Lesson 5: Tricks of the Trade

Author
Curt Anderson, Ph.D., Professor Emeritus, University of Minnesota Duluth

Standards and Benchmarks (see page 5.19)

Lesson Description
Students play the role of citizens of two fictional countries who make and love to eat pies and brownies. They face choices because of limited time and oven space. They investigate how these choices would change if they were allowed to trade with each other. They see that, through trade, everyone can get more pies and brownies.

Grade Level
6-8

Concepts
Capital resources
Goods
Human resources
Intermediate goods
Natural resources
Opportunity cost
Production

Objectives
Students will be able to
• define capital resources, goods, human resources, intermediate goods, natural resources, opportunity cost, and production;
• explain that people use natural, human, and capital resources along with intermediate goods to produce other goods and services;

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• explain why limited resources restrict what can be produced;
• determine what is possible to produce from a given amount of resources;
• determine the opportunity cost of producing a good; and
• explain how trade can increase the amount of goods a country can get from its scarce resources.

Compelling Question
How can people consume more of a good than they can produce themselves?

Time Required
60-90 minutes

Materials Required
• Visual 5-1, one copy for the teacher to display
• Handout 5-1, one copy for each student in half of the class
• Handout 5-2, one copy for each student in the other half of the class
• Handout 5-3, one copy for each student with Handout 5-1
• Handout 5-4, one copy for each student with Handout 5-2
• Handout 5-5, one copy for each student
• Scissors and glue for each student

Procedure
1. Define goods as objects that satisfy people’s wants. Ask the students to give some examples. (Answers may include pizzas, cars, homes, bicycles, candy, toys, furniture, computers, or cell phones.)

2. Explain that people combine natural, human, and capital resources with intermediate goods to produce consumer goods. Natural resources are things that occur naturally in or on the earth. Examples include water, oil, and trees. Human resources are people who work. Examples include assembly-line workers, managers, designers, and engineers. Capital resources are things produced by people and used over and over to produce other goods and services. Examples include assembly lines, computers, machines, buildings, tools, and robots. Resources are combined with intermediate goods—things that are produced and that become part of another product. Examples include aluminum, steel, rubber, thread, cloth, and flour. Production is the process of using resources and intermediate goods to produce consumer goods and services.
3. Ask the students to identify the resources and intermediate goods that might be used for pizza production. (Answers may include flour, yeast, tomato sauce, cheese, pepperoni slices, someone to make the dough and put on the toppings, an oven, a pizza pan, or electricity.)

4. Discuss the following to prepare students for the lesson activities:
   • Why doesn’t everyone in the United States have two new cars, a big-screen TV, a large house, and all the pizza they can eat? (Students are likely to answer that not everyone in the United States has enough money or that people can’t afford it.) Remind students that the production of goods and services requires resources. Even though the United States has a tremendous amount of resources, there are still not enough to produce all the goods that people want.
   • How can people in a country get more goods if resources are limited? Let students brainstorm. (Answers will vary but may include by finding or making more resources or finding better ways of making goods and services that use fewer resources.)

5. Tell the students that there is another way to get goods if resources are limited. To continue the lesson, divide the class in half, explaining that half of the class will play the role of Terrans from the country of Terra. The other half will play the role of Aquans from the country of Aqua. Distribute a copy of Handout 5-1: Terran Production Cards to each Terran and a copy of Handout 5-2: Aquan Production Cards to each Aquan. Have them cut out and glue their production cards as described on the handouts.

6. When students have finished cutting out their cards, distribute a copy of Handout 5-3: Terran Worksheet to each Terran and a copy of Handout 5-4: Aquan Worksheet to each Aquan. Instruct the students to complete Task #1 on their handout and then discuss the following:
   • Terrans, if you produced 8 pies, how many pans of brownies could you produce? (0 pans) 7 pies? (½ pan) 6 pies? (1 pan) 5 pies? (1½ pans) 4 pies? (2 pans) 3 pies? (2½ pans) 2 pies? (3 pans) 1 pie? (3½ pans) 0 pies? (4 pans)
   • Aquans, if you produced 6 pans of brownies, how many pies could you produce? (0 pies) 5 pans? (½ pie) 4 pans? (1 pie) 3 pans? (1½ pies) 2 pans? (2 pies) 1 pan? (2½ pies) 0 pans? (3 pies)

