

KOFA HIGH SCHOOL SOCIAL SCIENCES DEPARTMENT

AP ECONOMICS

EXAM PREP WORKSHOP # 1 > BASIC ECONOMIC CONCEPTS



NAME :

DATE :

1. Use the axes below to draw the type of curve that illustrates the label above each axis .

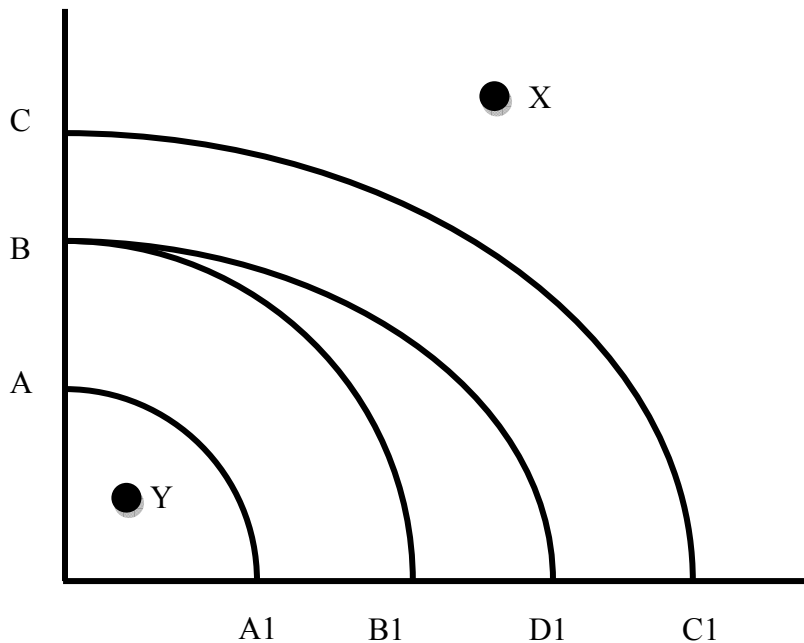
A. Increasing opportunity cost per unit of good B



B. Constant opportunity cost per unit of Good B



2. * Answer the following questions based on the chart below :

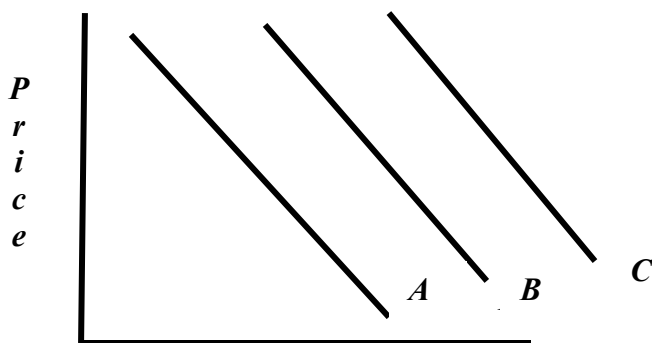


- A. Suppose there is a major technological breakthrough in the consumer goods industry , and the new technology is widely adopted . Which Curve in the diagram would represent the new production possibilities curve ? Indicate the curve you choose with two letters .
- B. Suppose a new government comes into power and imposes a significant tax on the use of automated machinery and modern production techniques in all industries . Which curve in the diagram would represent the new production possibilities curve ? Indicate the curve you choose with two letters .
- C. Suppose massive new sources of oil and coal are found within the economy , and there are major technological innovation in both industries . Which curve in the diagram would represent the new production possibilities curve ? Indicate the curve you choose with two letters .
- D. If BB1 represents a country's current production possibilities curve , what can you say about a point like X ? Write a brief statement .
- E. If BB1 represents a country's current production possibilities curve , what can you say about a point like Y ? Write a brief statement .
3. * Answer the following questions about Andy and Hannah based on the information given about the time it takes to clean an offices and jail cells :

	Andy	Hannah
Cleaning offices	60 minutes	20 minutes
Cleaning jail cells	30 minutes	15 minutes

