



Microeconomics Unit 1 Study Guide

Basic Economic Concepts

Topic 1.1- Scarcity ▶

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

Topic 1.2- Resource Allocation ▶

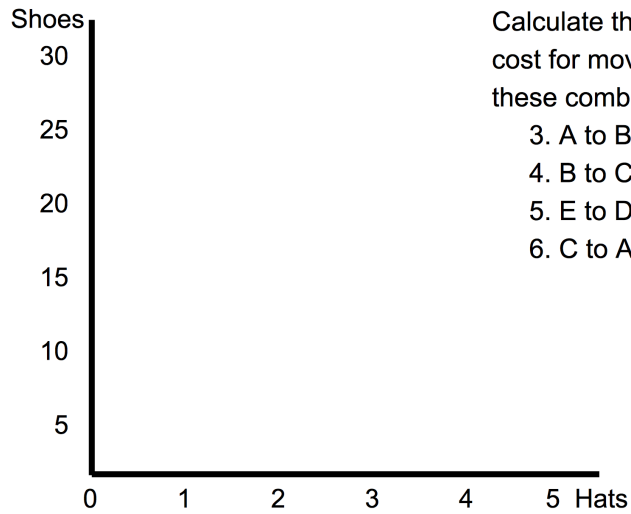
1. What are the three economic questions every society must answer?
2. Identify two characteristics of a centrally planned economy?
3. Identify two characteristics of a market economy?

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?

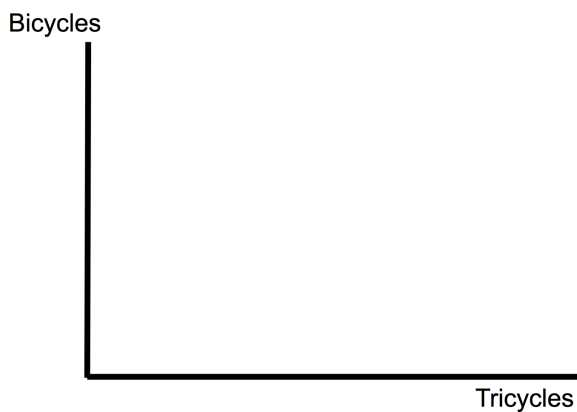
2. Label the following points on the graph:
 X= Underutilization/inefficient
 Y= Efficient
 Z= Impossible given current resource



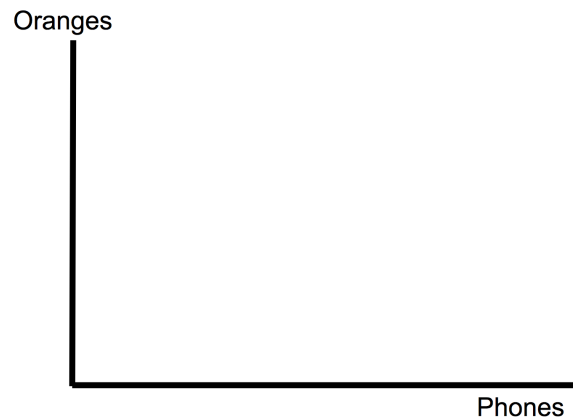
Calculate the opportunity cost for moving between these combinations:

3. A to B
4. B to C
5. E to D
6. C to A

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? ▶



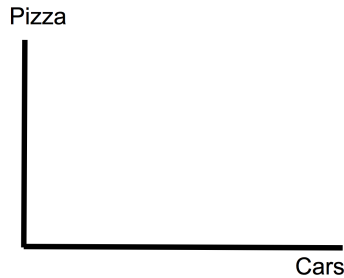
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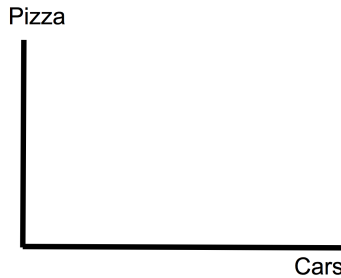
Topic 1.3- (continued)- Answer the question then show what happens as a result of each scenario

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

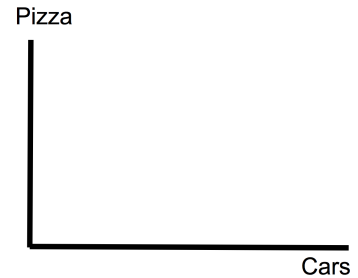
11. A recession causes unemployment



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	10
Mexico	50	100

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 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
- 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 1.5- Cost-Benefit Analysis ▶

1. Explain the difference between explicit and implicit costs.

Topic 1.6- Marginal Analysis and Consumer Choice ▶

- What is the utility maximizing rule?
- If you have \$25, what combination of movies and go-karts maximizes your utility?
- What combination maximizes your utility if you have \$40?
- What is the total utility from consuming 3 movies and 2 go-karts?

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		10	
2nd	20		5	
3rd	10		2	
4th	5		1	