's opportunity cost of producing 1 car?
14. What is Mexico's opportunity cost of producing 1 car?
15. What is Bolivia's opportunity cost of producing 1 plane?
16. Who has the absolute advantage in producing cars?
17. Who has the absolute advantage in producing planes?
18. Who has the comparative advantage in producing cars?
19. Who has the comparative advantage in producing planes?
20. What would acceptable terms of trade be between Mexico and Bolivia?