

BRIGHT SCHOLARS

AP+ EXAM PREP SERIES

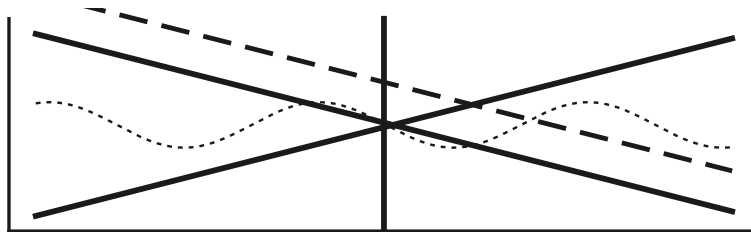
MACROECONOMICS

REVIEW WORKBOOK

2027 EXAM

Graphs • Policy Chains • Calculations • FRQ Strategy

Draw the model. Trace the mechanism. Explain the outcome.



Hybrid digital exam format • Diagnostic test • 6 units • 13 graphing labs • Full-length practice exam

THIS BOOK BELONGS TO

Name _____

School / Teacher _____

AP exam date _____

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i KNOW IT

Short concept notes in the margin, next to the problems that use them.

2 FRQ EDGE

Full free-response practice with a labeled work box for each part.

! FIX IT

The mistakes students make most often, named so you can catch them.

1

AP EXAM WEIGHT: 5-10% OF THE MULTIPLE-CHOICE SECTION

Resources are limited and wants are not. How do individuals and nations decide what to produce, and why does trade make both sides better off?

- ☐ Define scarcity and identify the opportunity cost of a choice.
- ☐ Read and draw a PPC, and explain points on, inside, and outside it.
- ☐ Explain why a PPC shifts outward.
- ☐ Calculate opportunity costs and identify comparative advantage.
- ☐ Explain how specialization and trade create gains for both sides.
- ☐ Shift supply or demand and predict the new equilibrium.

- 1.1** Scarcity, Opportunity Cost, and the PPC
- 1.2** Comparative Advantage and Trade
- 1.3** Supply, Demand, and Market Equilibrium

Unit Review: Mixed Practice, FRQ Edge, Fix It, Exit Ticket, READY+ Check

Try each one in under a minute.

[illegible][illegible][illegible]

UNIT 1 | LESSON 1.1

Scarcity, Opportunity Cost, and the PPC

KNOW IT

Scarcity: resources are limited but wants are unlimited, so every choice has a cost.

Opportunity cost: the value of the next-best alternative given up.

READING A PPC

On the curve: efficient; all resources fully employed.

Inside: inefficient; idle or wasted resources (a recession).

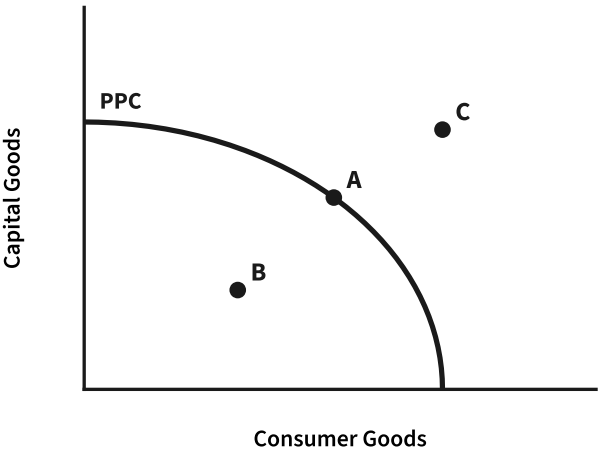
Outside: unattainable now; possible only after growth.

FIX IT

Calling a point outside the PPC “inefficient.” Inefficient points are **inside**. Outside means unattainable with current resources.

