

AP Macroeconomics
Unit 1, Objectives 4-5
Circular Flow/PPF (Chapter 2)

Directions: Answer the questions below in your notebook.

1. Draw and correctly label a Circular Flow Model. Be sure to include the following items:
 - a) Product market
 - b) Factor market
 - c) Businesses
 - d) Households
 - e) Income
 - f) Revenue
 - g) Factors of Production
 - h) Wages/Interest/Rent/Profit
2. List and describe the factors of production. List examples of the factors of production for a specific business of your choosing (pizza place, clothing store, etc.).
3. Do an internet search to find information about **leakages** and **injections** to the circular flow model. Define and give examples of each.
4. Add at least two leakages and two injections to your model from #1. (Hint: you may want to add government and a foreign market to your model.)
5. Draw and correctly label a production possibilities frontier (PPF) for a country that can produce either product A or product B. Assume that there is a constant tradeoff between the two products.
6. Draw and correctly label a production possibilities frontier (PPF) for a country that can produce either product A or product B. Assume that there is an increasing opportunity cost of switching from one product to the other.
7. Which of the two PPF's is more realistic? Explain why.
8. Label the following points on your PPF from #6 and explain why you chose each location.

Point C: not enough workers available to produce at this point
Point D: high levels of unemployment at this point
Points E-G: efficient production at these points.
9. Explain what would be needed in order for this country to produce at point C.