

AP Microeconomics

Name: \_\_\_\_\_ Score: \_\_\_\_\_

1. Scarcity exists because...

- ☐ governments make bad choices
- ☐ wants are unlimited but resources are limited
- ☐ people are lazy
- ☐ money has not been invented yet

2. Every economic system must answer three questions. Which set is correct?

- ☐ How much to import, export, and save
- ☐ What, how, and for whom to produce
- ☐ Who to tax, spend, and borrow from
- ☐ When, where, and why to produce

3. A country is producing at a point **inside** its PPC. This means:

- ☐ some of its resources are idle or unemployed
- ☐ it needs more resources than exist
- ☐ it has achieved economic growth
- ☐ it is producing efficiently

4. A country has an **absolute advantage** in a good when it can:

- ☐ produce more of it with the same resources
- ☐ produce it without any resources
- ☐ produce it at a lower opportunity cost
- ☐ sell it at a higher price

5. Cost-benefit analysis says to take an action when:

- ☐ the benefit is at least as large as the cost
- ☐ other people are doing it
- ☐ you have already paid for it
- ☐ the cost is high

6. The 4th cookie has a marginal benefit of 6 dollars and a marginal cost of 2 dollars. By how much (in dollars) does making it change your net benefit?

\_\_\_\_\_ dollars

7. Only poor people and poor countries face scarcity.

☐ True      ☐ False

8. In a pure market economy, a central planner sets the prices.

☐ True      ☐ False

9. With its current resources, an economy can produce at a point outside its PPC.

☐ True      ☐ False

10. Country X can make 10 phones OR 20 shirts in a day. What is the opportunity cost of ONE phone, in shirts?

\_\_\_\_\_ shirts

AP Microeconomics

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1. **wants are unlimited but resources are limited**

**Scarcity** is the gap between unlimited wants and the limited resources available to satisfy them.

2. **What, how, and for whom to produce**

Scarcity forces every economy to decide **what** goods, **how** they are made, and **for whom**.

3. **some of its resources are idle or unemployed**

Inside the curve, resources sit idle – the economy could make more of both goods.

4. **produce more of it with the same resources**

Absolute advantage is about raw output; comparative advantage is about opportunity cost.

5. **the benefit is at least as large as the cost**

Act only when  $\text{benefit} \geq \text{cost}$  – comparing what you gain with what you give up.

6. **4 dollars**

Net benefit rises by  $MB - MC = 6 - 2 = 4$ . Since  $MB > MC$ , it is worth making.

7. **False**

Everyone faces scarcity of *\*some\** resource – even the wealthy run short of time.

8. **False**

No one sets them – prices emerge from buyers and sellers. That is the invisible hand.

9. **False**

Points outside are unattainable now – reaching them needs economic growth.

10. **2 shirts**

Giving up 20 shirts frees enough to make 10 phones, so each phone costs  $20/10 = 2$  shirts.