MODEL IT: THE PRODUCTION POSSIBILITIES CURVE

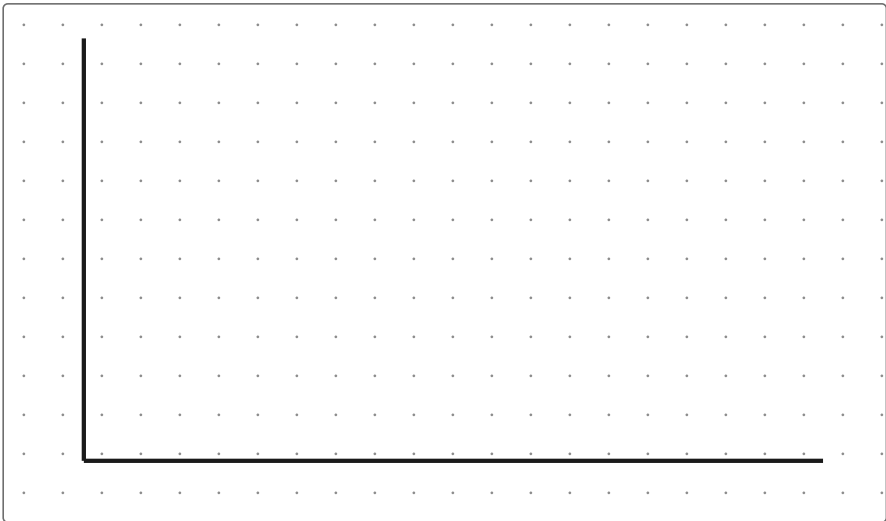
The PPC shows every combination of two goods an economy can produce when all resources are fully and efficiently employed. It bows outward because resources are not equally suited to both goods, so each additional unit of one good costs more and more of the other: the law of increasing opportunity cost.



A is efficient, B is inside the curve (underutilized), and C is unattainable today. Economic growth, from more resources or better technology, shifts the whole curve outward and can bring C within reach.

GRAPH IT: PRODUCTION POSSIBILITIES CURVE

Draw a complete, labeled PPC for an economy that produces consumer goods (horizontal axis) and capital goods (vertical axis). Then label the points in the checklist on your graph.



LABEL	SHOWS	DONE
Point A	An efficient point	☐
Point B	An inefficient point	☐
Point C	An unattainable point	☐
PPC ₂	The PPC after economic growth	☐

- 1 What does a point inside the PPC indicate about the use of resources?

- 2 What does a point outside the PPC indicate, and what event could make it attainable?

- 3 What causes the PPC to shift outward? Give two specific examples.

- 4 An economy chooses to produce more capital goods today and fewer consumer goods. Explain what this choice is likely to do to its PPC in the future.

↙ FRQ EDGE | UNIT 1

Northia and Southia

Before writing, mark the command word in each part. **Identify** means name it. **Calculate** means show the work. **Explain** means give the reason. **Draw** means a labeled graph.

Two countries, Northia and Southia, produce wheat and textiles. Output per worker per day:

