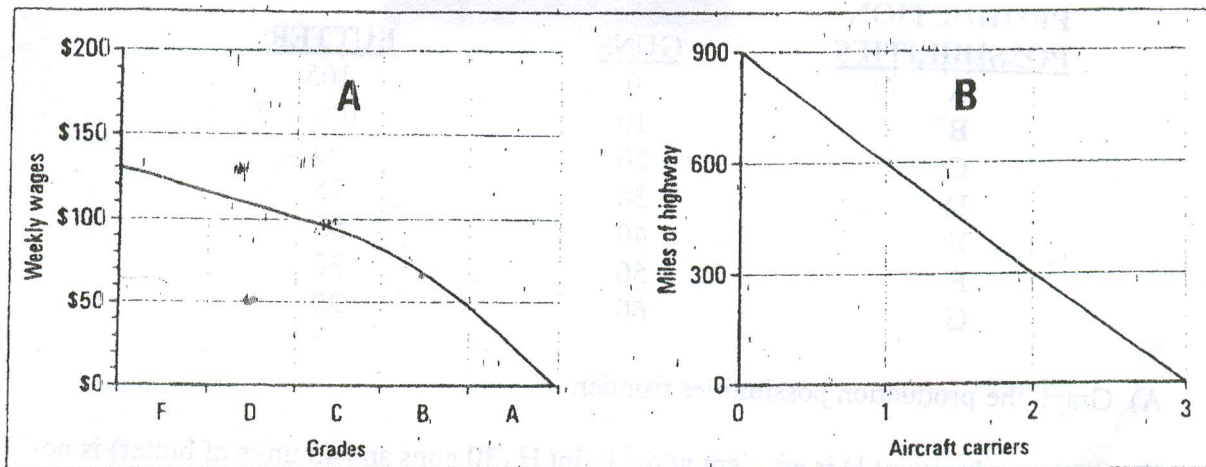


ECONOMIC SKILLS LAB

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.

- a. What are the maximum wages Maria could earn if she works five days a week? _____
- b. What grades can she expect if she works 10 hours each week? _____
- c. 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.

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