- A. What is Andy's opportunity cost of cleaning offices in terms of cleaning jail cells ?
- B. What is Hannah's opportunity cost of cleaning offices in terms of cleaning jail cells ?
- C. What is Andy's opportunity cost of cleaning jail cells in terms of cleaning offices ?
- D. What is Hannah's opportunity cost of cleaning jail cells in terms of cleaning offices ?
- E. Who has the absolute advantage in cleaning offices ?
- F. Who has the absolute advantage in cleaning jail cells ?
- G. Who has the comparative advantage in cleaning offices ?
- H. Who has the comparative advantage in cleaning jail cells ?
- I. Who Should do which chore and why ?
4. Use the law of comparative advantage to explain why self – sufficiency leads to a lower standard of living .
5. Other things held constant , which of the following would not cause a change in the demand for mopeds ?
- A. A decrease in consumer incomes
- B. A decrease in the price of mopeds
- C. An increase in the price of bicycles , a substitute for mopeds
- D. An increase in people's tastes and preferences

6. * “Rising oil prices have caused a sharp decrease in the demand for oil.” Speaking precisely, and using terms as they are defined by economists, choose the statement that best describes this quotation :
- The quotation is correct : An increase in price always caused a decrease in demand .
 - The quotation is incorrect : An increase in price always causes an increase in demand , not a decrease in demand .
 - The quotation is incorrect : An increase in price causes a decrease in quantity demanded , not a decrease in demand .
 - The quotation is incorrect : An increase in price causes and increase in the quantity demanded , not a decrease in demand .
7. * “As the price of domestic automobiles has moved upward, customers have found foreign autos to be a better bargain . Consequently, domestic auto sales have been decreasing, and foreign auto sales have been increasing . “ Using only the information in this quotation and assuming everything else constant, which of the following best describes this statement ?
- A shift in the demand curves for both domestic and foreign autos
 - A movement along the demand curves for both foreign and domestic autos
 - A movement along the demand curve for domestic autos, and a shift in the demand curve for foreign autos
 - A shift in the demand curve for domestic autos, and a movement along the demand curve for foreign autos
8. You hear a fellow student say : “Economic markets are like a perpetual see – saw . If demand rises, the price rises ; if price rises, then demand will fall . If demand falls, price will fall ; if price falls, demand will rise and so non forever . ” Dispel your friend’s obvious confusion in no more than on short paragraph .
9. Read the eight newspaper headlines below and use the table to record the impact, if any of each event on the demand for beef . Use the chart below to help you and always start at curve B . Move only one curve at a time . Beware that one headline implies that the demand for beef does not change .



<u>Headline</u>	<u>Demand Shift Y / N</u>	<u>If Demand Shift Inc / Dec</u>	<u>Curve Shifts Left / Right</u>	<u>New Curve</u>
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- Price of beef to rise next month

2. *Millions of immigrants swell U. S. population*
3. *Pork prices drop*
4. *Surgeon General warns that eating beef is hazardous to health*
5. *Beef prices fall ; consumers buy more*
6. *Real income for the U.S. drops for the third straight month*
7. *Charcoal shortage threatens Memorial Day cookouts*
8. *Nationwide fad : The Disco burger*

In the section below , categorize each change in demand above to the reason why demand changed . Place an X next to the reason that the event described in the headline caused a change in demand . One headline will have no answers because it is a change in quantity demanded .

↓ Reason Headline number → 1 2 3 4 5 6 7 8

A change in consumer expectations

A change in consumer tastes

A change in the number of consumers in the market

A change in income

A change in the price of a substitute good

A change in the price of a complementary good

10. * *Other things constant , which of the following would not cause a change in the long run supply of beef /*

- A. *A decrease in the price of beef*
- B. *A decrease in the price of cattle food*
- C. *An increase in the price of cattle feed*
- D. *An increase in the cost of transporting cattle to market*

11. * *“ Falling oil prices have caused a sharp decrease in the supply of oil . ” Speaking precisely , and using terms as they are defined by economists , choose the statement that best describes this quotation :*

- A. The quote is correct : A decrease in price always causes a decrease in supply .
- B. The quote is incorrect : A decrease in price always causes an increase in supply , not a decrease in supply .
- C. The quote is incorrect : A decrease in price causes an increase in quantity supplied , not a decrease in supply .
- D. The quote is incorrect : A decrease in price causes a decrease in the quantity supplied , not a decrease in supply .

