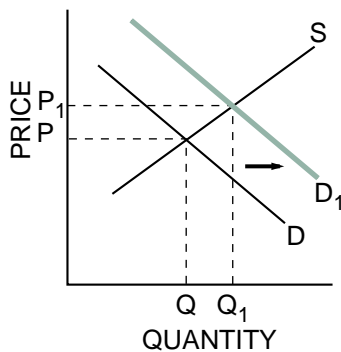


Answers to Sample Short Free-Response Questions

1. True, false or uncertain, and explain why? “The economic concept of scarcity is not relevant to the study of a modern economy such as that of the United States because the existence of unsold stocks of goods (books, cars, homes) is vivid evidence that we are surrounded by plenty, not scarcity.”
False. Economic scarcity refers to the fact that there are a limited number of productive resources available to satisfy the unlimited wants of society.

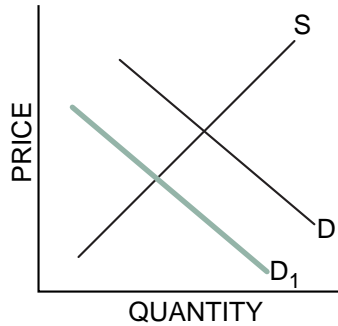
2. A newspaper headline says, “The Coldest Winter in 20 Years Brings Record Prices for Heating Oil.”
 (A) Using a graph of home heating oil, show and explain how price changed.
The record cold increases the demand for heating oil to run heaters, so the demand increases, raising the price and quantity sold.



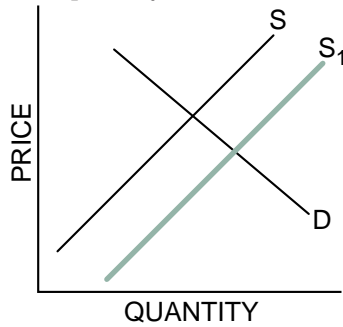
- (B) What other factors could cause the price of heating oil to increase?
Any factor that increased demand could increase price and quantity.
Any factor that decreased supply could increase price and decrease quantity.

3. In a recent year, the price of wheat fell. For each of the following, draw a supply and demand graph showing a decrease in prices with the stated impact on quantity.

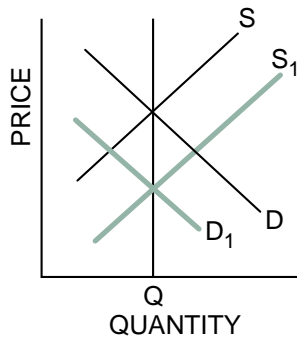
(A) The quantity of wheat decreasing



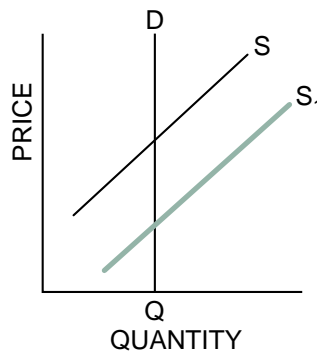
(B) The quantity of wheat increasing



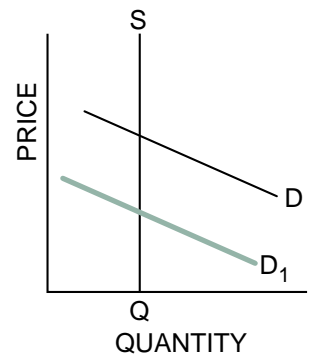
(C) The quantity of wheat staying the same



OR



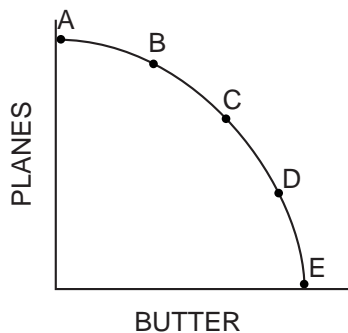
OR



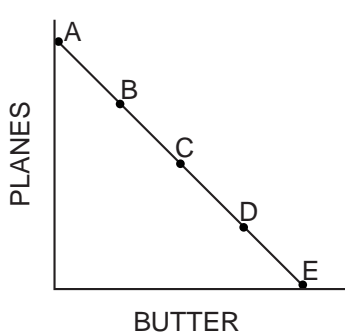
4. True, false or uncertain, and explain why? “If you won \$1 million in the lottery, you wouldn’t have the economic problem of scarcity.” *False. People with \$1 million cannot spend more than \$1 million. Even if people had all the money they could use, time to use it would be scarce.*

5. Explain what would have to be true in each case for the production possibilities curves to be shaped as they are in Graphs I, II and III.

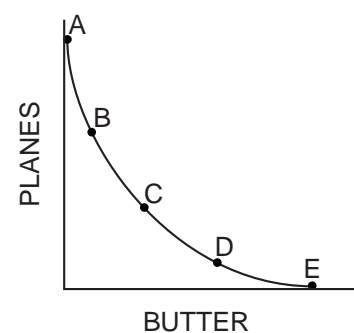
Graph I



Graph II



Graph III



In Graph I there are increasing costs. To move from B to C to D, the economy must give up increasing numbers of planes. The factors that produce butter and planes are not equally efficient in the production of both commodities.

In Graph II there are constant costs. To move from B to C to D, the economy must give up the same number of planes to gain the same amount of butter — for example, one plane for 25 pounds of butter.

In Graph III there are decreasing costs of production. To move from B to C to D, the economy has to give up decreasing numbers of planes to get the same amount of butter. In this situation, the economy would end up at one end or the other: at either Point A or Point E.