**AP Micro Unit I: Basic Economic Concepts**

# **Study Guide #1**

1. Complete each of the following tasks with short paragraphs:
2. Define scarcity and explain how it is related to choices and trade-offs
3. Fully explain the difference between the following (USE EXAMPLES FOR EACH):
   * 1. Trade offs and Opportunity Cost
     2. Price and Cost
     3. Normative and Positive Economics
     4. Consumer Goods and Capital Goods
     5. Allocative and Productive Efficiency
     6. Resource Markets and Product Markets
     7. Free-Market and Centrally Planned Economies
4. Draw a Production Possibilities Graph for Sony using the following information:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | A | B | C | D | E | F | G |
| Digital Cameras | 0 | 20 | 28 | 35 | 40 | 43 | 45 |
| DVD Players | 56 | 54 | 51 | 45 | 37 | 27 | 0 |

1. What are the consequences of Sony producing at combination A? What about combination G? Are these combinations productively efficient, allocatively efficient, or both? Explain?
2. Plot the combination 43 cameras and 50 DVD players and label it “X.” Plot the combination 30 cameras and 40 players and label it “Y.” Explain what is happening at these points?
3. Explain, with examples, how your graph shows 5 concepts: opportunity costs, efficiency (both types), unemployment, the law of increasing opportunity costs, and economic growth.

3. The following figures represent the amount that can be produced with a fixed amount of factor inputs.

|  |  |  |
| --- | --- | --- |
|  | **Shirts** | **TVs** |
| **China** | 400 | 200 |
| **India** | 120 | 30 |

1. Which country has an absolute advantage in producing shirts? Which country has an absolute advantage in producing TVs? Explain how you got your answer?
2. Define “Per Unit Opportunity Costs”. What is China’s opportunity cost for producing one shirt? What is India’s opportunity cost for producing one TV?
3. Identify which country has a comparative advantage in shirts? Which country has the comparative advantage in TV? Explain how you got your answer?
4. Explain why these countries can benefit from trade. Identify a terms of trade that would benefit both countries?

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| **Unit 1: Basic Economics Concepts** | | |
| **Key Terms (Define the following)** | | **3 Economic Systems** |
| 1. Scarcity  2. Positive vs. Normative Economics  3.Trade-offs  4. Opportunity Cost | | 1. Centrally Planned Economies (Communism)  2. Free-Market Economies (Capitalism)  3. Mixed Economies |
| **Production Possibilities Curve (Frontier)\*** | | |
| Use the chart to create a PPC to the right.   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | **A** | **B** | **C** | **D** | **E** | | Hats | 0 | 1 | 2 | 3 | 4 | | Shoes | 30 | 29 | 25 | 15 | 0 |     Label the following three points on the graph:  X= Unemployment/Inefficiency  Y= Efficient  Z= Impossible given current resource | Shoes      Hats | |
| **Constant Opportunity Cost\*** | | **Increasing Opportunity Cost\*** |
| Why does this occur?  Draw the graph below  Bicycles      Tricycles | | Why does this occur?  Draw the graph below  Bikes      iPhones |

|  |  |  |  |
| --- | --- | --- | --- |
| **Efficiency** | | **Shifting the PPC** | |
| Difference between allocative and productive efficiency: | | Identify the three shifters of the PPC  1.  2.  3. | |
| **Shifting and Changes Practice** (draw 3 PPCs with pizza and cars) | | | |
| Scenario: Better resources for both products | Scenario: Increase in consumer demand for pizza | | Scenario: Improvements in technology for only cars |
| **Trade: Absolute and Comparative Advantage\*** | | | |
| |  |  |  | | --- | --- | --- | |  | Sugar (tons) | Cars | | Cuba | 40 | 10 | | Mexico | 50 | 100 |  1. Which country has an absolute advantage in sugar? 2. Which country has an absolute advantage in cars? 3. What is Cuba’s opportunity cost for producing one car? 4. Which country has a comparative advantage in cars? 5. Which country has a comparative advantage in sugar? 6. For both countries to benefit from trade, how much sugar can be traded for each car? 1 Car for \_\_\_\_\_\_ Sugar | | | |
| **Circular Flow Model\*** | | | |
| Resource Market  Businesses Government Individuals    Product Market | | | |