7. Instruct the students to complete Task #2 on their handout and then discuss the following:
   • Terrans, which combinations of pies and pans of brownies are possible for you to produce in the time allotted? (a. 4 pies and 2 pans; b. 2 pies and 3 pans; c. 2 pies and 2 pans; d. 0 pies and 4 pans)
   • Terrans, which combinations of pies and pans of brownies are not possible for you to produce in the time allotted? (c. 4 pies and 4 pans; d. 6 pies and 2 pans; e. 9 pies and 0 pans; f. 2 pies and 6 pans)
• Aquans, which combinations of pans of brownies and pies are possible for you to produce in the time allotted? (a. 2 pans and 2 pies; d. 0 pans and 3 pies; e. 4 pans and 1 pie; g. 1 pan and 2 pies)

• Aquans, which combinations of pans of brownies and pies are not possible for you to produce in the time allotted? (b. 7 pans and 0 pies; c. 2 pans and 4 pies; f. 1 pan and 5 pies; h. 5 pans and 1 pie)

• Aquans and Terrans, what happens to the amount of pies you can make as the number of pans of brownies you make increases? (It decreases.) Why? (Because bakers, ovens, and other resources used to make brownies and pies are limited; as more pies are made, there are fewer resources available for making brownies.)

8. Explain that opportunity cost is the value of the next-best alternative when a decision is made. So the opportunity cost of doing something is what must be given up to do it. In this case, the opportunity cost of making extra pies is the number of pans of brownies that are given up because they cannot be produced. Instruct the students to complete Task #3 on their handout and display Visual 5-1: Pie and Pan Production.

• Discuss the following about Task #3 with the Terrans:
  ○ If you produced 1 extra pie, what is the opportunity cost—how many pans of brownies do you give up? (½ pan of brownies)
  ○ If you produced an extra ½ pan of brownies, what is the opportunity cost—how many pies do you give up? (1 pie)
  ○ If you produced 1 extra pan of brownies, what is the opportunity cost—how many pies do you give up? (2 pies)

• Discuss the following about Task #3 with the Aquans:
  ○ If you produced an extra ½ pie, what is the opportunity cost—how many pans of brownies do you give up? (1 pan of brownies)
  ○ If you produced 1 extra pie, what is the opportunity cost—how many pans of brownies do you give up? (2 pans of brownies)
  ○ If you produced 1 extra pan of brownies, what is the opportunity cost—how many pies do you give up? (½ pie)

9. Instruct the students to complete Task #4 on their handout and then discuss the following:

• Terrans, are you able to meet your desire for 4 pies and 4 pans of brownies to make it through the day by producing this combination? Why or why not? (No, this combination isn’t possible with the amount of resources available.)

• Aquans, are you able to meet your desire for 2 pans of brownies and 4 pies to make it through the day by producing this combination? Why or why not? (No, this combination is not possible with the amount of resources available.)

• According to Task #4, what is one way you could get what you want? (Trade)
5.5

• Discuss the following about Task #4 with the Terrans:
  ○ When you produce 1 pan of brownies, how many pies do you give up? (2 pies)
  ○ If someone offered to trade 1 pan of brownies for 1 pie, would you be better or worse off than if you made brownies yourself? Why? (We would be better off because we’d only give up 1 pie for 1 pan of brownies. If we made 1 pan of brownies, we’d give up 2 pies.)
  ○ If someone offered to trade 1 pan of brownies for 2 pies, would you be better or worse off than if you made brownies yourself? Why? (Neither. In this case, we’d give up 2 pies for 1 pan of brownies whether we traded or made brownies.)
  ○ If someone offered to trade 1 pan of brownies for 3 pies, would you be better or worse off than if you made brownies yourself? Why? (We would be worse off because we’d give up 3 pies to get 1 pan of brownies. If we made brownies ourselves, we’d only give up 2 pies.)

