



Microeconomics Unit 1 Study Guide

Basic Economic Concepts

Topic 1.1- Scarcity ▶

1. Define scarcity. **Individuals, businesses, and governments have unlimited wants but limited resources.**
2. Identify the four factors of production. **The resources required to produce goods and services. Land, labor, capital, entrepreneurship**
3. Define capital goods. **Goods made for indirect consumption. Goods that make consumer goods (example: restaurant oven).**
4. Define human capital. **Skills, knowledge, traits, and experience that make workers more productive (example: education).**

Topic 1.2- Resource Allocation ▶

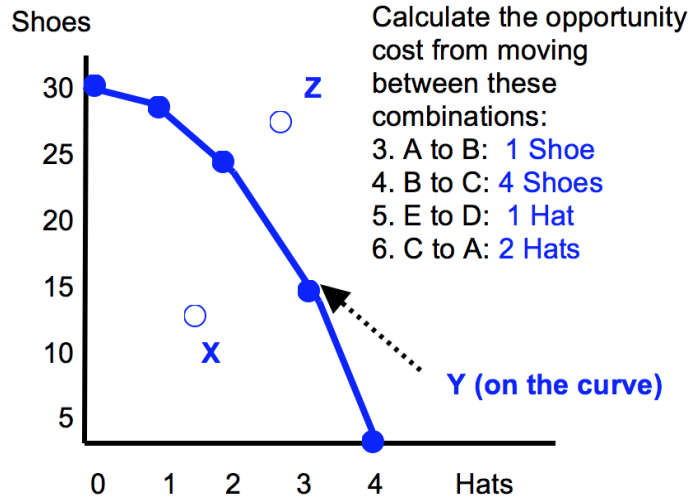
1. What are the three economic questions every society must answer? **1. What goods and services to produce? 2. How to produce them? 3. Who consumes them?**
2. Identify two characteristics of a centrally planned economy? **An economic system where the government owns the resources and answers the 3 economic questions. Very little private property and few (if any) private businesses.**
3. Identify two characteristics of a market economy? **An economic system where individuals own the resources and answer the 3 economic questions. Little government involvement in the economy. Many private businesses.**

Topic 1.3- Production Possibilities Curve- Use the chart below to create a PPC on the graph. ▶

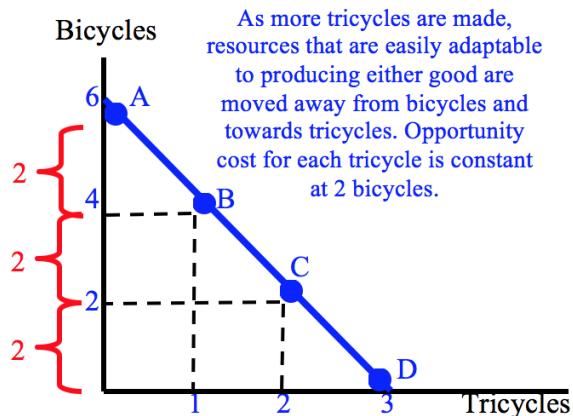
	A	B	C	D	E
Hats	0	1	2	3	4
Shoes	30	29	25	15	0

1. How does the PPC illustrate the ideas of scarcity, trade-offs, and efficiency? **Scarcity- there are only enough resources to produce up to a given amount. Trade-offs- When more of one good is produced, less of the other good is produced. Efficiency- Any point inside the curve is inefficient. Resources are not being fully utilized.**

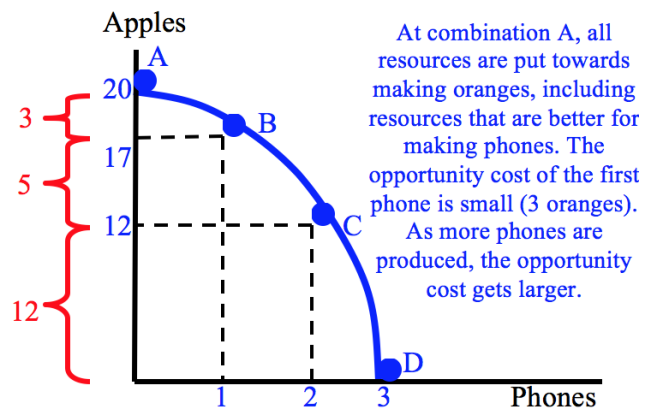
2. Label the following points on the graph:
 X= Underutilization/inefficient
 Y= Efficient
 Z= Impossible given current resource



7. Draw a PPC showing constant opportunity cost



8. Draw a PPC showing increasing opportunity cost



9. What is the difference between products that have constant opportunity cost and increasing opportunity costs? ▶
The production of two products might result in a constant opportunity cost if the products have similar resources. That is, if the resources to make each product are easily adaptable between both products.