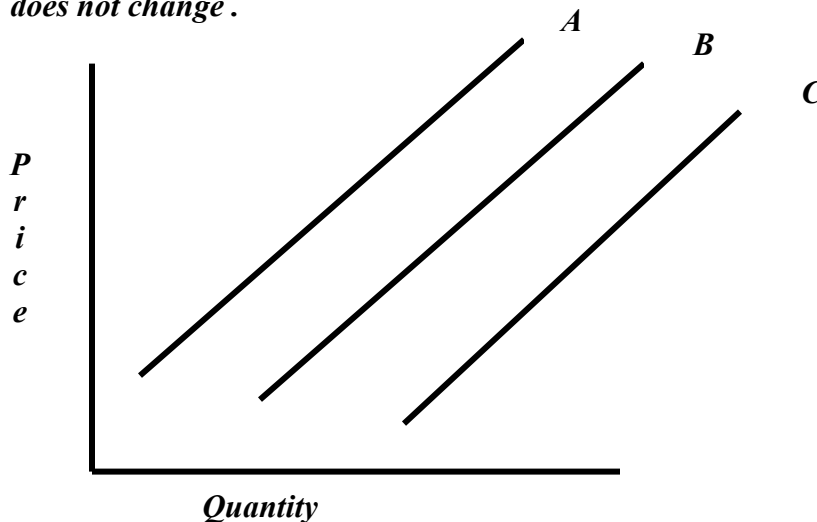
12. * A multiyear drought in Florida has dried the land so that rampant wildfires have destroyed many orange groves . Florida oranges supply much of the nation's orange juice . Which statement below is correct ?

- A. The price of orange juice will rise because of a movement up the supply curve .
- B. The price of orange juice will rise because the supply curve will shift to the left .
- C. The price of orange juice will fall because of a movement down the supply curve .
- D. The price of orange juice will fall because the supply curve will shift to the right .

13. * A popular movie star wears a certain style of sunglasses . If her fans want to copy her look :

- A. The price of the movie star's brand of sunglasses will rise because of a movement up the supply curve .
- B. The price of the movie star's brand of sunglasses will rise because the supply curve will shift to the left .
- C. The price of the movie star's brand of sunglasses will fall because of a movement down the supply curve .
- D. The price of the movie star's brand of sunglasses will fall because the supply curve will shift to the right .

14. Read the eight newspaper headlines below and use the table to record the impact , if any of each event on the supply of cars . Use the chart below to help you and always start at curve B . Move only one curve at a time . Beware that two headlines imply that the supply of cars does not change .



<u>Headline</u>	<u>Supply Shift Y / N</u>	<u>If Supply Shift Inc / Dec</u>	<u>Curve Shifts Left / Right</u>	<u>New Curve</u>
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1. Auto Workers' Union Agrees to

Wage Cuts

2. *New Robot Technology Increases Efficiency*
3. *Nationwide Auto Strike Began at Midnight*
4. *New Import Quotas Reduce Foreign Car Imports*
5. *Cost of Steel Rises*
6. *Auto Producer Goes Bankrupt ; Closes Operations*
7. *Buyers Reject New Models*
8. *National Income Rises 2 %*

In the section below , categorize each change in supply above to the reason why supply changed . Place an X next to the reason that the event described in the headline caused a change in supply . Two headlines do not indicate a shift in supply .