• Discuss the following about Task #4 with the Aquans:
  ○ When you produce 1 pie, how many pans of brownies do you give up? (2 pans of brownies)
  ○ If someone offered to trade 1 pie for 1 pan of brownies, would you be better or worse off than if you made pies yourself? Why? (We would be better off because we’d only give up 1 pan of brownies for 1 pie. If we made 1 pie, we’d give up 2 pans of brownies.)
  ○ If someone offered to trade 1 pie for 2 pans of brownies, would you be better or worse off than if you made pies yourself? Why? (Neither. In this case, we’d give up 2 pans of brownies for 1 pie whether we traded or made pies.)
  ○ If someone offered to trade 1 pie for 3 pans of brownies, would you be better or worse off than if you made pies yourself? Why? (We would be worse off because we’d give up 3 pans of brownies for 1 pie. If we made pies ourselves, we’d only give up 2 pans of brownies.)

10. Tell the students they have 5-10 minutes to trade with anyone in the room—Terran or Aquan—to try and meet their goal from Task #4. Explain that if they are able to find an acceptable trade, they must put a checkmark on the side of the production card showing which good(s) they’ve received in a trade. When they return to their seats, those cards with checkmarks must be placed on the desk with the checked side up.

NOTE: The production cards show the trade-off between pies and brownies. This trade-off is only possible in the producing country. Once a good—pie or pan of brownies—has been produced and traded, it cannot be converted into the other good.

11. When students have finished trading, they should return to their seats and place their cards on their desks to show the combination of pies and brownies they now have.
• Discuss the following with the Terrans:
  ○ How many Terrans now have 4 pies and 4 pans of brownies? (Answers will vary depending on trades made.)
  ○ How were you able to get this combination of pies and pans of brownies when you couldn’t produce it? (By trading)
  ○ With whom did you trade? (An Aquan)
  ○ Why were you willing to trade? (Could get more pies and brownies than without trade)
  ○ How many pies did you trade for 1 pan of brownies? (Answers will vary, but the most likely trading terms are 1 pie for 1 pan of brownies.)
  ○ Why was this a good trade for you? (Through trade, we gave up 1 pie for 1 pan of brownies. When producing brownies, we give up 2 pies for 1 pan of brownies. The opportunity cost of brownies—number of pies given up—was lower with trade than without.)

• Discuss the following with the Aquans:
  ○ How many Aquans now have 2 pans of brownies and 4 pies? (Answers will vary depending on trades made.)
  ○ How were you able to get this combination of pans of brownies and pies when you couldn’t produce it? (By trading)
  ○ With whom did you trade? (A Terran)
  ○ Why were you willing to trade? (Could get more brownies and pies than without trade)
  ○ How many pans of brownies did you trade for 1 pie? (Answers will vary, but the most likely trading terms are 1 pan of brownies for 1 pie.)
  ○ Why was this a good trade for you? (Through trade, we gave up 1 pan of brownies for 1 pie. When producing pies, we give up 2 pans of brownies for 1 pie. The opportunity cost of pies—number of pans of brownies given up—was lower with trade than without.)

12. Instruct the students to complete Task #5 and then discuss the following:
  • Terrans, in what should you specialize? (Pies)
  • Aquans, in what should you specialize? (Brownies)
  • Terrans, give an example of a combination of pies and pans of brownies that you can have with trade that you couldn’t have without trade. (c. 4 pies and 4 pans; d. 6 pies and 2 pans; h. 2 pies and 6 pans)
  • Aquans, give an example of a combination of pans of brownies and pies that you can have with trade that you couldn’t have without trade. (c. 2 pans and 4 pies; f. 1 pan and 5 pies; h. 5 pans and 1 pie)
• Why are Terrans and Aquans better off as a result of trade? (Both groups can consume more than they could without trade.)

• Give an example that shows Terrans and Aquans can consume more with trade. (Answers will vary but may include the following: Aquans could consume 5 pans and ½ pie without trade. With trade they can consume 5 pans and 1 pie. Terrans could consume 5 pies and ½ pan without trade. With trade they can consume 7 pies and 1 pan.)

Closure

13. Discuss the following to emphasize the major points of the lesson:

• What are goods? (Objects that satisfy people’s wants)

• How are goods produced? (By using natural, human, and capital resources along with intermediate goods)

• Why can’t people produce as many goods as they want? (The resources needed to produce them are limited or scarce.)

