

Concept: Scarce resources and limited production possibilities

1. List examples of four economic resources.

2. Which of the following uses of resources will likely increase labor productivity? (+, Increase; 0, No change.)

- a. ___ Expenditures on capital
- b. ___ Expenditures on more fashionable clothes
- c. ___ Expenditures on health care
- d. ___ Expenditures on education and training
- e. ___ Expenditures on military goods.

Concept: Production possibilities and opportunity cost

3. The data in the table below represent the production possibilities for a nation producing two classes of goods.

Production possibilities	Consumer goods (millions per year)	Capital goods (millions per year)
A	0	90
B	20	80
C	40	65
D	60	47
E	80	26
F	100	0

a. On the axes below, plot a production possibilities curve from the data in the table above.

Axis Y - Consumer goods (millions per year)

Axis X - Capital goods (millions per year).

b. What is the meaning of a point on the production possibilities curve?

c. What is the opportunity cost associated with an increase in the production of consumer goods by 20 million units?

(1) From point B to C? _____ units of capital

(2) From point C to D? _____ units of capital

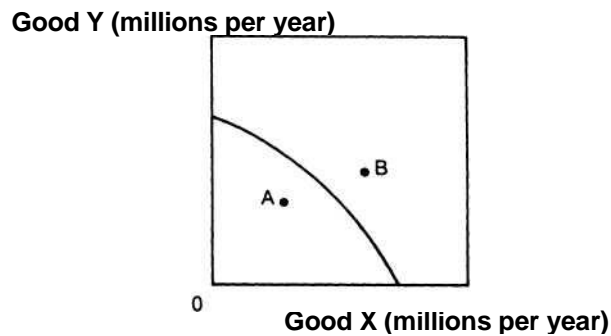
(3) From point D to E? _____ units of capital

(4) From point E to F? _____ units of capital

d. Do opportunity costs rise or fall as additional units of consumer goods are produced?

Explain.

4. Referring to the figure below:
 - a. Interpret the meaning of point A.
 - b. Interpret the meaning of point B



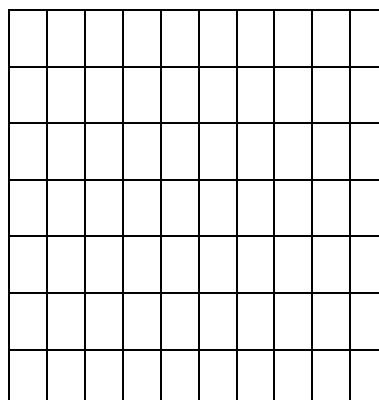
Concept: Determinants of a nation's production possibilities

5. Indicate whether the following events would cause the production possibilities curve to shift outward (O) or would leave it unchanged (U):

- a. ___ Increased production of houses at full employment
- b. ___ Increases in the quantity of resources
- c. ___ Improvements in the quality and productivity of economic resources
- d. ___ A reduction in prices
- e. ___ Increases in income
- f. ___ Improvements in technology

6. a. On the axes below, draw a production possibilities curve for a nation. Now assume that economic growth is taking place. Draw a new production possibilities curve on the same axes reflecting this growth.

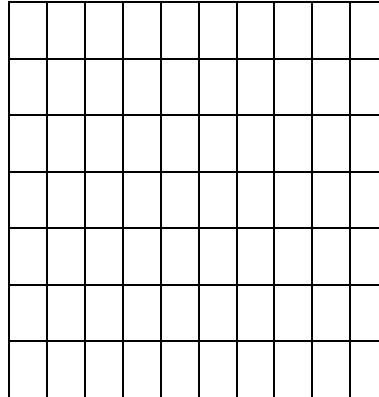
All other goods (millions per year)



Capital goods (millions per year)

b. On the axes below, draw a production possibilities curve for a nation. Assume as above that the nation is experiencing growth, but also assume that the economy is investing more heavily in capital and technology than the economy shown above in part a. Draw a new production possibilities curve reflecting this.

All other goods (millions per year)



Capital goods (millions per year)