

Getting ready for the AP Macroeconomics Exam

Lesson 1

PPF, Absolute and Comparative Advantage, Circular Flow Model

Production Possibility Frontier

Concepts:

- Utilization of resources / factors of production
- Efficiency (productive vs. allocative)
- Opportunity cost
- Economic growth



Absolute and Comparative Advantage

Concepts:

- Absolute advantage
- Comparative advantage
- Input Problem vs. Output Problem
- Gains from trade
- Consumption outside PPF

Units of wheat and sugar produced by USA and Brazil in one hour

	Wheat	Sugar
USA	30	30
Brazil	10	20

Which country has a comparative advantage in wheat?

1. Which country should EXPORT Sugar?
2. Which country should EXPORT Wheat?
3. Which country should IMPORT Wheat?

Output Questions: OOO= Output: Other goes Over

of hours it takes to produce one loaf of bread and one bushel of corn

	Bread	Corn
USA	4	4
France	2	6

Input Questions: IOU = Input: Other goes Under

Units of wheat and sugar produced by USA and Brazil in one hour

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Circular Flow Model

Concepts:

Factor Market vs. Product Market

Expenditure Approach vs. Income Approach

