Macro Unit 1 Basic Economic Concepts Problem Set

1. Complete each of the following with a short paragraph:
a. Define scarcity and use that definition to fully explain why economics is sometimes called the “study of choices” (_____/4)
b. Define opportunity cost and use it to fully explain why economists say that everything has a cost (_____/4)

2. Define each of the following and explain the difference between them by giving clear examples:
a. Consumer goods and capital goods (_____/3)
b. Normative economics and positive economics (_____/3)

3. Read the following quote and answer the questions with complete sentences.

“There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen. Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa.” — Frédéric Bastiat, French Economist (1801-1850)

a. In your own words, fully explain his main idea. Be sure to use the words “incentives” and “opportunity cost” in your answer (_____/5)
b. In an effort to get students to come to class on time, assume that your teacher establishes a policy where 20 points are deducted from your grade if you show up to class more than 10 minutes late. Explain two different unforeseen effects that could cause this policy to backfire and actually encourage students to come late or ditch class. (_____/5)
c. Think of a well-intentioned policy that on the surface appears to help people but in reality would likely create incentives that end up hurting people. Identify the policy and explain why it would be “disastrous”. (_____/5)

4. The table below shows the production possibilities for the country of Cliffordonia. Use the table below to do following information.

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Goods</td>
<td>0</td>
<td>10</td>
<td>18</td>
<td>25</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>45</td>
<td>42</td>
<td>39</td>
<td>33</td>
<td>25</td>
<td>15</td>
</tr>
</tbody>
</table>

a. Draw and fully label a production possibilities for Cliffordonia (_____/3)
b. Plot the combination of 20 consumer goods and 40 capital goods and label this point “x.” Plot the combination of 25 consumer goods and 20 capital goods and label it “y.” Explain what is happening at each of these points. (_____/4)

c. What are the consequences if Clifordonia produces combination A? What are the consequences if they produce combination G? (_____/2)

d. Assume that economists in Clifordonia are deciding between producing combination B or combination F. Which of these combinations will most likely result in more economic growth over time. Explain your reasoning? (_____/2)

5. Explain how the production possibilities curve model shows each of the following concepts: scarcity, unemployment, efficiency, opportunity cost, and economic growth. (_____/10)

6. Use the PPC-A and PPC-B below to answer the following questions.
   a. On PPC-A, what is the opportunity cost from to move from point a to b? What about moving from b to c? What generalization can you make? (____/3)

   b. On PPC-B, what is the opportunity cost to move from point a to b? What is the opportunity cost to move from point b to c? What is the per unit opportunity cost from moving from c to e? (____/3)

   c. Which PPC shows increasing opportunity costs? Give a numerical example to support your answer. (____/2)

7. The following figures represent the amount of bananas and sugarcane that Panama and Honduras can produce with a fixed amount of factor inputs.

<table>
<thead>
<tr>
<th></th>
<th>Bananas</th>
<th>Sugarcane</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panama</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>Honduras</td>
<td>160</td>
<td>40</td>
</tr>
</tbody>
</table>

   a. Which country has the absolute advantage in bananas? Which country has the absolute advantage in sugarcane? Explain how you arrive at that answer? (____/3)

   b. Explain how to calculate per unit opportunity cost. What is Panama’s opportunity cost for producing one unit of bananas? What is Honduras’s opportunity cost for producing one unit of sugarcane? (____/3)

   c. Which country has the comparative advantage in bananas? Which country has the comparative advantage in sugarcane? Explain how you got your answers (____/3)