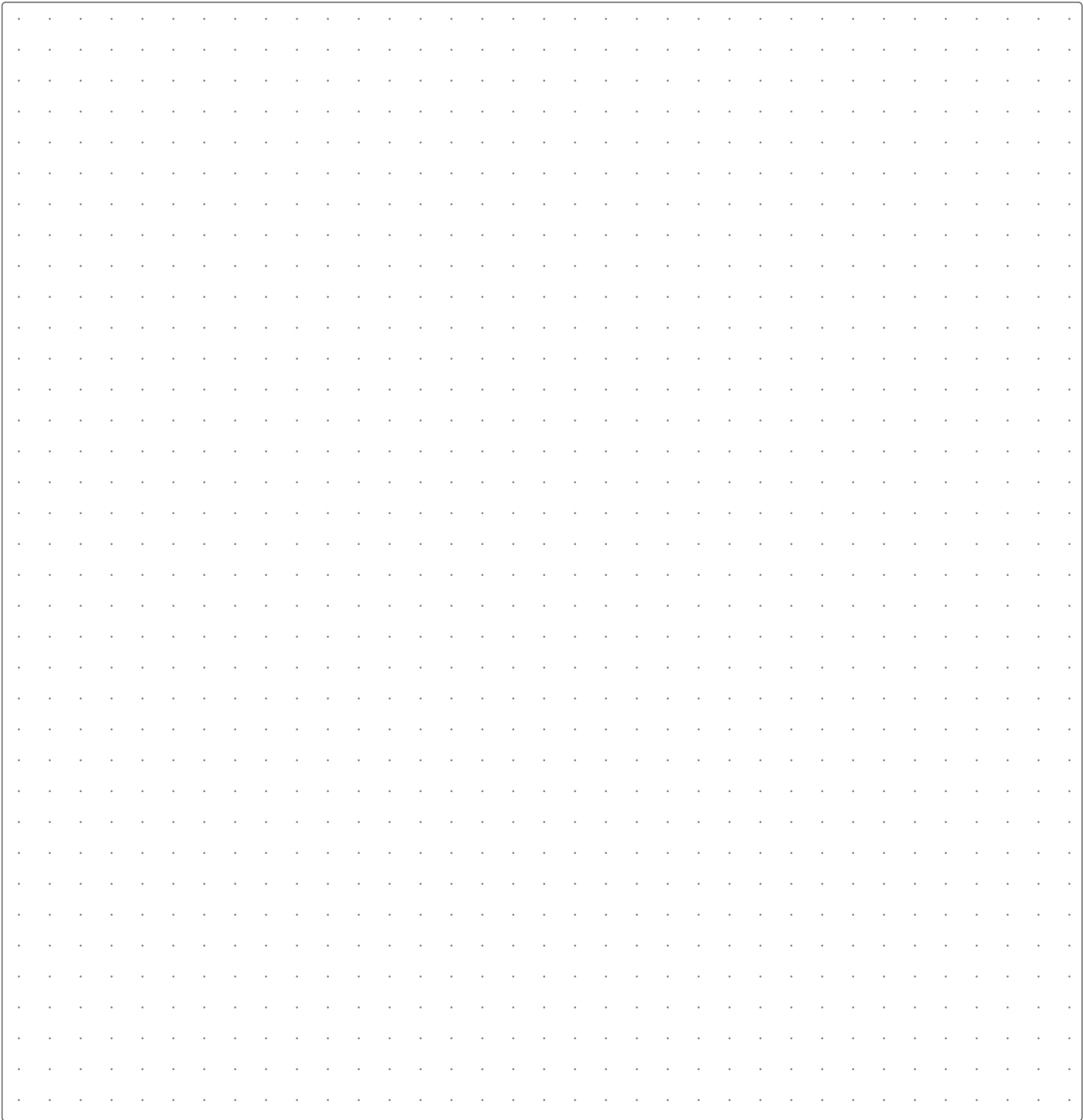
COUNTRY	WHEAT (BUSHELS)	TEXTILES (BOLTS)
Northia	30	10
Southia	12	6

A Calculate the opportunity cost of one bolt of textiles in each country, and identify which country has the comparative advantage in textiles.

B Using comparative advantage, explain how specialization and trade can make both countries better off.

FRQ EDGE • UNIT 1 • CONTINUED

C Draw a correctly labeled PPC for Northia with textiles on the vertical axis and wheat on the horizontal axis. Then show how a technological improvement in textile production only changes the PPC.



✓ READY+ CHECK • SCORE YOURSELF

CONFIDENCE **1** **2** **3** **4**

- ☐ I divided correctly and stated each cost in units of the other good.
- ☐ I explained gains using a trade price between the two costs.

- ☐ I named the country with the **lower** opportunity cost.
- ☐ My PPC pivots out on the textiles axis only.

