# AP® Macroeconomics Unit 1: Basic Economic Concepts

## Topic 1.1- Scarcity

1. Define scarcity

2. What are the factors of production?

3. Define capital goods

4. Define human capital

## Topic 1.2- Opportunity Cost and the PPC

1. What is the difference between trade-offs and opportunity?

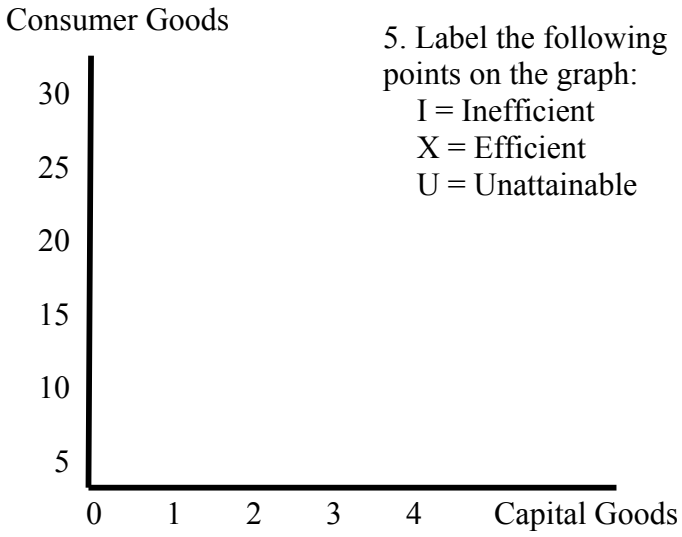
2. How does the PPC illustrate the ideas of scarcity and trade-offs?

*Use the chart to create a PPC on the graph*

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Capital goods | 0 | 1 | 2 | 3 | 4 |
| Consumer goods | 30 | 29 | 25 | 15 | 0 |

3. Calculate the opportunity cost from moving between the following combinations:
   A to B:
   B to C:
   E to D:
   C to A:

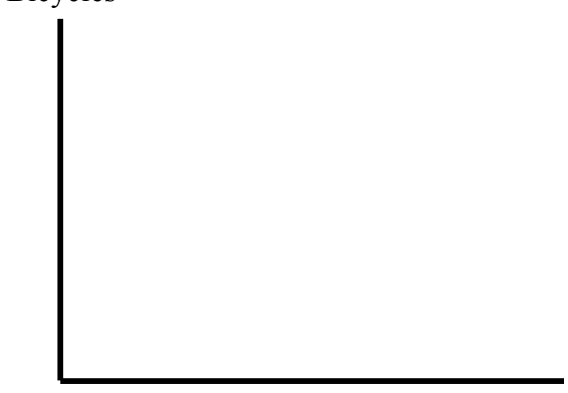
4. Assume combination D was produced rather than combination B. Will this economy's growth rate increase, decrease, or stay the same? Explain




5. Label the following points on the graph:
   I = Inefficient
   X = Efficient
   U = Unattainable

6. Why might producing two different products result in a constant opportunity cost?

7. Draw a PPC with constant opportunity cost



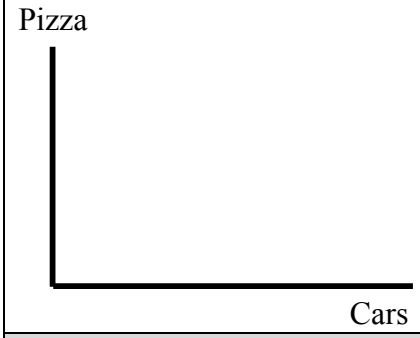

8. Why might producing two different products result in an increasing opportunity cost?

9. Draw a PPC with increasing opportunity cost

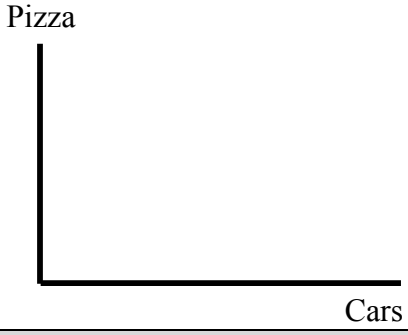
**Topic 1.2- (continued)-** *Answer the question then show what happens as a result of each scenario*

10. Identify three things that shift the production possibilities curve.

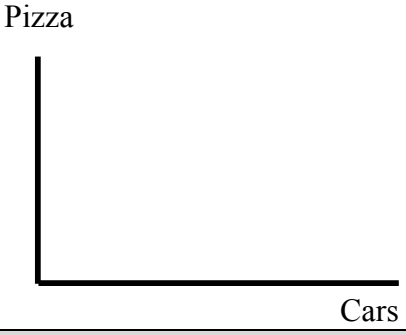
11. Workers lose their jobs due to a recession




