Chapter 1: Limits, Alternatives, and Choices

There's no such thing as a free lunch. You can't have your cake and eat it, too. At the root of some of our most familiar phrases is the understanding that we simply cannot have everything we want; our unlimited wants are greater than our limited resources. The AP Economics course begins with an understanding that scarcity forces us to make choices about the best use of our resources. Chapter 1 identifies the economic problem of scarcity and illustrates production limits and tradeoffs in both numeric and graphic form.

Opportunity cost is a key concept in determining the tradeoffs involved in making decisions. It is important to be able to identify the opportunity we give up when we make a decision. Extending the analysis, relative opportunity costs can be calculated to determine which of two people should engage in a particular pursuit, or which country can produce products more efficiently, leading to gains from trade.

The production possibilities curve graphically illustrates opportunity cost. Given fixed resources and technology, an increase in production of one good requires a reduction in production of another good. The graph can also be used to illustrate unemployment and points not attainable with current resources. Economic growth can result from increases in the amount of resources or improvements in technology, illustrated by an outward shift of the production possibilities curve.

Material from Chapter 1 is included in several multiple-choice questions, and occasionally as part of a free-response question, on both the AP Microeconomics and Macroeconomics Exams. Scarcity, opportunity cost, and production possibilities are key concepts from this chapter.