

# AP<sup>®</sup> Microeconomics – Economic concepts

## Student activity: 1.4 Production Possibilities



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### 1.4 PRODUCTION POSSIBILITIES: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

#### 1. DEFINITIONS

Define the following terms:

[10 marks]

- Absolute advantage
- Allocative efficiency
- Capital
- Closed economy
- Comparative advantage
- Consumer welfare
- Costs of production
- Diminishing marginal returns
- Economic welfare
- Economies of scale
- Exports
- Factor endowment
- Homogenous goods
- Import
- Inputs
- Long-run average cost
- Market power
- Natural resources
- Open economy
- Opportunity cost
- Production possibility frontier (PPF)
- Productive efficiency
- Raw materials
- Resources
- Specialisation
- Specialised capital
- The law of diminishing marginal returns

# 1.4 Production Possibilities

## 2. SHORT-ANSWER QUESTIONS

1. Identify the **two** assumptions of the PPF model.

[2 marks]

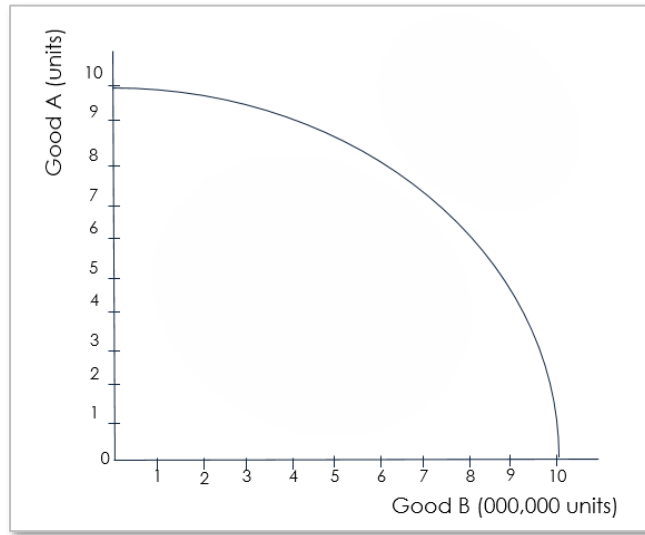
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2. Use the PPF model to explain scarcity.

[2 marks]



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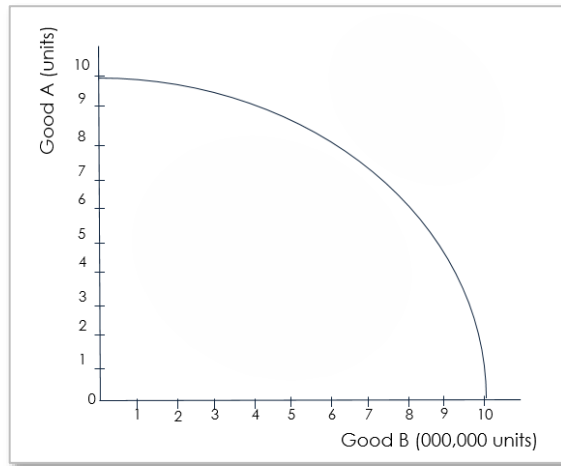
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## 1.4 Production Possibilities

3. Use the PPF model to explain unemployment and productive inefficiency.

[2 marks]




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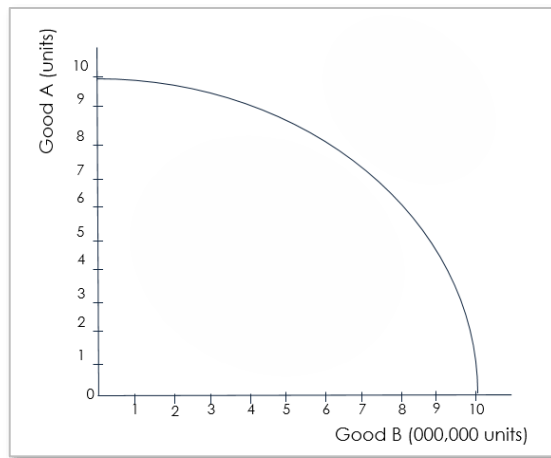
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4. Use the PPF model to explain opportunity cost.

