



Macroeconomics Unit 1

Free Response Questions

FRQ #1- The table below shows the maximum possible production of consumer goods OR capital goods for Mexico and Brazil. Assume that these countries use equal quantities of inputs to produce consumer goods and capital goods.

	Mexico	Brazil
Consumer Goods	40	160
Capital Goods	10	80

- 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.
- On your graph in part (a), indicate the following.
 - A point that represents an unattainable level of production, labeled A
 - A point that represents an inefficient level of production, labeled B
 - A point that represents an efficient level of production, labeled 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.
- Which country has the comparative advantage in the production of consumer goods? Explain.
- 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.

FRQ #2- Country A and Country B are trading partners and both produce boats and planes. The countries can produce the following amounts in 24 hours using equal amounts of resources.

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

- Which country has an absolute advantage in producing boats? Explain.
- Calculate the opportunity cost of a plane in Country A.
- Calculate the opportunity cost of a boat in Country B.
- Which country has the comparative advantage in producing boats? Explain.
- 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?