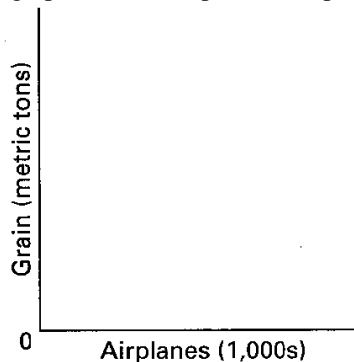


Economics: PPC Practice
Chapter 1 questions:

1. Comment on the statement from an opportunity cost perspective: "The major cost of going to college is the \$15,000 per year in tuition." Assume that a person could have earned \$30,000 a year if the person did not go to college.
2. The production possibilities curve below show the hypothetical relationship between the production of food and clothing in an economy.

Combination	Food (tons)	Clothing (factories)
A	0	4
B	7	3
C	13	2
D	18	1
E	22	0

- (a) What is the *marginal* opportunity cost of building the second clothing factory?
 - (b) What is the *total* opportunity cost of building the two clothing factories?
 - (c) What is the *marginal* opportunity cost of building the third clothing factory?
 - (d) What is the *total* opportunity cost of building three clothing factories?
3. A production possibilities table for two products, grain and airplanes, is found below. Usual assumptions regarding production possibilities are implied. Grain is measured in metric tons and airplanes are measured in units of 1,000.
 - (a) Using the below graph construct a production possibilities curve from this information placing grain on the vertical



axis and airplanes on the horizontal axis.

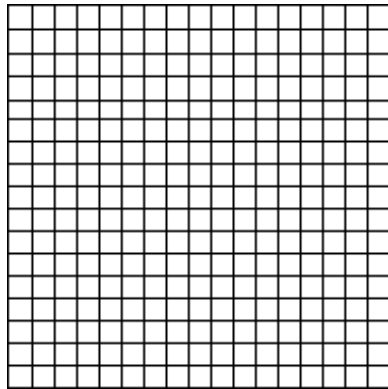
- (b) What is the opportunity cost of producing the first unit of airplanes? The marginal opportunity cost of producing the fourth unit of airplanes?

Combination	Grain (metric tons)	Airplanes (1,000s)
A	0	7
B	14	6
C	26	5
D	36	4
E	44	3
F	50	2
G	54	1
H	56	0

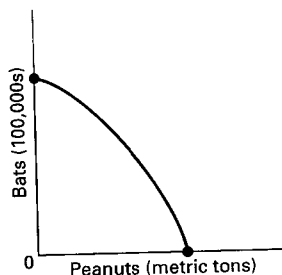
4. A production possibilities table for two products, corn and paper, is found below. Usual assumptions regarding production possibilities are implied. Corn is measured in tons, and paper is measured per unit.

<u>Combination</u>	<u>Corn (tons)</u>	<u>Paper (factories)</u>
A	0	6
B	18	5
C	33	4
D	45	3
E	54	2
F	60	1
G	63	0

- (a) Using the following graph construct a production possibilities curve from this information placing corn on the vertical axis and paper on the horizontal axis.



- (b) What is the marginal opportunity cost of producing the first unit of paper? The marginal opportunity cost of producing the fourth unit of paper?
5. What is the economic rationale for the law of increasing costs?
6. Explain how increasing opportunity costs are reflected graphically in the production possibilities curve. How would the curve appear if opportunity costs were constant? (Answer in complete sentences and illustrate your response with diagrams.)
7. How is the most-valued or optimal point on the production possibilities curve determined?
8. What changes must occur for the potential total output of the economy to grow?
9. Look at the following production possibilities curve illustrating the possibilities in Sluggerville for producing bats and/or peanuts with the existing level of resources and technology.
- (a) Show a point *U* that would indicate unemployed resources in Sluggerville.
- (b) Draw a new curve *B* that illustrates the results of improved technology in the production of bats, but no change in the production efficiency of peanuts.
- (c) Show a point *G* that would indicate a point that is currently unattainable in the production of peanuts and bats in Sluggerville.



10. Economists give the word **Investment** a narrow specific meaning when discussing Productive Resources and Production possibilities.
 - a. What is that definition?
 - b. What do economists mean when they state that investment is spending on “goods for the future”?

11. One application of the production possibilities concept has been to explain the difference in growth patterns of a nation with a high level of investment (Alta) and an equivalent nation with a low level of investment (Zorn). Use the concept to explain why Alta’s economic growth would be greater than that of Zorn over time.

12. The production possibilities curve suggests that a nation’s resources limit the amount of products that the people of the nation can consume. Explain why international trade would cause this statement to be modified.

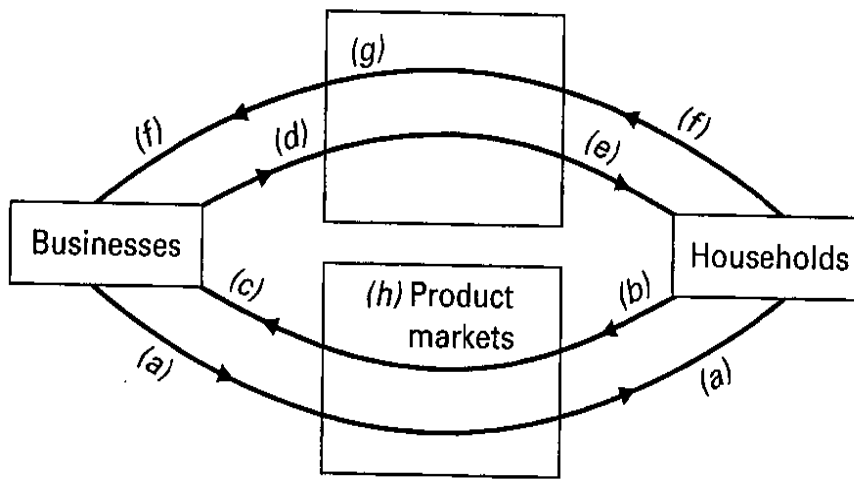
13. Use the PPC model to show and explain how each event affects production possibilities.
 - (a) The population becomes more educated over time as the number of high school dropouts falls and the number of college graduates rises.
 - (b) The unemployment rate declines from 7.3 to 4.5 percent of the labor force.
 - (c) Businesses and government are unable to solve a major computer problem, thus reducing economic efficiency and national output.
 - (d) Advances in telecommunications and new technology significantly contribute to economic growth over time.
 - (e) The Congress and the President decide to allocate more resources to national defense.
 - (f) A nation participates in increased international trade with other nations of the world.

14. Use the PPC model to show and explain the adjustments in the production possibilities curves in each of the following situations for the U.S. economy.
 - (a) the economy moves from full employment into a deep recession
 - (b) the economy makes great strides in eliminating discrimination
 - (c) the end of the cold war leads to cuts in military spending
 - (d) Congress significantly increases government spending for health and education

15. Describe the basic features of the circular flow mode (see model below).

16. What is the relationship between businesses and households in the circular flow model?

17. In the below circular flow diagram, the household and business sectors are labeled with arrows representing the flows of income and output labeled (a) through (f) and the two appropriate markets labeled (g) and (h). Supply the correct descriptive titles for each of these labels (a) through (h).



If we watched “Commanding Heights” you should be able to answer these questions:

18. Who was John Maynard Keynes?

19. Who was Frederich von Hayek?

20. Explain the difference between Keynes’ view and Hayek’s view of the relationship between government and the economy.