[2 marks]




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1.4 Production Possibilities

5. Outline why a PPF may shift outwards.

[2 marks]

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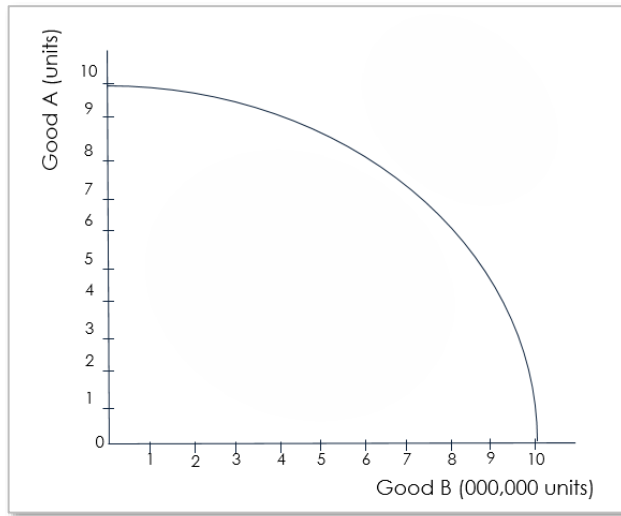


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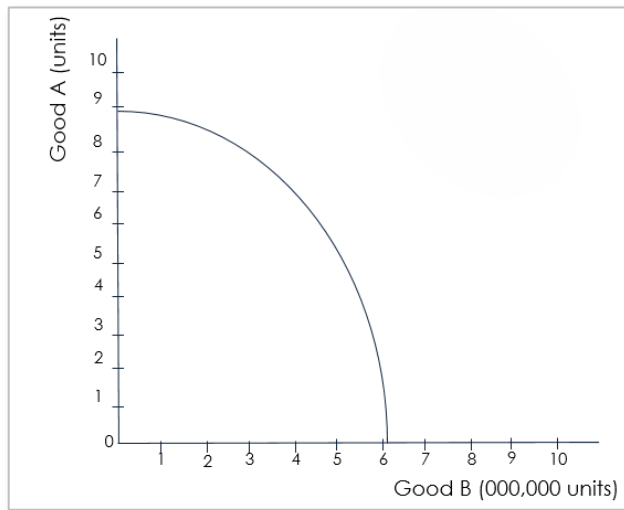
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6. If good A is bicycles and good B is watermelons, show the effect of a long drought. [2 marks]



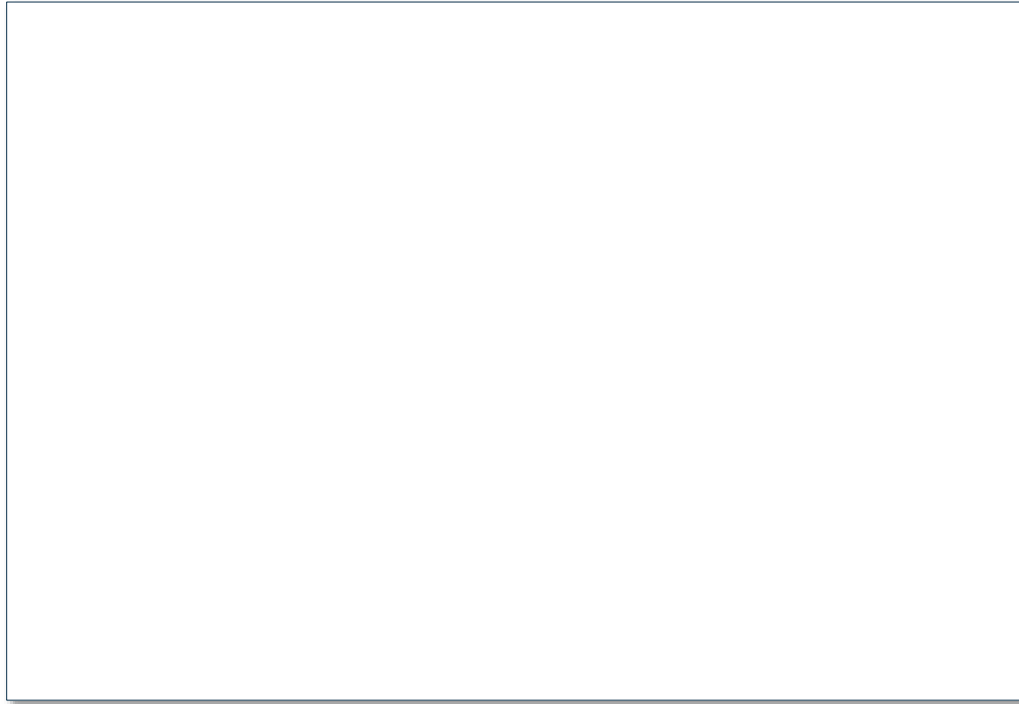
7. Show the effect of new technology being developed regarding good B. [2 marks]