UNIT 1 | REVIEW

Fix It and Exit Ticket

! FIX IT: COMMON MISTAKES IN UNIT 1

MISTAKE	WEAK REASONING	CORRECT THINKING
Absolute vs. comparative advantage	“Country A has the comparative advantage because it produces more of both goods.”	Comparative advantage depends on opportunity cost, not total output. A country that produces more of everything can still have the higher cost for one good.
Price change vs. curve shift	“The price of pizza fell, so the demand curve shifted right.”	A change in a good’s own price is a movement along the demand curve. Only a non-price determinant shifts the curve.
Points on a PPC	“An inefficient point is outside the curve.”	Inefficient points are inside the curve. Outside is unattainable with current resources.
Unlabeled PPC	Axes labeled “X” and “Y.”	Label each axis with a specific good or category.

Which of these mistakes are you most likely to make, and how will you catch it?

➔ EXIT TICKET

Complete without looking back.

1 Define opportunity cost in one sentence.

2 What does a point inside the PPC represent?

3 Country A can produce 40 cars or 20 computers. What is the opportunity cost of one car in computers?

SECTION I • MULTIPLE CHOICE • QUESTIONS 1–60

🕒 70 MINUTES

- 1 A city turns a public park into a parking garage. The opportunity cost of the garage is
(A) the money spent building the garage.
(B) the parking fees the city will collect.
(C) the park and the benefits residents received from it.
(D) zero, because the land was already owned by the city.
- 2 As an economy moves along a bowed-out PPC toward producing more consumer goods, the opportunity cost of each additional unit of consumer goods
(A) increases. (B) decreases. (C) stays constant. (D) falls to zero.
- 3 Country A can produce 20 wheat or 10 cloth; Country B can produce 12 wheat or 12 cloth. Which country has the comparative advantage in cloth?
(A) Neither; comparative advantage requires absolute advantage.
(B) Country A, because it can produce more wheat.
(C) Country A, because 1 cloth costs it 0.5 wheat.
(D) Country B, because 1 cloth costs it 1 wheat instead of 2.
- 4 If two countries specialize according to comparative advantage, a mutually beneficial terms of trade must
(A) equal the higher opportunity cost.
(B) fall between the two opportunity costs.
(C) equal the lower opportunity cost exactly.
(D) be set by absolute advantage only.
- 5 Which transaction is included in this year's GDP?
(A) A retiree receives a Social Security check.
(B) A domestic firm buys newly produced machinery.
(C) An investor buys shares of stock.
(D) A household buys a used car.
- 6 Nominal GDP is \$660 billion and the GDP deflator is 110. Real GDP is
(A) \$726 billion (B) \$550 billion (C) \$660 billion (D) \$600 billion
- 7 The CPI rises from 250 to 260. The inflation rate is approximately
(A) 4% (B) 2.5% (C) 10% (D) 25%
- 8 If 8 million people are unemployed and the labor force is 160 million, the unemployment rate is
(A) 20% (B) 8% (C) 5% (D) it cannot be calculated

Answer Key

Answers are grouped by section, with the page number of each set of problems. For free-response questions, the key shows what a strong response includes; credit depends on the correct direction, labels, and mechanism, not on matching the wording. Check a whole section at a time, record misses in your error log, and redo anything you missed before reading the explanation.

