



Lab 1 (Question 3)

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PRINT HELP

Printer Friendly

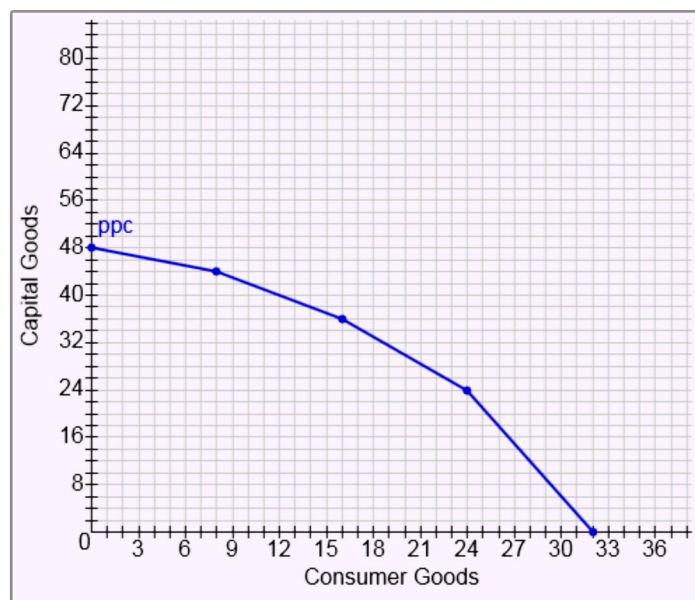
Question 3 [20 points]

Given the production possibility curve data below :

	A	B	C	D	E
Capital Goods	0	24	36	44	48
Consumer Goods	32	24	16	8	0

Suppose an economy opts to produce and consume at combination 'C'.

a) Plot the production possibilities curve.



b) What is the opportunity cost for producing 8 more consumer goods?

Opportunity cost = 12 Capital Goods

c) What is the opportunity cost for producing 8 more capital goods?

Opportunity cost = 8 Consumer Goods

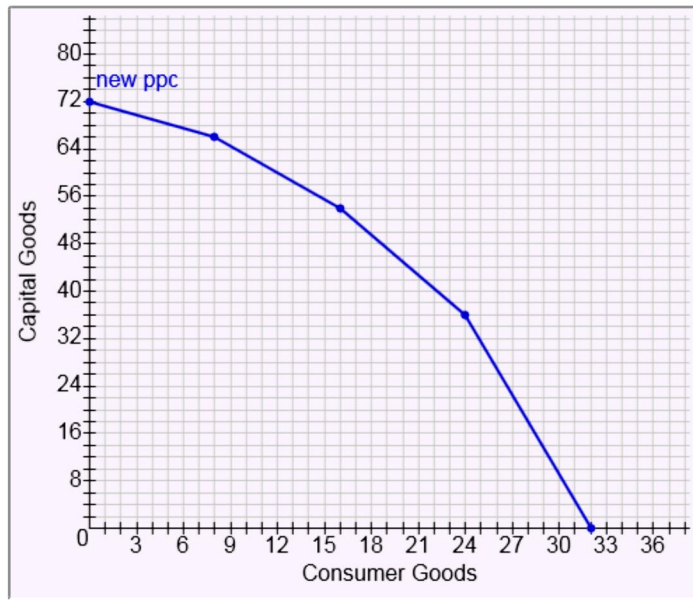
Answer d) - h) assuming that a technological change unique to the production of capital goods enables this economy to produce 50% more capital goods (at each level of consumer goods).

d) Complete the following production possibilities table to show the new possibilities for capital goods (at each level).

	A	B	C	D	E
Capital Goods	0	24	36	44	48
New Capital Goods (+50%)	0	36	54	66	72
Consumer Goods	32	24	16	8	0

e) Plot the new production possibilities curve on the graph below.

Select which item you want to graph from the drop down menu at the top of the graph to manipulate that item.



f) Compared with the original combination 'C', how many *more* capital goods can it now have as a result of the technological improvement?

18 more

g) Compared with the original combination 'C', how many *more* consumer goods can it now have as a result of the technological improvement?

8 more

h) Suppose that the economy wishes to have 25% more capital goods than the original combination 'C'. Approximately how many more consumer goods can it have?

12 more

Marking:

a)
Production Possibilities Curve

Your answer is correct.

b)
Opportunity Cost Amount

Your answer was: 12

Congratulations! You have entered the correct answer.

Type of Unit

Your answer was: Capital Goods

Congratulations! You have entered the correct answer.

c)
Opportunity Cost Amount

Your answer was: 8

Congratulations! You have entered the correct answer.

Type of Unit

Your answer was: Consumer Goods

Congratulations! You have entered the correct answer.

d)
New Production Possibilities Table

Congratulations! You have entered the correct answers.

e)
New Production Possibilities Curve

Your answer is correct.

f)

Your answer was: 18

Congratulations! You have entered the correct answer.

g)

Your answer was: 8

Congratulations! You have entered the correct answer.

h)

Your answer was: 12

The correct answer was: 4

If we had 25% more capital goods, this implies that the economy would like 45 capital goods, that is, half way between production points B and C.

Being halfway between points B and C means that the economy could produce up to 20 consumer goods.

Now we can find the increase in consumer goods by subtracting our original number of consumer goods produced at production point C from the amount of consumer goods we can produce at our new production point, halfway between B and C.

Therefore, we get the increase in consumer goods is equal to $20 - 16 = 4$.

You will lose 2 marks for this part.

Total marks for this question: 18

Overall Mark: 18/20

Your mark of 18/20 has been recorded.

DONE