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AP Macro Unit 1 - Basic Economic Concepts Practice Worksheet

Name: ______________________________ Date: ______________

Instructions: Answer each question based on AP Macro Unit 1 concepts. Show your reasoning where asked. Use the answer key to self-check after completing all problems.

1. Define scarcity in one sentence and give one real-world example.

2. A country can produce 100 units of food OR 50 units of clothing (or any linear combination). What is the opportunity cost of producing 1 unit of clothing?

3. On a standard PPC with guns on the x-axis and butter on the y-axis, what does a point INSIDE the curve represent?

4. What does a point OUTSIDE the PPC represent?

5. Country A can produce 10 cars OR 20 tons of wheat. Country B can produce 6 cars OR 18 tons of wheat. Which country has the comparative advantage in wheat?

6. Name the three fundamental economic questions every society must answer.

7. A technological improvement in an economy that only affects the production of computers shifts the PPC how?

8. True or False: In a pure command economy, prices are set by supply and demand. Explain.

9. If a student spends 3 hours playing video games instead of studying, and studying would have earned them an extra 10 points on a test, what is the opportunity cost of gaming?

10. Explain why the PPC is typically bowed outward (concave to the origin) rather than a straight line.

11. A country discovers a large new oil reserve. How does this affect its PPC?

12. What distinguishes a positive economic statement from a normative one? Give one example of each.

Answer Key

1. Scarcity means unlimited wants exceed limited resources; e.g., a student has only 2 hours to study but three subjects to cover.

2. 2 units of food (100/50 = 2).

3. Productive inefficiency - resources are unemployed or misallocated.

4. It is currently unattainable given existing resources and technology.

5. Country B (opportunity cost of 1 ton of wheat = 1/3 car vs Country A's 1/2 car; B's cost is lower).

6. What to produce? How to produce it? For whom to produce it?

7. It shifts the PPC outward (right) along the computers axis only, creating an asymmetric (bowed) outward shift.

8. False. In a command economy, the government (central authority) sets prices and makes production decisions, not market forces.

9. 10 test points (the highest-valued forgone alternative).

10. Because resources are not perfectly substitutable; as you produce more of one good, you must use increasingly less-suited resources, raising the opportunity cost - the Law of Increasing Opportunity Cost.

11. The entire PPC shifts outward (rightward), representing economic growth - the economy can now produce more of both goods.

12. Positive: factual/testable ('Unemployment is 4%'). Normative: value judgment ('Unemployment benefits should be increased').