



BIG PICTURE IDEAS

- #1. Economics focuses on **scarcity** and how it requires individuals, businesses, and governments to make choices.
- #2. Society's **economic** system determines what will be produced, how it will be produced, and how it will be allocated.
- #3. 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.
- #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. **Marginal** analysis involves weighing the additional benefits and additional costs of any decision.

■ 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 and experience that workers need to produce things.

■ Topic 1.2- Resource Allocation

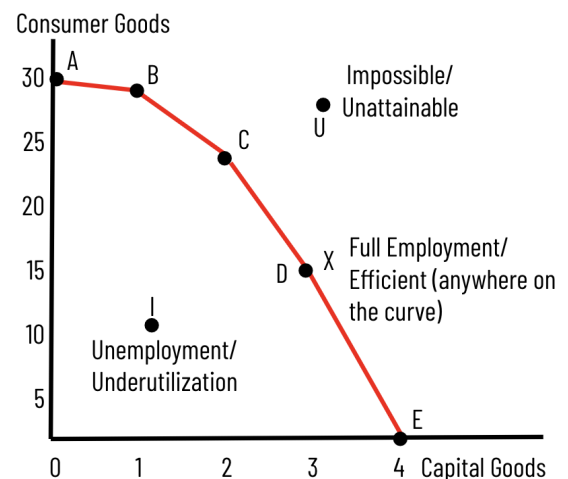
4. Identify two characteristics of a command economy? **The government owns resources and answers the 3 economic questions. Very little private property or private businesses.**
5. Identify two characteristics of a market economy? **Individuals own the resources and answer the 3 economic questions. Little government involvement in the economy. Private property.**
6. Most countries have a **mixed** economy, which incorporates characteristics of both command and market economies.

■ Topic 1.3- Production Possibilities Curve

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

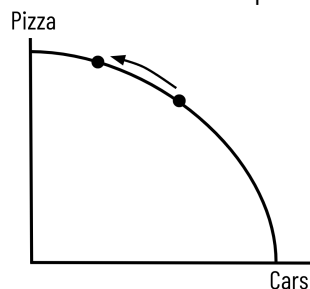
7. What is the opportunity cost for moving between these combinations?
 From A to B **1 Consumer good** From E to D **1 Capital good**
 From B to C **4 Consumer goods** From C to A **2 Capital goods**
8. Assume combination D was produced rather than combination B. Will this economy's growth rate increase, 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.**



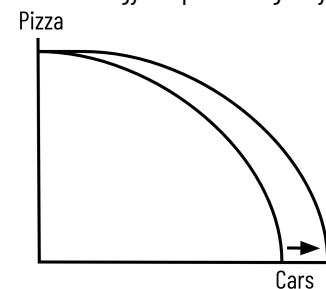
9. The PPC can **shift** outward when there are more resources or new **technology** that increases productivity.

On the graphs to the right, draw the PPC curve for each scenario using pizza and cars.

10. Consumers want more pizza



11. New technology for producing only cars



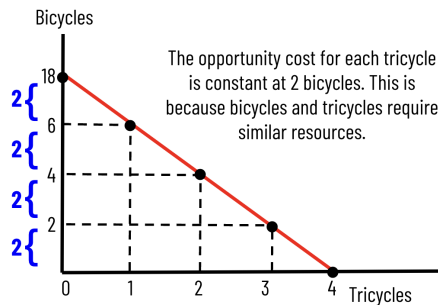


■ Topic 1.3- Production Possibilities Curve (continued)

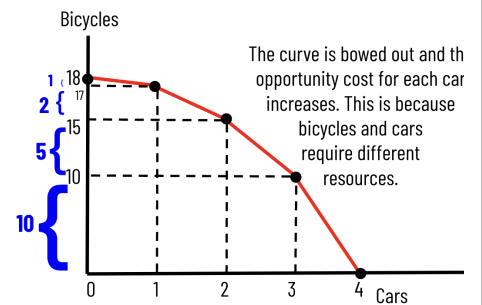
12. Products with **constant** opportunity cost have similar resources and result in PPC that is a straight line.

13. Products with **increasing** opportunity cost have different resources and result in a PPC that is **bowed out**.

14. Draw PPC with constant opportunity cost



15. Draw PPC with increasing opportunity cost



■ Topic 1.4- Comparative Advantage and Trade

16. 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.

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

17. Which country has an absolute advantage in planes? **Chile because they can produce more planes than Mexico (25 > 10)**

18. What is Mexico's opportunity cost for producing one car? **1/4 plane**

19. Which country has a comparative advantage in producing planes? Explain. **Chile has a comparative advantage in producing planes because it has a lower opportunity cost (2 Cars < 4 Cars)**

20. 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.

	Ton of Beef	One Boat
France	20 (1 Beef costs 1/3 Boat)	60 (1 Boat costs 3 Beef)
Spain	10 (1 Beef costs 1/2 Boat)	20 (1 Boat costs 2 Beef)

21. Which country has an absolute advantage in beef? **Spain because they can produce one ton of beef with fewer hours (10 < 20)**

22. What is France's opportunity cost for producing beef? **1/3 boat**

23. Which country has a comparative advantage in producing boats? Explain. **Spain has a comparative advantage in producing boats because it has a lower opportunity cost (2 beef < 3 beef)**

24. 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 1.5- Cost-Benefit Analysis

25. **Opportunity** cost is the value of the next best alternative.

26. The traditional out-of-pocket costs associated with choosing one course of action are called **explicit** costs. **implicit** costs are the monetary or non-monetary opportunity costs of making that choice.

■ Topic 1.6- Marginal Analysis and Consumer Choice

Use the chart showing your total utility for consuming nachos (price = \$6) and tacos (price = \$4) to complete the following.

27. If you have \$16, what combination of nachos and tacos maximizes your utility? **2 nachos and 1 taco**

28. What combination maximizes your utility if you have \$26?
3 nachos and 2 tacos

29. Identify the utility maximizing rule.

$$\frac{\text{Marginal Utility A}}{\text{Price of A}} = \frac{\text{Marginal Utility B}}{\text{Price of B}}$$

Number of nachos	Total utility	Marginal utility per dollar	Number of tacos	Total utility	Marginal utility per dollar
1	24	4	1	12	3
2	42	3	2	20	2
3	54	2	3	24	1
4	60	1	4	26	1/2