↓ Reason Headline number → 1 2 3 4 5 6 7 8

A change in costs of inputs to production process

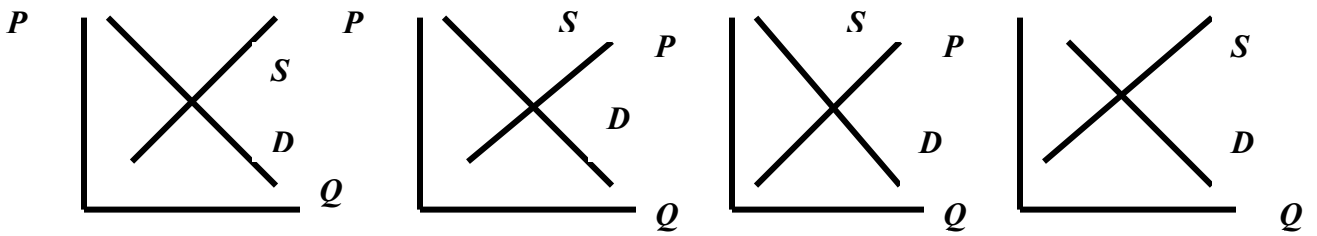
A change in technology

A change in the number of producers in the market

Government policies

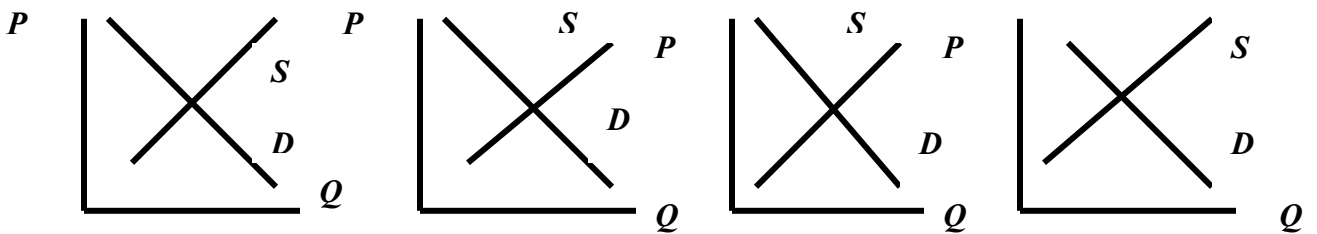
15. * *The following questions refer to a group of related markets in the United States during a given time period . Assume that the markets are perfectly competitive and that the supply and demand model is completely applicable . The figures show the supply and demand in each market before the assumed change occurs . Trace through the effects of the assumed change , other things constant . Shift only one curve in each market . For each market , draw whatever new supply or demand curves are needed , labeling each new curve S1 , or D1 . Then circle the correct symbol under each diagram (↑ for increase , - for unchanged , and ↓ for decrease) . Remember to shift only one curve in each market .*

- A. *Assume that a new fertilizer dramatically increase the amount of wheat that can be harvested with no additional labor or machinery . Also assume that this fertilizer does not affect potato farming and that people are satisfied to eat either bread made from wheat flour or potatoes .*



	<i>Wheat</i>	<i>Bread</i>	<i>Potatoes</i>	<i>Wheat Harvesting Machinery</i>
<i>Demand :</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓
<i>Supply :</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓
<i>Equilibrium Price :</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓
<i>Equilibrium Quantity</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓

B. Assume that a heavy frost destroys half the world's coffee crop and that people use more cream in coffee than they do in tea .



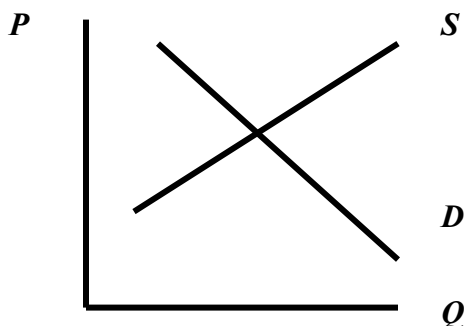
	<i>Coffee</i>	<i>Tea</i>	<i>Cream</i>	<i>Automatic Coffee Makers</i>
<i>Demand :</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓
<i>Supply :</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓
<i>Equilibrium Price :</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓
<i>Equilibrium Quantity</i>	↑ - ↓	↑ - ↓	↑ - ↓	↑ - ↓

16. * True , False or uncertain , and explain why ? “ The economic concept of scarcity is not relevant to the study of a modern economy such as that of the United States because the existence of unsold stocks of goods (books , cars , homes) is vivid evidence that we are surrounded by plenty , not scarcity ” .

