

# Microeconomics

## 02 Choice

### in a World

### of Scarcity

Author: OpenStax College

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## 4. Chapter: Microeconomics 02 Choice in a World of Scarcity

### 1. Microeconomics 02 Choice in a World of Scarcity Questions

#### 4.1.1. Suppose Alphonso's town raised the price of bus tickets to \$1 per t...

Author: OpenStax College

Suppose Alphonso's town raised the price of bus tickets to \$1 per trip (while the price of burgers stayed at \$2 and his budget remained \$10 per week.) Draw Alphonso's new budget constraint. What happens to the opportunity cost of bus tickets?

- The opportunity cost of bus tickets is the number of burgers that must be given up to obtain one more bus ticket. Originally, when the price of bus tickets was 50 cents per trip, this opportunity cost was  $0.50/2 = .25$  burgers. The reason for this is that at the original prices, one burger (\$2) costs the same as four bus tickets (\$0.50), so the opportunity cost of a burger is four bus tickets, and the opportunity cost of a bus ticket is .25 (the inverse of the opportunity cost of a burger). With the new, higher price of bus tickets, the opportunity cost rises to  $\$1/\$2$  or 0.50. You can see this graphically since the slope of the new budget constraint is flatter than the original one. If Alphonso spends all of his budget on burgers, the higher price of bus tickets has no impact so the horizontal intercept of the budget constraint is the same. If he spends all of his budget on bus tickets, he can now afford only half as many, so the vertical intercept is half as much. In short, the budget constraint rotates clockwise around the horizontal intercept, flattening as it goes and the opportunity cost of bus tickets increases.

Check the answer of this question online at [QuizOver.com](http://QuizOver.com):

Question: [Suppose Alphonso's town raised the price OpenStax College Microeconomics](#)

#### 4.1.2. Return to the example in Figure 2.4. Suppose there is an improvemen...

Author: OpenStax College

Return to the example in Figure 2.4. Suppose there is an improvement in medical technology that enables more healthcare to be provided with the same amount of resources. How would this affect the production possibilities curve and, in particular, how would it affect the opportunity cost of education?

- Because of the improvement in technology, the vertical intercept of the PPF would be at a higher level of healthcare. In other words, the PPF would rotate clockwise around the horizontal intercept. This would make the PPF steeper, corresponding to an increase in the opportunity cost of education, since resources devoted to education would now mean forgoing a greater quantity of healthcare.

Check the answer of this question online at [QuizOver.com](http://QuizOver.com):

Question: [Return to the example in Figure 2.4. OpenStax College Microeconomics](#)

#### 4.1.3. Could a nation be producing in a way that is allocatively efficient...

Author: OpenStax College

Could a nation be producing in a way that is allocatively efficient, but productively inefficient?

- No. Allocative efficiency requires productive efficiency, because it pertains to choices along the production possibilities frontier.

Check the answer of this question online at [QuizOver.com](http://QuizOver.com):

Question: [Could a nation be producing in a way that OpenStax College Microeconomics](#)

#### 4.1.4. What are the similarities between a consumer's budget constraint an...

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What are the similarities between a consumer's budget constraint and society's production possibilities frontier, not just graphically but analytically?

- Both the budget constraint and the PPF show the constraint that each operates under. Both show a tradeoff between having more of one good but less of the other. Both show the opportunity cost graphically as the slope of the constraint (budget or PPF).

Check the answer of this question online at QuizOver.com:

Question: [What are the similarities between a consumer OpenStax College Microeconomics](#)

#### 4.1.5. Individuals may not act in the rational, calculating way described ...

Author: OpenStax College

Individuals may not act in the rational, calculating way described by the economic model of decision making, measuring utility and costs at the margin, but can you make a case that they behave approximately that way?

- When individuals compare cost per unit in the grocery store, or characteristics of one product versus another, they are behaving approximately like the model describes.

Check the answer of this question online at QuizOver.com:

Question: [Individuals may not act in the rational OpenStax College Microeconomics](#)

#### 4.1.6. Would an op-ed piece in a newspaper urging the adoption of a partic...

Author: OpenStax College

Would an op-ed piece in a newspaper urging the adoption of a particular economic policy be considered a positive or normative statement?

- Since an op-ed makes a case for what should be, it is considered normative.

Check the answer of this question online at [QuizOver.com](http://QuizOver.com):

Question: [Would an op-ed piece in a newspaper urging OpenStax College Microeconomics](#)

#### 4.1.7. Would a research study on the effects of soft drink consumption on ...

Author: OpenStax College

Would a research study on the effects of soft drink consumption on children's cognitive development be considered a positive or normative statement?

- Assuming that the study is not taking an explicit position about whether soft drink consumption is good or bad, but just reporting the science, it would be considered positive.

Check the answer of this question online at [QuizOver.com](http://QuizOver.com):

Question: [Would a research study on the effects of OpenStax College Microeconomics](#)