DIAGNOSTIC TEST

Diagnostic Test • Multiple Choice

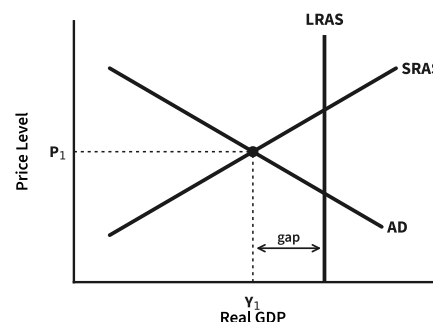
p. 9

- 1 A. Scarcity means resources cannot satisfy all wants; it is the basic economic problem.
- 2 D. A point inside the PPC means available resources are not fully employed.
- 3 B. Wheat costs A 0.5 cloth and B 1 cloth, so A has the comparative advantage in wheat (and B in cloth).
- 4 C. Higher income increases demand for a normal good, raising equilibrium price and quantity.
- 5 A. Government purchases of roads are G. Transfers, used goods, and stock purchases are excluded.
- 6 D. Nominal GDP and prices both rose 20%: $\$1,200B \div 1.20 = \$1,000B$, so real GDP was unchanged.
- 7 B. Unemployment rate = $\text{unemployed} \div \text{labor force} \times 100$.
- 8 C. Structural unemployment is a mismatch between workers' skills and available jobs.
- 9 D. At the trough, output is at its cyclical low and cyclical unemployment is high.
- 10 A. Higher government spending increases G, shifting AD right.
- 11 C. A recessionary gap means short-run equilibrium output is below potential output.
- 12 B. Higher input costs reduce SRAS.
- 13 D. $MPS = 0.20$, so the multiplier = $1 \div 0.20 = 5$.
- 14 C. Higher taxes reduce disposable income and consumption. Choices A and B are monetary policy.
- 15 B. A leftward SRAS shift raises the price level and lowers real GDP (stagflation).
- 16 A. Currency in circulation is in M1. Time deposits and retail money market funds are in M2 only; bonds are not money.
- 17 C. Required reserves are \$100, so excess reserves of \$400 can be lent.
- 18 D. Selling bonds removes reserves, decreases the money supply, and raises the nominal interest rate.
- 19 A. Cheaper borrowing from the Fed encourages banks to borrow reserves and lend more.
- 20 B. The nominal interest rate is the opportunity cost of holding money; when it is high, people hold less money and more bonds.
- 21 D. Government borrowing raises the demand for loanable funds and the real interest rate.
- 22 C. The SRPC shows an inverse short-run relationship between inflation and unemployment.
- 23 A. Higher costs mean higher inflation at every unemployment rate: the SRPC shifts right.
- 24 D. Government borrowing raises the real interest rate, which reduces interest-sensitive private investment.
- 25 B. Once expectations adjust there is no lasting trade-off, so the LRPC is vertical at the natural rate.
- 26 C. Long-run growth comes from more productive capacity: capital, technology, and human capital.
- 27 A. Higher relative U.S. returns attract foreign financial capital, increasing demand for dollars.
- 28 C. A stronger dollar makes U.S. goods more expensive abroad and imports cheaper, so net exports fall.
- 29 D. A foreign purchase of a U.S. financial asset is a financial inflow. The others are current-account items.
- 30 B. Depreciation makes exports cheaper for foreign buyers and imports more expensive at home.
- 31 C. B lies inside the PPC, so resources are underutilized.
- 32 B. Better technology raises productive capacity and shifts the PPC outward.
- 33 D. Y_1 is below the LRAS output level, so the economy has a recessionary gap.
- 34 A. Higher government spending shifts AD right toward full-employment output. Selling bonds is monetary, and it is contractionary.

Diagnostic Test • Free Response

p. 16

- A Price Level (vertical) and Real GDP (horizontal); downward-sloping AD and upward-sloping SRAS crossing at P_1, Y_1 vertical LRAS at Y_f , to the right of Y_1 . See the model graph.



- B Increase government purchases, or cut personal income taxes (or raise transfer payments).
- C Higher G raises AD directly because G is a component of $C + I + G + X_n$. Each dollar becomes someone's income, part of which is spent again, so total spending rises by $\Delta G \times 1/MPS$. Example: $MPC = 0.75$ gives a multiplier of 4, so a \$100B increase can raise real GDP by up to \$400B.
- D AD shifts right. Real GDP rises toward Y_f , the price level rises, and unemployment falls because firms need more workers to produce more output.

UNIT 1 • BASIC ECONOMIC CONCEPTS

Unit 1 Quick Start

p. 20

- a The concert you give up (the next-best alternative), not the \$60 you earn.
- b More resources, better technology, or more human capital.
- c No. A change in the good's own price causes a movement along the demand curve.