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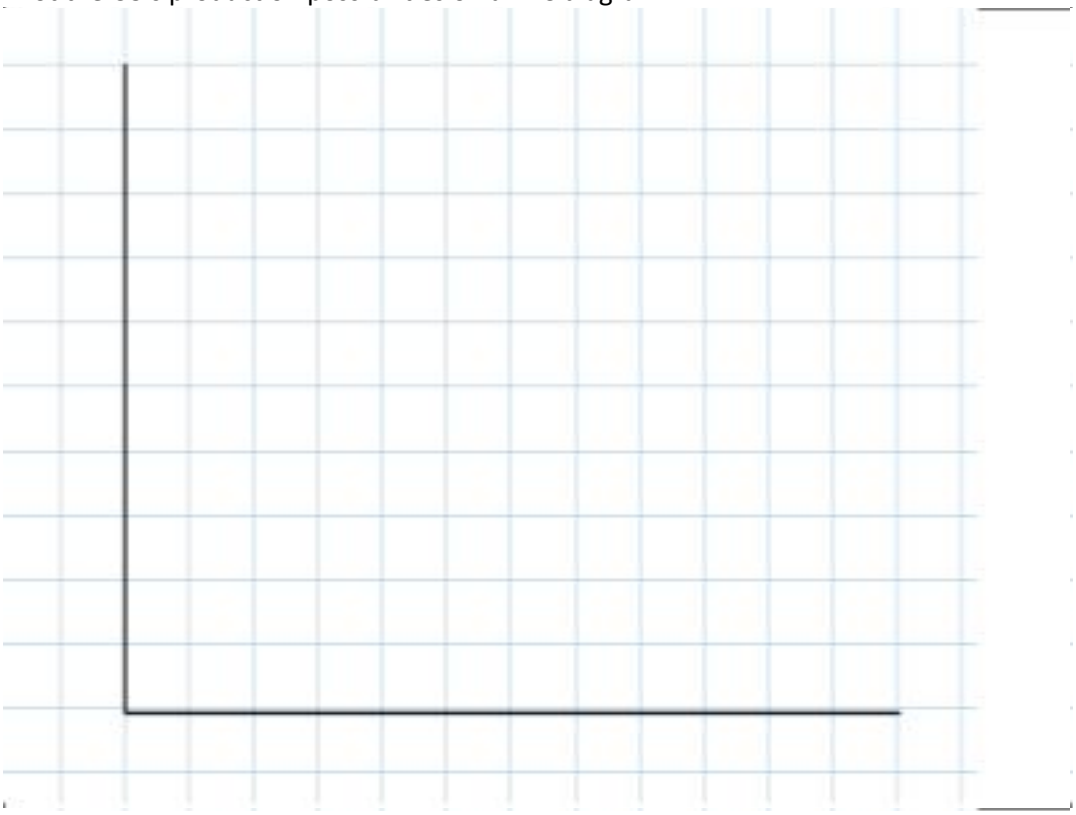
Introduction: Assume the US government has discovered it has a surplus in its budget of $100 billion. One party wishes to invest this surplus in new resources for education, while the other wishes to invest in new defense infrastructure.

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**									**$100**
Military:	**$100**									**$0**

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



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.

    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.

    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.

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

c. What are the short-run and long-run costs and benefits of producing at this point on the PPC for education and defense?

7. Now assume budget surplus was smaller than anticipated, and the government has only $50 billion of new funds to allocate towards education and defense.

    a. Draw a new PPC showing the possible combinations of the two goods the US can produce.

    b. What has happened to the country's PPC? What will be the short-term and long-term impact on the nation of less money to spend on defense and education?

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

    a. The basic economic problem?

    b. Opportunity costs?

    c. Tradeoffs?

    d. Efficiency?

    e. Inefficiency?

9. 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.