

ACTIVITY 2

Scarcity, Opportunity Cost, and Production Possibilities Curves

Scarcity necessitates choice. More of one thing means less of something else. The opportunity cost of using scarce resources for one thing instead of something else is often represented in graphical form as a production possibilities curve.

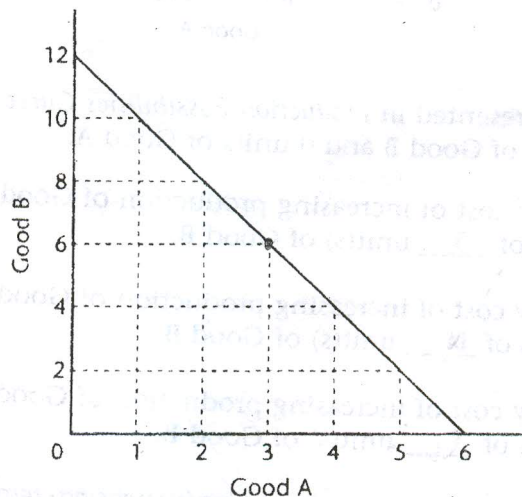
Part A.

Use *Production Possibilities Curves 1-3* to answer questions a, b, c, and d for each curve.

Write a number on the answer blank or cross out the incorrect words in parentheses.

(Note that *Production Possibilities Curve 3* is not realistic, but it serves to support a "what if" thought exercise.)

Production Possibilities Curve 1



1. If this economy is presently producing 12 units of Good B and 0 units of Good A:
 - a. the opportunity cost of increasing production of Good A from 0 units to 1 unit is the loss of _____ unit(s) of Good B.
 - b. the opportunity cost of increasing production of Good A from 1 unit to 2 units is the loss of _____ unit(s) of Good B.
 - c. the opportunity cost of increasing production of Good A from 2 units to 3 units is the loss of _____ unit(s) of Good B.
 - d. This is an example of (*constant/increasing/decreasing/zero*) opportunity cost per unit for Good A.