



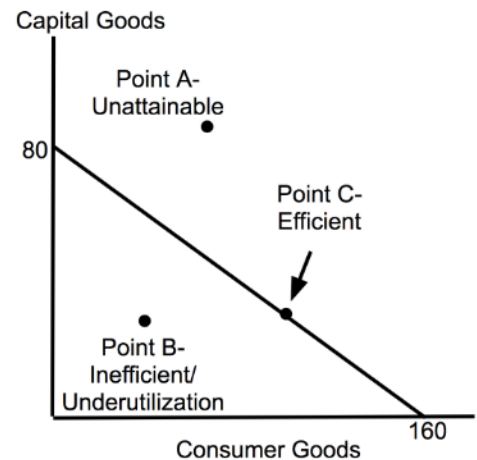
Macroeconomics Unit 1

Free Response Questions

FRQ #1 Answers- See video in [Ultimate Review Packet](#) for detailed explanations.

	Mexico	Brazil
Consumer Goods	40	160
Capital Goods	10	80

- (a) Draw a correctly labeled production possibilities curve for Brazil. Place consumer goods on the horizontal axis and capital goods on the vertical axis. Plot the relevant numerical values from the chart on the graph.
See graph below



- (b) On your graph in part (a), indicate the following.
- A point that represents an unattainable level of production, labeled A
See graph above
 - A point that represents an inefficient level of production, labeled B
See graph above
 - A point that represents an efficient level of production, labeled C
See graph above
- (c) Assume that Brazil moves from producing 80 units of consumer goods and 40 units of capital goods to producing 40 units of consumer goods and 60 units of capital goods. What will happen to economic growth in Brazil in the future? Explain. **Brazil will have more economic growth in the future because it will be producing more capital goods (60 units instead of 40 units). Capital goods, like tools and factories, are resources and can be used to produce even more output in the future.**
- (d) Which country has the comparative advantage in the production of consumer goods? Explain. **Mexico has a comparative advantage in the production of consumer goods because they have a lower opportunity cost for producing consumer goods than Brazil. For Mexico, the opportunity cost for consumer goods is 1/4 capital goods which is less than the opportunity cost for Brazil.**
- (e) Identify a specific number of units of consumer goods that could be traded for 10 units of capital goods and be mutually beneficial for both countries. **Multiple correct answers. Correct answers include any number between (but not including) 20 and 40 units of consumer goods. Example: 30 units of consumer goods.**

FRQ #2 Answers- See video in [Ultimate Review Packet](#) for detailed explanations.

Country A: 6 boats or 2 planes
Country B: 8 boats or 4 planes

- (a) Which country has an absolute advantage in producing boats? Explain. **Country B has an absolute advantage in the production of boats because they can produce more total boats than Country A.**
- (b) Calculate the opportunity cost of a plane in Country A. **The opportunity cost for one plane is 3 boats.**
- (c) Calculate the opportunity cost of a boat in Country B. **The opportunity cost for one boat is 1/2 plane.**
- (d) Which country has the comparative advantage in producing boats? Explain. **Country A has a comparative advantage in the production of boats because they have a lower opportunity cost compared to Country B. For Country A, the opportunity cost for one boat is 1/3 plane and the opportunity cost for Country B is 1/2 plane.**
- (e) If the terms of trade were that 1 plane is exchanged for 4 boats, should Country A produce planes domestically or import planes from Country B? **Country A should produce planes domestically and not trade with Country B. With domestic production, the tradeoff is 3 boats for 1 plane for Country A. This is preferable to the proposed terms of trade of 4 boats for 1 plane.**