• If resources are limited, then what does producing more of any good mean? (Producing less of other goods)

• What do we call those goods that must be given up? (Opportunity cost)

• Suppose you have enough resources and intermediate goods to produce 3 dozen chocolate chip cookies or 1 dozen chocolate chip muffins in an hour. If you choose to produce the cookies, what is your opportunity cost? (1 dozen chocolate chip muffins)

• When would it be better for people in a country to trade for a good rather than produce the good themselves? (When trading for the good is less costly; that is, when people give up fewer goods in trading for the desired product than what they give up if they produced the product themselves)

Assessment

14. Distribute a copy of Handout 5-5: Assessment to each student. Allow time for the students to work and then review the answers as follows:

Multiple Choice

1. The total amount of goods that a country is able to produce is limited by
   a. its government.
   b. the amount of money its people have.
   c. the amount of resources its people have.
   d. the amount of goods its people want.
2. The people of Eurostan can produce 1,000 cars and 500 trucks per year if they use all of the available resources. If they produce 1,200 cars, they can only produce 400 trucks. The opportunity cost of the additional 200 cars is
   a. 100 trucks.
   b. 200 trucks.
   c. $400,000.
   d. $200,000.

3. It’s better for people in a country to trade for a good than to produce the good if the opportunity cost of producing it is
   a. low overall.
   b. high overall.
   c. lower than the cost of trading.
   d. higher than the cost of trading.

**Short Answer**

4. How can people consume more of a good than they are able to produce themselves?
   *People can consume more of a good than they are able to produce themselves by specializing and trading.*
Visual 5-1: Pie and Pan Production

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Handout 5-1: Terran Production Cards

You live in Terra. Like most other Terrans, you like pies and brownies. The more pies and brownies you can get, the happier you are. Unfortunately, making these takes time, and you only have a small oven that can hold only 1 pie or 1 pan of brownies at a time. In 1 hour, you are able to produce either 1 pie or \( \frac{1}{2} \) pan of brownies at a time (but not both). You only have 8 hours available to make pies and brownies.

Cut out the table below, then fold the table in half horizontally along the dotted line. Glue the folded table together so that the circles and squares are facing out. Next, cut along the vertical dashed lines. This will give you 8 production cards. Each card shows what you can produce in 1 hour. The circles represent pies and the squares represent pans of brownies. Whichever side is up (facing you) shows what you are producing in that particular hour.
Handout 5-2: Aquan Production Cards

You live in Aqua. Like most other Aquans, you like pies and brownies. The more pies and brownies you can get, the happier you are. Unfortunately, making these takes time, and you only have a small oven that can hold only 1 pie or 1 pan of brownies at a time. In 1 hour, you are able to produce either $\frac{1}{2}$ pie at a time or 1 pan of brownies (but not both). You only have 8 hours available to make pies and brownies.

Cut out the table below, then fold the table in half horizontally along the dotted line. Glue the folded table together so that the circles and squares are facing out. Next, cut along the vertical dashed lines. This will give you 8 production cards. Each card shows what you can produce in 1 hour. The circles represent pies and the squares represent pans of brownies. Whichever side is up (facing you) shows what you are producing in that particular hour.
Handout 5-3: Terran Worksheet (page 1 of 3)

**Task #1: Production**

1. Turn your production cards so that every hour is spent making pies.
2. What is the total amount of pies you could produce? ________
3. If you produced that total, how many pans of brownies could you produce? ________
4. Enter this number below the “8” in the table below.
5. Turn over one of your production cards so that now 1 hour is spent making brownies.
6. Now you can produce ________ pies and ________ pans of brownies. Write the number of pans of brownies below the “7” in the table.
7. Continue turning over the other production cards, one at a time. Each time you turn over a card, in the table write the largest amount of pans of brownies that you can produce with that amount of pie production.

