AP Microeconomics [last name, first name]

**The Economic Problem**

*Chapter 3 Reading Guide*

Pp 62-77

Directions: Type your responses in the space provided. Use full sentences, but be concise. Remember to save throughout so you don’t lose any of your work. Save the file as lastname.firstname.chp3.RG. When you have finished, upload this document to your Google Drive and share it with me at wchs.ap.economics@gmail.com.

Section 3.1: Production Possibilities (pp 62-66)

1. Define “production possibilities frontier.”
2. What does each point on the PPF curve represent?
3. Identify the three features that the PPF helps to distinguish.
4. What does the PPF ultimately illustrate?
5. Explain how one can tell whether a point somewhere on the PPF is attainable or unattainable.
6. Define “production efficiency.”
7. What must be true in order for productive efficiency to occur?
8. Explain how one can tell whether a point somewhere on the PPF shows efficient or inefficient production.
9. Define “tradeoff.”
10. Explain how the PPF illustrates the concept of a tradeoff using the idea of a “free lunch.”

Section 3.2: Opportunity Cost (pp 68-71)

1. Define “opportunity cost.”
2. What is the relationship between the opportunity cost and the slope of the PPF?
3. What does it mean when a PPF is bowed outward? What causes this to occur?
4. Opportunity cost is expressed as a ratio. Explain what that ratio represents.
5. Explain why increasing opportunity costs exist.

Section 3.3: Economic Growth (pp 73-74)

1. Define “economic growth.”
2. Identify the factors that contribute to economic growth.
3. What types of goods must you compare if you want to study economic growth? Which type of good results in faster economic growth?
4. Explain how investment in capital goods affects the shape of the PPF.
5. What is the opportunity cost of economic growth?

Section 3.4: Specialization and Trade (pp 75-77)

1. Define “specialization.”
2. Define “comparative advantage.”
3. Define “absolute advantage.”
4. Explain the difference between having a comparative advantage and an absolute advantage.