12. Increase in consumer demand for pizza




13. More resources to produce cars




**Topic 1.3- Comparative Advantage and Trade**

The table shows the amount of sugar and cars each country can make with the same number of resources

| | Sugar (tons) | Cars |
|---|---|---|
| Cuba | 40 | 10 |
| Mexico | 50 | 100 |

1. Which country has an absolute advantage in sugar? How about cars?
2. What is Cuba's opportunity cost for producing one car?
3. Which country has a comparative advantage in cars? How about sugar?
4. For both countries to benefit, how much sugar can be traded for each car? 1 car for _____ sugar

The table shows the number of hours it takes to produce a ton of sausage and a ton of computers

| | Sausage | Computers |
|---|---|---|
| Canada | 2 | 6 |
| UK | 10 | 10 |

5. Which country has an absolute advantage in sausage? How about computers?
6. What is Canada's opportunity cost for producing one computer?
7. Which country has a comparative advantage in computers? How about sausage?
8. For both countries to benefit, how many sausages can be traded for each computer? 1 comp for _____ sausage

**Topic 1.4- Demand**

1. What is the law of demand?

P↑ Qd ____
P↓ Qd ____

2. Why is the market demand curve downward sloping?

3. What are the five shifters of demand?

**Topic 1.5- Supply**

1. What is the law of supply?

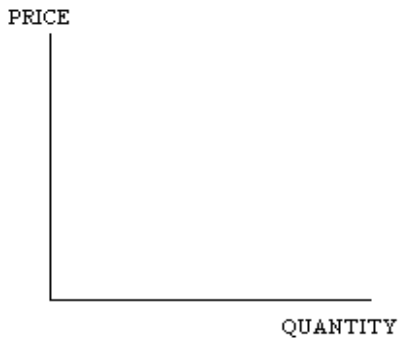
P↑ Qs ____
P↓ Qs ____

2. Why is the market supply curve upward-sloping?

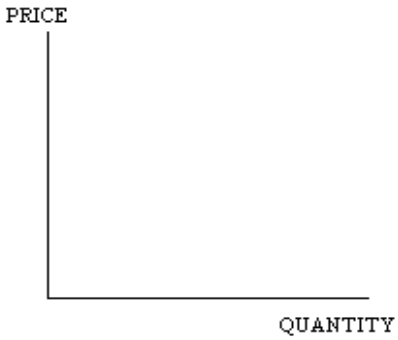
3. What are the five shifters of supply?

## Topic 1.6- Market Equilibrium, Disequilibrium, and Changes in Equilibrium

Graph #1 (shortage)




Graph #2 (surplus)




1. Draw a shortage on graph #1. Label price (P1), quantity supplied (Qs), and quantity demanded (Qd).

2. Draw a surplus on graph #2. Label price (P2), quantity supplied (Qs), and quantity demanded (Qd)

3. On graph #2, what happens to the quantity demanded (Qd) and quantity supplied (Qs) if market forces return the market to equilibrium?

Qd ____ Qs ____

4. Draw a demand decrease

Price ___
Quantity ___

5. Draw a demand increase

Price ___
Quantity ___

6. Draw a supply decrease

Price ___
Quantity ___

7. Draw a supply increase

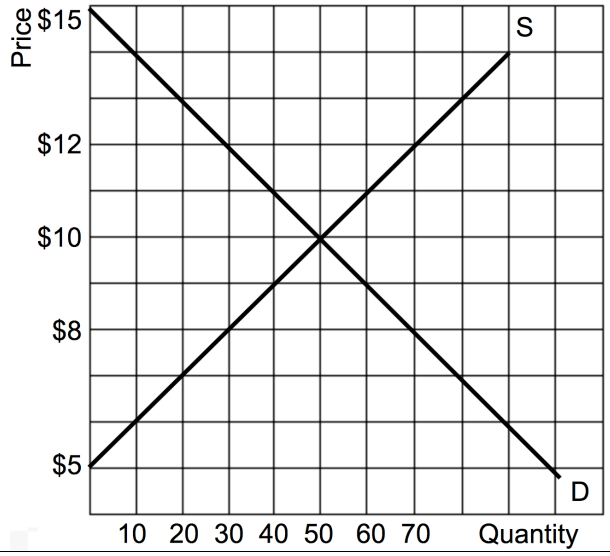
Price ___
Quantity ___

8. What is the double shift rule?

9. Draw an increase in demand AND an increase in supply. What happens to the equilibrium price and quantity?

Price ___
Quantity ___

Market for Pizza




10. Calculate the amount of the shortage when the price is $8.

11. Calculate the amount of the surplus when the price is $11.

12. Identify a specific scenario that would cause the equilibrium price to be $12 and the equilibrium quantity to be 30 units.

13. Identify a specific scenario that would cause the equilibrium price to be $7 and the equilibrium quantity to be 20 units.

14. What is the difference between a change in demand and a change in quantity demanded?