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**Task #2: Production Possibilities**

Put a checkmark ✓ next to the combinations of pies and pans of brownies below that are possible for you to produce in 8 hours. Put an X next to the combinations of pies and pans of brownies below that are not possible for you to produce in 8 hours. You may use your cards or the table above to decide.

a. 4 pies and 2 pans ____   e. 2 pies and 2 pans ____
b. 2 pies and 3 pans ____   f. 9 pies and 0 pans ____
c. 4 pies and 4 pans ____   g. 0 pies and 4 pans ____
d. 6 pies and 2 pans ____   h. 2 pies and 6 pans ____
Handout 5-3: Terran Worksheet (page 2 of 3)

Task #3: Opportunity Cost

The opportunity cost of doing something is what must be given up to do it. Using the table from Task #1, answer the following questions:

1. If you produced 1 extra pie, what is the opportunity cost—how many pans of brownies do you give up? ________
2. If you produced an extra ½ pan of brownies, what is the opportunity cost—how many pies do you give up? ________
3. If you produced 1 extra pan of brownies, what is the opportunity cost—how many pies do you give up? ________
4. For every extra pie you produce, the opportunity cost is ________ pans of brownies.
5. For every extra pan of brownies you produce, the opportunity cost is ________ pies.

Task #4: Trading

Suppose you decide that you absolutely must have 4 pies and 4 pans of brownies to make it through the day. Can you produce this combination? ________

You can try to achieve this combination through trade. How will you know whether to trade? You have to think about your opportunity cost (what you give up). Use your cards or your table from Task #1 to help answer the following questions:

1. If someone wanted to trade 1 pan of brownies for 1 pie, your opportunity cost for the brownies would be 1 pie. If you produced 1 pan of brownies, what is your opportunity cost? _______________ Are you better off making the brownies or trading for the brownies? Why? __________________________________________________________________________
2. If someone wanted to trade 1 pan of brownies for 2 pies, your opportunity cost for the brownies would be 2 pies. Are you better off making the brownies or trading for the brownies? Why? __________________________________________________________________________
3. If someone wanted to trade 1 pan of brownies for 3 pies, your opportunity cost for the brownies would be 3 pies. Are you better off making the brownies or trading for the brownies? Why? __________________________________________________________________________

Note that if you can trade for a good for less than what it costs you to produce it (see Task #3), it would be best not to produce that good and to specialize in the production of the other good.
Handout 5-3: Terran Worksheet (page 2 of 3)

Task #5: The Gains from Trade

1. Suppose that pies and pans of brownies can be traded one-for-one. Which good should you specialize in producing? ________________________________________________________________

2. Assume that you specialize and can trade at the one-for-one rate. In the third row (labeled “Trade”) of the table from Task #1, write the number of pans of brownies it would be possible for you to have with each amount of pies shown.

3. Look at Task #2 and identify the combinations that are now possible for you to enjoy that were not possible before trade. ________________________________________________________________
Handout 5-4: Aquan Worksheet (page 1 of 3)

Task #1: Production

1. Turn your production cards so that every hour is spent making pans of brownies.
2. What is the total amount of pans of brownies you could produce? ________
3. If you produced that total, how many pies could you produce? ________
4. Enter this number below the “6” in the table below.
5. Turn over one of your production cards so that now 1 hour is spent making pies.
6. Now you can produce ________ pans of brownies and ________ pies. Write the number of pies below the “5” in the table.
7. Continue turning over the other production cards, one at a time. Each time you turn over a card, in the table write the largest amount of pies that you can produce with that amount of pans of brownies production.

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Task #2: Production Possibilities

Put a checkmark ✓ next to the combinations of pans of brownies and pies below that are possible for you to produce in 8 hours. Put an X next to the combinations of pans of brownies and pies below that are not possible for you to produce in 8 hours. You may use your cards or the table above to decide.

a. 2 pans and 2 pies ____  e. 4 pans and 1 pie ____
b. 7 pans and 0 pies ____  f. 1 pan and 5 pies ____
c. 2 pans and 4 pies ____  g. 1 pan and 2 pies ____
d. 0 pans and 3 pies ____  h. 5 pans and 1 pie ____
Handout 5-4: Aquan Worksheet (page 2 of 3)

Task #3: Opportunity Cost

The opportunity cost of doing something is what must be given up to do it. Using the table from Task #1, answer the following questions:

1. If you produced an extra ½ pie, what is the opportunity cost—how many pans of brownies do you give up? ________
2. If you produced 1 extra pie, what is the opportunity cost—how many pans of brownies do you give up? ________
3. If you produced 1 extra pan of brownies, what is the opportunity cost—how many pies do you give up? ________
4. For every extra pie you produce, the opportunity cost is ________ pans of brownies.
5. For every extra pan of brownies you produce, the opportunity cost is ________ pies.

