

Macro Unit 1 Practice FRQs KEY

FRQ #1

5 points

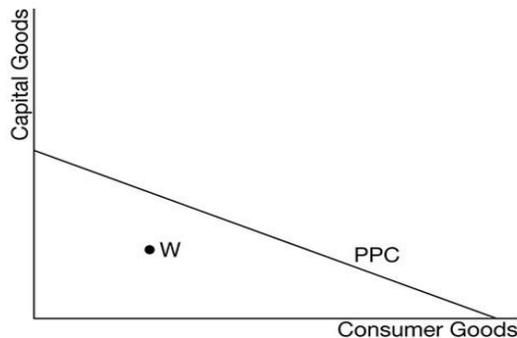
- (a) **1 point** is earned for calculating the opportunity cost: $1L = (60/40) = 1.5H$
- (b) **1 point** is earned for stating that Country A has a comparative advantage in producing looms because it has a lower opportunity cost than Country B
- (c) **1 point** is earned for stating that both countries will benefit from trade
- (d) i. **1 point** is earned for stating no.
ii. **1 point** is earned for stating yes.
-

FRQ #2

4 points

- (a) **1 point:** Labor force=Employed + unemployed
 $63,000 + [4,000 + 1,000 + 2,000]=70,000$

Unemployment rate= $[7,000/70,000] \times 100=10\%$ (Must show work)
- (b) **1 point:** Labor force participation rate= [labor force/population] x 100
 $[70,000/100,000] \times 100=70\%$ (Must show work)
- (c) **1 point:** The response states no and explains that when there is cyclical unemployment, resources are not fully employed and the economy produces below its potential. **OR,** the response explains that the actual rate of unemployment is greater than the natural rate of unemployment.

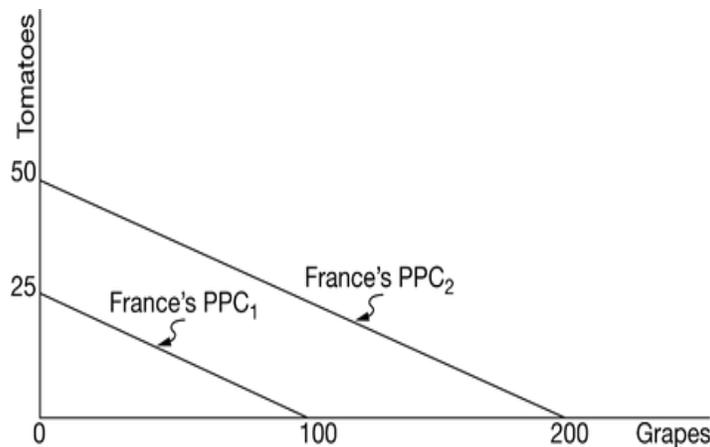


- (d) **1 point:** Drawing a correctly labeled graph of a PPC showing consumer goods on the horizontal axis and capital goods on the vertical axis and labels point W inside the PPC.

FRQ #3

4 points

- (a) **1 point:** The response states that France has a comparative advantage in producing grapes and explains that France's opportunity cost of producing 1 bushel of grapes (0.25 of a bushel of tomatoes) is less than Italy's opportunity cost of producing 1 bushel of grapes (0.5 of a bushel of tomatoes). [France's opportunity cost of producing 1 bushel of grapes is 0.25 of a bushel of tomatoes. Italy's opportunity cost of producing 1 bushel of grapes is 0.5 of a bushel of tomatoes].
- (b) **1 point:** The response states that yes, the terms of trade are mutually beneficial and explains that the terms of trade fall between the opportunity costs of both countries (0.25 and 0.5 bushel of tomatoes). [Twenty bushels of grapes for 8 bushels of tomatoes is equivalent to 1 bushel of grapes for 0.4 bushel of tomatoes. In order for the terms of trade to be beneficial to both parties, they must fall between the opportunity costs of the two countries (between 0.25 and 0.5 bushel of tomatoes).
- (c) **1 point:** Draws a correctly labeled graph of France's PPC_1 showing 100 bushels of grapes on the horizontal axis and 25 bushels of tomatoes on the vertical axis, as shown on the graph below. Draws a new PPC_2 for France parallel to the initial PPC for France PPC_1 showing 200 bushels of grapes on the horizontal axis and 50 bushels of tomatoes on the vertical axis, as shown on the graph below.



- (d) **1 point:** The response states that France will now have an absolute advantage in producing grapes because France can now produce more grapes than Italy using the same amount of resources (200 bushels of grapes in one day compared to Italy's 100 bushels in one day). [France's comparative advantage will not change because the opportunity cost does not change as a result of doubling the productivity. Also note that neither France nor Italy has an absolute advantage in the production of tomatoes as a result of doubling the productivity (each can produce 50 bushels of tomatoes in one day).]