**1.0 Introduction to Economics**
Scarcity, Opportunity Cost and PPC

Introduction: Assume the US government has discovered it has a surplus in its budget of $100 billion. One party wishes to invest this surplus in new resources for education, while the other wishes to invest in new defense infrastructure.

1. Assuming government will spend the entire surplus on either education or military, complete the table below showing the possible combinations towards which the US government can allocate its funds.

Education:	$0									$100b
Military:	$100b									$0

2. Plot the US's production possibilities on a PPC diagram

Military
spending

Education spending
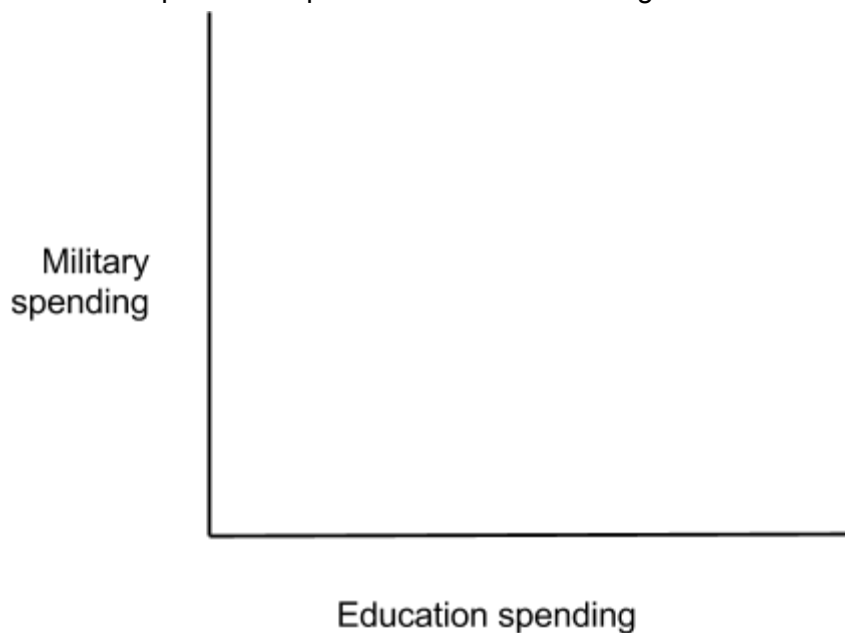
3. Assume the government decided that defense was a much greater priority than the future skills of the nation's workforce, and therefore 100% of the surplus would go towards military spending. Plot a point on the PPC that shows the outcome of this choice. Plot a point on the PPC that shows the outcome of this choice. Label this "point A"

   a. What is the opportunity cost of this decision for America in the short-term?

b. What is the opportunity cost of this decision for America in the long-term?

4. Next assume that the government decided that only 80% of the money should be spent on defense. Plot a point on the PPC that shows the outcome of this choice. Label this "point B".

   a. What is the opportunity cost of spending *less* on defense than was described in the previous question?

   b. What is the benefit of spending *less* defense?

5. The government decides to spend $30 billion on defense and $40 billion on education. Plot this combination on the PPC.

   a. Describe the point you have drawn on the graph.

   b. Is this a desirable combination of the two goods for the US to chose? Why or why not?

6. The government decides to spend $80 billion on defense and $50 billion on education. Plot this combination on the PPC above.

   a. Describe the point you have drawn on your graph.

(blank answer box)

b. Is the US government *able* to achieve this point? If not, why not? If so, how?

(blank answer box)

7. How does the PPC model demonstrate the following basic economic concepts:

   a. The basic economic problem?

   (blank answer box)

   b. Opportunity costs?

   (blank answer box)

   c. Efficiency?

   (blank answer box)

   d. Inefficiency?

   (blank answer box)

   e. Economic growth?

   (blank answer box)

8. What are the limitations of the PPC?
   a. Can it help the government know what the *best* decision is about how to spend

its money? Explain.

b. Does it illustrate the short-run and long-run consequences of a particular combination of military and education spending? Explain.

c. What information additional information (besides what is shown in the PPC) would be needed for the government to make the *right* decision about how to spend its money? Explain.