Task #4: Trading

Suppose you decide that you absolutely must have 2 pans of brownies and 4 pies to make it through the day. Can you produce this combination? ________

You can try to achieve this combination through trade. How will you know whether to trade? You have to think about your opportunity cost (what you give up). Use your cards or your table from Task #1 to help answer the following questions:

1. If someone wanted to trade 1 pie for 1 pan of brownies, your opportunity cost for the pie would be 1 pan of brownies. If you produced 1 pie, what is your opportunity cost? ________________ Are you better off making the pie or trading for the pie? Why? __________________________________________________________________________________________

2. If someone wanted to trade 1 pie for 2 pans of brownies, your opportunity cost for the pie would be 2 pans of brownies. Are you better off making the pie or trading for the pie? Why? __________________________________________________________________________________________

3. If someone wanted to trade 1 pie for 3 pans of brownies, your opportunity cost for the pie would be 3 pans of brownies. Are you better off making the pie or trading for the pie? Why? __________________________________________________________________________________________

Note that if you can trade for a good for less than what it costs you to produce it (see Task #3), it would be best not to produce that good and to specialize in the production of the other good.
Handout 5-4: Aquan Worksheet (page 3 of 3)

Task #5: The Gains From Trade

1. Suppose that pies and pans of brownies can be traded one-for-one. Which good should you specialize in producing? ________________________________________________________________

2. Assume that you specialize and can trade at the one-for-one rate. In the third row (labeled “Trade”) of the table from Task #1, write the number of pies it would be possible for you to have with each amount of pans of brownies shown.

3. Look at Task #2 and identify the combinations that are now possible for you to enjoy that were not possible before trade. ________________________________________________________________
Handout 5-5: Assessment

Multiple Choice
Directions: Choose the correct answer for each of the following questions.
1. The total amount of goods that a country is able to produce is limited by
   a. its government.
   b. the amount of money its people have.
   c. the amount of resources its people have.
   d. the amount of goods its people want.

2. The people of Eurostan can produce 1,000 cars and 500 trucks per year if they use all of the available resources. If they produce 1,200 cars, they can only produce 400 trucks. The opportunity cost of the additional 200 cars is
   a. 100 trucks.
   b. 200 trucks.
   c. $400,000.
   d. $200,000.

3. It's better for people in a country to trade for a good than to produce the good if the opportunity cost of producing it is
   a. low overall.
   b. high overall.
   c. lower than the cost of trading.
   d. higher than the cost of trading.

Short Answer
Directions: Answer the following question using complete sentences.
4. How can people consume more of a good than they are able to produce themselves?
Standards and Benchmarks

National Content Standards in Economics

Standard 5: Trade

Voluntary exchange occurs only when all participating parties expect to gain. This is true for trade among individuals or organizations within a nation, and among individuals or organizations in different nations.

- **Benchmarks: Grade 4**
  1. Exchange is trading goods and services with people for other goods and services (called barter) or for money.
  2. People voluntarily exchange goods and services because they expect to be better off after the exchange. This also may include the more informal exchanges of favors and courtesies.

- **Benchmarks: Grade 8**
  1. When people buy something, they value it more than it costs them; when people sell something, they value it less than the payment they receive.
  2. Voluntary exchange among people or organizations gives people a broader range of choices in buying goods and services.

Standard 6: Specialization

When individuals, regions, and nations specialize in what they can produce at the lowest cost and then trade with others, both production and consumption increase.

- **Benchmarks: Grade 4**
  1. Economic specialization occurs when people concentrate their production on fewer varieties of goods and services than they consume.
  2. Greater specialization leads to increasing interdependence among producers and consumers

- **Benchmark: Grade 8**
  2. Like trade among individuals within one country, international trade promotes specialization and division of labor and increases the productivity of labor, output, and consumption.