17. *The market for many commodities is seasonal in nature . Their sales (equilibrium quantity) increase dramatically during certain times of the year . Christmas cards and fresh strawberries , at least in the North , are two examples . Christmas card sales increase during the last three months of the year , and the sales of fresh strawberries in the North increase during the summer months . But the (equilibrium) price movement of these two commodities is quite different during their peak sales season : Christmas cards increase in price during the last three months of the year , whereas strawberries decrease in price during the summer .*

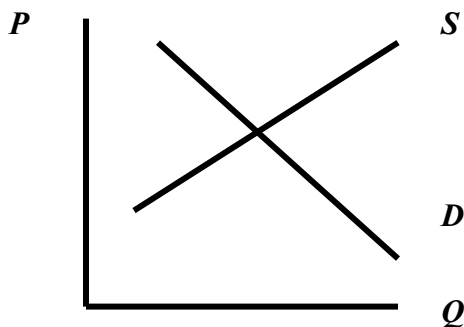
- A. *Show on the graph below how there can be an increase in the equilibrium quantity and increase in the equilibrium price of Christmas cards during the last three months of the year , and briefly explain what has happened .*

Christmas Card Market



- B. *Change the graph below for fresh strawberries in the North to show how there can be an increase in the equilibrium quantity and a decrease in the equilibrium price of strawberries in the summer , and briefly explain what has happened .*

Strawberry Market In The North



REAL AP MACRO FRQs : (03 B)

Section II Planning Time—10 minutes , Writing Time—40 minutes

Directions: *You have fifty minutes to answer the three questions . It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions. In answering the questions, you should emphasize the line of reasoning that generated your results; it is not enough to list the results of your analysis. Include correctly labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes.*

1. Assume that a country's economy is operating below full employment and has a balanced trade, and that the government is running a budget deficit.

(a) Draw a correctly labeled aggregate demand and aggregate supply graph and show the economy's current output and price level.

(b) Suppose that the country's government increases spending to achieve full-employment output. On your graph in part (a), show the short-run effect that the increased deficit spending would have on each of the following :

(i) Aggregate demand

(ii) Output

(iii) Price level

(c) Using a correctly labeled loanable-funds market graph, show the effect of the increase in deficit spending on the real interest rate.

(d) Given your answer in part (c), explain how the international value of the country's currency will be affected.

(e) Based on your answer in part (d), respond to each of the following :

(i) Explain the effects on the country's exports and imports.

(ii) Identify the effect on the country's trade balance.

(f) Given the results in the loanable-funds market discussed in part (c), explain how this government deficit spending would influence long-run growth.

2. Using equal amounts of resources, the countries of Ashna and Luna can each produce any combination of food and machines described by their production possibilities curves below.

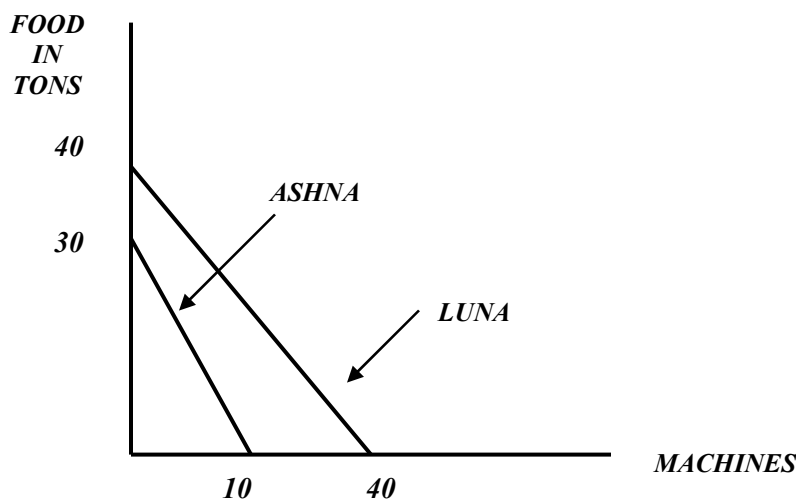
(a) Which country has an absolute advantage in the production of machines? Explain.

(b) Which country has an absolute advantage in the production of food? Explain.

(c) Which country has a comparative advantage in the production of machines? Explain.

(d) With trade between these two countries, which country will import food? Explain.

(e) Give an example of terms of trade acceptable to both countries.



3. *(a) Draw a correctly labeled graph showing the short-run and long-run Phillips curves for Country X.*
- (b) Identify how each of the following affects inflation, unemployment, and the short-run Phillips curve :*
- (i) An increase in government spending*
 - (ii) A drop in inflationary expectations*
 - (c) Identify the effect of increased unemployment-insurance benefits on the long-run Phillips curve.*