



## AP Macro Topic 1.2

# The Production Possibilities Curve

**Part 1 - Check Your Understanding-** *The economy of Macrostan can produce only two goods: chips and pretzels. At any given period of time, the people of Macrostan may choose to produce only chips, only pretzels, or a combination of the two according to the table below.*

Goods Produced	A	B	C	D	E
Chips (Bags)	0	10	12	14	16
Pretzels (Bags)	50	40	30	20	0

1. Can the economy of Macrostan produce 15 bags of chips at the same time that they produce 25 bags of pretzels? Why or why not?
2. Identify a specific combination of chips and pretzels that would represent an inefficient use of Macrostan's resources. Explain.
3. Assume that Macrostan produces at combination A. Is that combination efficient or inefficient? Why or why not?
4. How would a technological change that increases the production of only pretzels affect the production of chips? Explain.
5. Use the numbers in the table to draw a production possibilities curve on the graph to the right. Be sure to label the axes and each combination (A-E).
6. Calculate the opportunity cost if Macrostan switched from producing combination A to producing B.
7. Calculate the opportunity cost if Macrostan switched from producing combination B to producing C.
8. Suppose that Macrostan is producing combination C. Show what will happen on the graph if there is a decrease in demand for chips.






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**Part 2 - Practice-** Assume that the economy of Econland can produce robots (capital goods) and toy drones (consumer goods). Use the table below to answer the questions.

Goods Produced	A	B	C	D	E
Robots	0	1	2	3	4
Drones	20	15	10	5	0

- Use the numbers in the table to draw a production possibilities curve on the graph to the right. Be sure to label the axes and each combination (A-E).
  - Calculate the opportunity cost if Econland switched from producing combination A to producing combination B.
  - Assume that robots are capital goods. On your graph, show the long-term effect of a technological improvement that increases the production of robots. Explain.
  - Assume the economy of Econland intentionally decides to produce combination D rather than combination B. What is the short term result and long-run trade-off of this decision? Explain.
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**Part 3 - Making Connections-** Compare the production possibilities of Macrostan and Econland to answer the following questions.

- Which of the two economies represents the idea of constant opportunity cost? Explain.
- Which of the two economies represents the idea of increasing opportunity cost? Explain.
- Assume that your classmate suggested that both graphs represent constant opportunity costs because movement from combinations A to B, B to C, and C to D stays the same for each economy. Explain why this is incorrect.