

# Student Study Guide

## Chapter 1 What Is Economics?

Name: \_\_\_\_\_ Date: \_\_\_\_\_

### OPPORTUNITY COST: APPLYING THE CONCEPT

Everyone faces the problem of scarcity. Scarcity forces people to make choices. When a choice is made, something is given up. As you learned in Chapter 1 of the textbook, opportunity cost is the highest valued alternative given up as a result of making a choice. The series of questions below will help you apply the concept of opportunity cost.

#### Opportunity Cost in Your Life

1. We measure opportunity cost in monetary value. Suppose you spend \$100 for new clothes. You will say that the clothes cost you \$100. But the money you spent is not the real cost of the new clothes. Describe what the real cost—your opportunity cost—would be if you spent \$100 on new clothes.

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2. What was your last major purchase? What was its opportunity cost to you? Explain.

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3. If you watch television for two hours, you don't spend any money. Does this mean that you bear no opportunity cost for watching TV? Explain.

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4. What would be the opportunity cost of skipping school for a day?

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### Opportunity Cost of Going to School

5. A college education has many benefits, such as higher lifetime earnings. Getting a college education also has many costs. A major part of those costs is the amount of money spent for room, board, tuition, and books. There is another cost that is often much higher. What is that cost? (Hint: What would be the cost of college if you didn't go and want to work instead?)

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6. Suppose you decide to get a job after graduating from high school instead of going to college. Is there an opportunity cost for making this choice? Explain.

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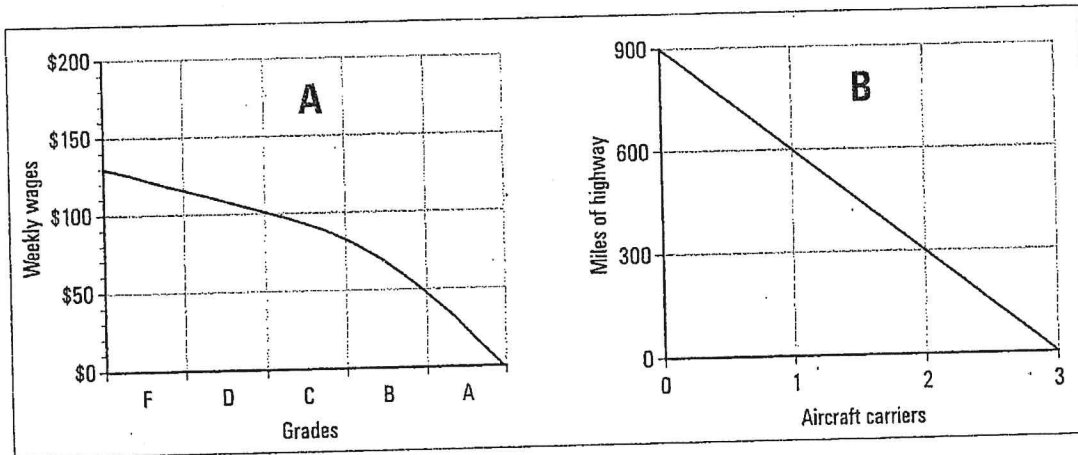
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# 1. WHAT IS ECONOMICS?

Name \_\_\_\_\_ Date \_\_\_\_\_

## ECONOMIC SKILLS LAB INTERPRETING A PRODUCTION-POSSIBILITIES CURVE

Businesses, nations, and individuals make decisions about how to use their resources. Often these decisions can be understood better by plotting a graph showing the "production possibilities" resulting from different combinations of resources.



1. Maria has four hours of free time each day. She can spend it studying or working at the Wang's Chinese Kitchen for \$6.50 per hour. Curve A illustrates the trade-off between school grades and the wages Maria could earn.

- What are the maximum wages Maria could earn if she works five days a week? \_\_\_\_\_
- What grades can she expect if she works 10 hours each week? \_\_\_\_\_
- What advice would you give Maria if she were earning \$50 each week and making Ds? \_\_\_\_\_

d. What advice would you give Maria if she were interested in becoming a pharmacist? A restaurant owner/manager? \_\_\_\_\_

2. The United States Congress must approve the federal budget. This involves many difficult choices. For example, the Congress can decide to spend money on national defense, health insurance programs, roads and highways, education, and many other worthwhile causes. Curve B illustrates a hypothetical trade-off between spending for defense and highways.

- What is the opportunity cost of one aircraft carrier? \_\_\_\_\_
- What is the opportunity cost of 300 miles of highway? \_\_\_\_\_
- What other information would you need to decide on the best combination of defense spending and highway construction? \_\_\_\_\_

Name \_\_\_\_\_

## Production Possibilities Frontier Problem Set

The following table is a schedule for the production possibilities for a company that can produce textbooks or novels:

Production Alternatives

| Products  | A | B  | C  | D  | E   |
|-----------|---|----|----|----|-----|
| Novels    | 0 | 40 | 70 | 90 | 100 |
| Textbooks | 4 | 3  | 2  | 1  | 0   |

1. Graph the data above. Put **Novels** on the vertical axis and **Textbooks** on the horizontal axis. Make sure to label each point a-e.
2. The opportunity cost of increasing production of textbooks from 0 to 1 is the loss of \_\_\_\_ novels
3. The opportunity cost of increasing production of textbooks from 1 to 2 is the loss of \_\_\_\_ novels.
4. The opportunity cost of increasing production of textbooks from 2 to 3 is the loss of \_\_\_\_ novels.
5. The opportunity cost of increasing production of textbooks from 3 to 4 is the loss of \_\_\_\_ novels.

~~6. Explain why the answers from numbers 2 through 5 are different.~~

7. Suppose a new technology was increasing the efficiency of **novel** production, with no application to the production of textbooks. Illustrate on the original graph how we would represent this change in production possibilities. **Label this shift as F.**

8. Suppose that a hurricane resulted in a 50% reduction in paper output (which is a key resource in the production of novels and textbooks). Illustrate on the original graph how we would represent this change in production possibilities. **Label this shift as G.**