AP® Microeconomics
1999 Scoring Commentary

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Question 1

This long microeconomic question tests students' understanding of product markets and the firm's labor hiring decision. The first part of the question tests an understanding of the difference between a change in supply and a change in the quantity supplied. Many students failed to demonstrate their understanding of this fundamental difference. In part (b), students are asked to assess the impact of a tariff on both the market for imported textiles and for domestically produced textiles. Part (c) asks for the impact of a wage increase for labor producing textiles within the United States. In part (d), the wage increase from part (c) and the resulting increase in the price of domestically produced textiles are needed to analyze the individual firm's hiring of textile workers. Very few students made the transition from the market analysis — Parts (a),(b), and (c) — to the firm analysis, Part (d). Frequently students provided a graph and explanation for the labor market, but not for the individual firm. Even fewer students realized that the firm was a wage taker that faced a supply of labor that was perfectly elastic at the wage rate. In this question the supply of labor to the firm, — while remaining perfectly elastic — shifts up, reflecting the higher wage rate. Given that the price of textiles has increased, the marginal revenue product of labor (the firm's labor demand curve) shifts out. [Note: the individual firm, producing less output, will employ less labor; the intersection of the new labor supply and the new labor demand should result in fewer workers hired.] Students, year after year, seem to have major difficulty with questions that use the marginal revenue product of labor concept or that relate to the hiring of inputs.

Question 2

This question relates to absolute advantage, comparative advantage, opportunity cost, and the gains from trade. Students tended to have an understanding of the concepts of absolute and comparative advantage. Often, however, explanations concerning opportunity cost were lacking. Frequently students did not clearly state that the opportunity cost of producing a unit of wheat in Country A (1 unit of cloth) was less than the opportunity cost of producing a unit of wheat in Country B (3 units of cloth); and that this differential resulted in A having comparative advantage in wheat and B having a comparative advantage in cloth. Students also did not demonstrate a good understanding of the gains from trade: either acquiring a product at lower cost through trade than through domestic production or enjoying increased consumption of both goods (consuming beyond the production possibilities curve).

Question 3

Using both a competitive firm and a monopoly firm, this question tests students' understanding of demand and marginal revenue. Many students failed to see that the competitive firm is a price taker and has a perfectly elastic (horizontal) demand for its output. As a result, the firm's marginal revenue is also perfectly elastic, is equal to price, and coincides with the firm's demand curve. All AP Microeconomics courses should clearly explain the differences between a firm that is a price taker (competitive firm) and a price setter (monopolist).