[2 marks]



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8. Explain, using a PPF model, how investment in capital goods leads to faster rates of economic growth. **[6 marks]**



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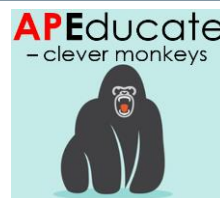
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## 1.4 Production Possibilities

9. Distinguish between the two international trade theories: absolute and comparative advantage. **[4 marks]**

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10. Explain how countries come to have an absolute and comparative advantage in the production of a good or a service. **[4 marks]**

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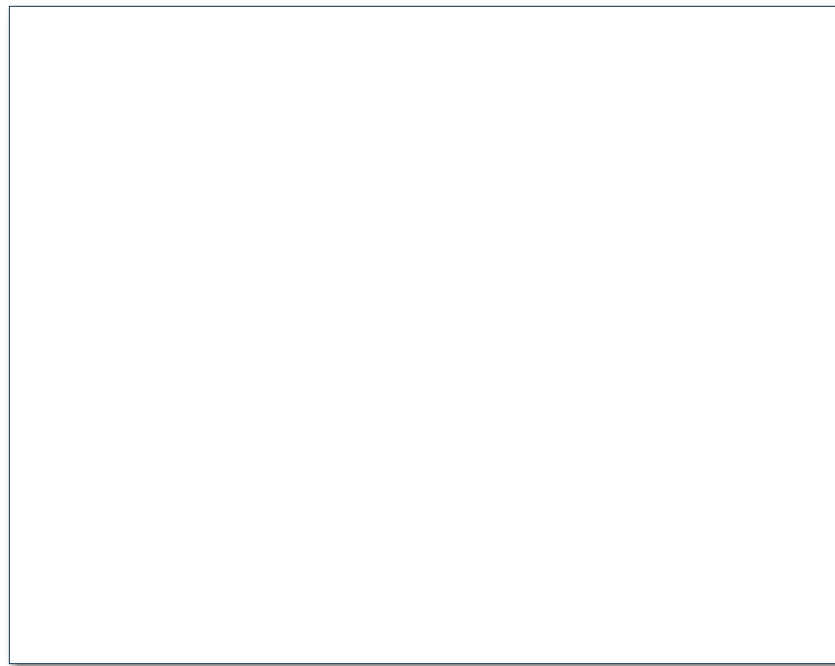
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1.4 Production Possibilities

11. Countries A and B can produce the following quantities of beer and potato chips. With a fixed amount of resources. Answer the questions that follow: **[10 marks]**

Country	Units of beer	or	Units of potato chips
Country A	60	or	15
Country B	90	or	30

i. Draw the PPF diagrams for country A and country B.



ii. Calculate the opportunity cost of beer and potato chips in country A.

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iii. Calculate the opportunity cost of beer and potato chips in country B.

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**1.4 Production Possibilities**

iv. Identify which country has the comparative advantage in the production of beer.

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v. Identify which country has the comparative advantage in the production of potato chips.

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vi. Explain how both countries can benefit from specialisation and trade.

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vii. Show on the PPF diagram how both countries A and B can increase consumption.