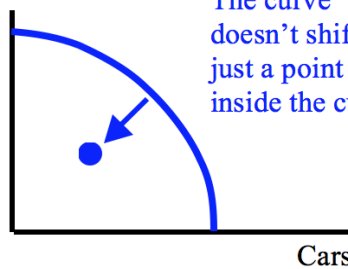
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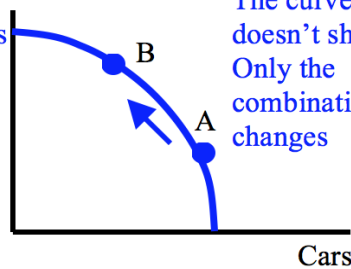
Topic 1.3- (continued)- Answer the question then show what happens as a result of each scenario

10. Identify three things that shift the PPC. 1. Change in resource quantity or quality 2. Change in technology 3. Change in trade (Trade doesn't change the amount that can be produced, but changes the amount that can be consumed)

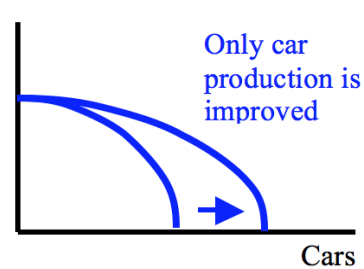
11. A recession causes a decrease in Pizza



12. Consumers want more pizza



13. More resources to produce cars



Topic 1.4- 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(1S costs ¼ Car)	10(1C costs 4 Sugar)
Mexico	50(1S costs 2 Cars)	100(1C costs ½ 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(1S costs 1/3 comp)	6(1C costs 3 sausg)
UK	10(1S costs 1 comp)	10(1C costs 1 sausg)

- Which country has an absolute advantage in sugar? **Mexico because they can produce more sugar**
- What is Cuba's opportunity cost for producing one car? **4 sugar**
- Which country has a comparative advantage in cars and which has a comparative advantage in sugar? **Mexico has it for cars. Cuba has it for sugar.**
- Identify the terms of trade that can benefit both countries. 1 car for 1 tons of sugar. (any number between 4 and ½)
- Which country has an absolute advantage in sausage? **Canada. They take less time (This is an INPUT question)**
- What is Canada's opportunity cost for producing one computer? **3 sausage**
- Which has a comparative advantage in computers and which has a comparative advantage in sausage? **The UK has it for computers. Canada has it for Sausage.**
- Identify the terms of trade that can benefit both countries. 1 computer for 2 tons of sausage. (between 3 and 1)

Topic 1.5- Cost-Benefit Analysis

1. Explain the difference between explicit and implicit costs. **Explicit costs are the traditional out-of-pocket costs associated with choosing one course of action. The implicit cost is the monetary or non-monetary opportunity cost of making that choice.(example: the forgone wage when you go to college full-time or the travelling you can't do)**

Topic 1.6- Marginal Analysis and Consumer Choice

- What is the utility maximizing rule?
 $\frac{\text{Marginal Utility A}}{\text{Price of A}} = \frac{\text{Marginal Utility B}}{\text{Price of B}}$
- If you have \$25, what combination of movies and go-karts maximizes your utility? **Movies 2 times and go karts 1 time.**
- What combination maximizes your utility if you have \$40? **3 Movies and 2 go-karts**
- What is the total utility from consuming 3 movies and 2 go-karts? **75 utils = 30+20+10+10+5**

Below is your marginal utility for going to the movies (price = \$10) and riding go karts (price = \$5)

# Times Going	Marginal utility from movies	Marginal utility per dollar	Marginal utility from go karts	Marginal utility per dollar
1st	30	3	10	2
2nd	20	2	5	1
3rd	10	1	2	.4
4th	5	.5	1	.2