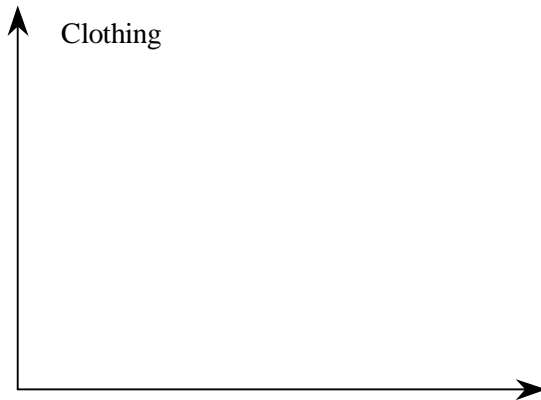


Suppose that there are only two goods that are made, that is food and clothing. And suppose that there is a total of 20,000,000 units of labor and it takes 2 units of labor to make 1 unit of food, and it takes 3 units of labor to make 1 unit of clothing. What is the Production Possibilities Curve look like? Graph it.



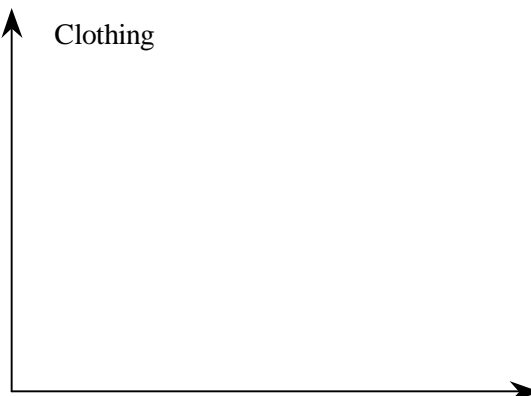
Is this linear, concave or convex? _____
 What is the maximum number of units of food that can be made? _____
 What is the maximum number of units of clothing that can be made? _____
 What is the slope? _____
 Is opportunity cost of clothing constant, increasing or decreasing? _____
 If so what is it? _____

Is opportunity cost of food constant, increasing or decreasing?
 If so what is it? _____

What would be the case if instead of a constant units of labor of each good, instead the first good of clothing or food each takes 2 units of labor, each successive unit after that takes greater and amounts of labor.

What can you say about the intercepts of the P-P curve?
 What can you say about the maximum amount of food that can be made?
 What can you say about the maximum amount of clothing that can be made?

What is the shape of the P-P curve? Linear, concave, or convex? _____
 What would the graph look like?



In this situation what is the OC of food? Is it constant, increasing or decreasing with each successive unit? _____

Why?

In this situation what is the OC of clothing? Is it constant, increasing or decreasing with each successive unit? _____

Why? _____

Suppose now that it takes 2 units of labor for each unit of food, and 2 units of labor for the first unit of clothing, but each successive unit after that requires greater and amounts of labor.

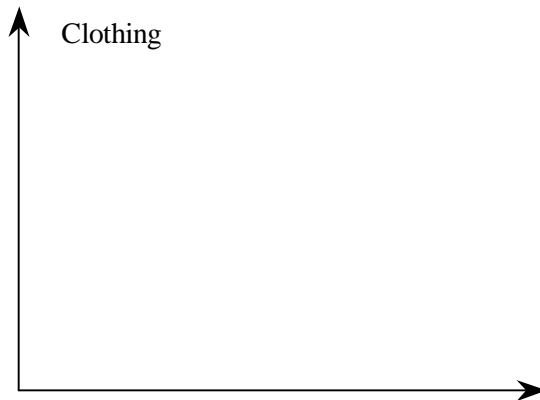
What can you say about the intercepts of the P-P curve now?

What can you say about the maximum amount of food that can be made?

What can you say about the maximum amount of clothing that can be made?

What is the shape of the -P curve? Linear, concave, or convex? _____

What would the graph look like?



In this situation what is the OC of food? Is it constant, increasing or decreasing with each successive unit? _____

Why?

In this situation what is the OC of clothing? Is it constant, increasing or decreasing with each successive unit? _____

Why? _____

What if instead of requiring greater and greater amount of labor for each successive unit of clothing, less and less labor is required for each successive unit of clothing, and it takes 2 units of labor for the first unit?

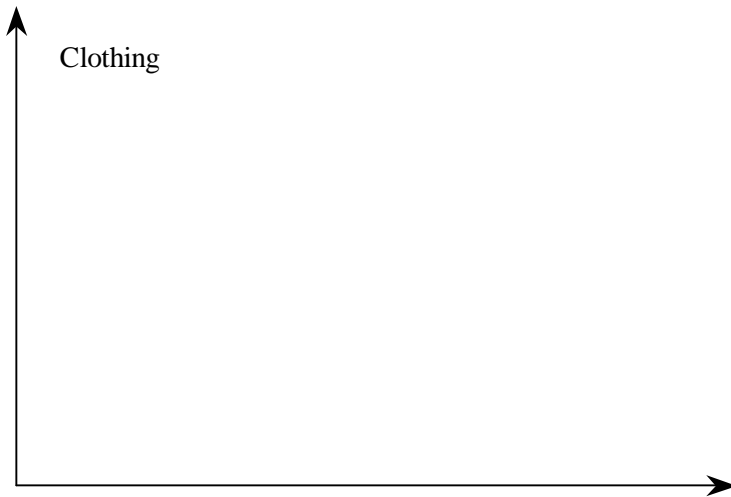
What can you say about the intercepts of the P-P curve?

What can you say about the maximum amount of food that can be made?

What can you say about the maximum amount of clothing that can be made?

What is the shape of the P-P curve? Linear, concave, or convex? _____

What would the graph look like?



Supply and Demand:

The supply curve of a good is what quantity of that good producers would produce if the price were p .

The demand curve of a good is what quantity of a good consumers would want to buy if the price of that good were p .

Suppose we talk about the supply and demand of domestic cars.

What are some things that would shift the demand for cars, and which way would it shift the demand curve.

What if the price of gasoline went up to \$20.00/gallon, what would it do to the demand curve, the supply curve?

What if the government forced all cars to have mandatory emission equipment that costs thousands of dollars per car?

What if all cities decided to make mass transit free?

