Chapter_02_Economic_Tools_and_Economics_Systems

1 Opportunity cost exists because

- technology is fixed at any point in time
- the law of comparative advantage is working
- resources are scarce but wants are unlimited
- the value of lost opportunities varies from person to person
- efficiency is measured by the monetary cost of an activity

2 Opportunity cost is the difference between the benefits and the costs of a choice.

- True
- False

3 Opportunity cost is always measured in dollar terms, rather than in terms of real goods and services.

- True
- False

4 A rational decision maker engages in an activity if that activity is more attractive than the best alternative.

- True
- False

5 The Sultan of Brunei, one of the world's richest people, does not face the problem of scarcity.

- True
- False

6 Opportunity cost is defined

- only in terms of money spent
- as the value of all alternatives not chosen
- as the value of the best alternative not chosen
- as the difference between the benefits from a choice

and the benefits from the next best alternative
- as the difference between the benefits from a choice and the costs of that choice

7 Suppose you have an hour before your next class starts. You can either read a book, get something to eat, or take a nap. The opportunity cost of getting something to eat is

- the cost of what you eat
- the value of reading and sleeping
- the loss of value from not reading or sleeping
- the net benefit of sleeping for another hour
- impossible to determine because the most preferred alternative is not known

8 The opportunity cost of an activity is

- zero if you choose the activity voluntarily
- the amount of money spent on the activity
- the value of the best alternative not chosen
- the sum of benefits from all of the sacrificed alternatives
- the difference between the benefits and the costs of that activity

9 The opportunity cost of an activity

- depends on the individual's subjective values and opinions
- is the same for everyone
- must be calculated and known before undertaking that activity
- is irrelevant to decision making
- is not related to time

10 Your opportunity cost of choosing a particular activity

- can be easily and accurately calculated
- cannot even be estimated
- does not change over time
- varies, depending on time and circumstances
- is measured by the money you spend on the activity

11 The opportunity cost of college is the same for all students who are receiving full-tuition scholarships.

- ○ True
- ◉ False

12 The opportunity cost of going to college is best measured by the

- ○ cost of room and board
- ○ cost of tuition
- ○ cost of room and board plus tuition
- ◉ income forgone by not working, plus tuition
- ○ income forgone by not working, plus tuition and room and board

13 Suppose you have a choice of working full-time during the summer or going full-time to summer school. Summer tuition and books are $2,200. If you worked, you could make $7,000. Your rent is $1,000 for the summer, regardless of your choice. The opportunity cost of going to summer school is, therefore,

- ○ $2,200
- ○ $7,000
- ○ $8,000
- ◉ $9,200
- ○ $10,200

14 Upon graduating from high school you have a job offer which would provide you with $20,000 in income for the coming year. You have also been accepted to Isaac and Avery college. Tuition for the coming year at I&A college is $15,000, room and board is $10,000 and you expect that books will cost you $2,000. What is the opportunity cost of attending I&A college?

- ◉ $37,000
- ○ $27,000
- ○ $20,000
- ○ $32,000
- ○ $47,000

15 The cost of attending college

- ○ is entirely monetary and consists of expenditures on tuition, books, transportation, and meals
- ○ is not monetary, but consists solely of forgone income
- ◉ is the most valued alternative given up to attend college
- ○ is negligible for most people, because they really have no choice but to attend college
- ○ is the same whether you attend a public or a private college

16 Expenses for room and board

- are opportunity costs of attending college, because they are subsidized by the government or by the college
- are opportunity costs of attending college since they involve cash expenditures
- are opportunity costs of attending college if you are on scholarship, but not otherwise
- (•) are not usually part of the opportunity cost of attending college, because you would have to live somewhere and eat something even if you didn't attend college
- are not usually part of the opportunity cost of attending college, because they are already included in room and board charges, and we wish to avoid double counting

17 The opportunity cost of going to college includes the costs of tuition, books, fees, and

- nothing else
- housing
- housing and food
- (•) earnings forgone by not working full-time
- housing, food, and earnings forgone by not working full-time

18 Opportunity cost is objective; therefore, its value does not change as circumstances change.

- True
- (•) False

19 Which economic concept does the expression "time is money" reflect?

- (•) opportunity cost
- specialization
- market exchange
- comparative advantage
- efficiency

20 A test was scheduled for Monday morning, but you went to a party on Saturday night. If you hadn't attended the party, you could have studied for the test or gone to a movie. Which of the following is true?

- The opportunity cost of going to the movie is studying for the test.
- The opportunity cost of going to the party is the movie.
- The opportunity cost of going to the party is both the movie and the study time.
- Because you could go to the party only that night but could go to a movie any time, the opportunity cost of the party is the study time.
- From the above information, it's not possible to determine the opportunity cost of attending the party.

21 The term opportunity cost suggests that

- in any exchange situation where one person gains, someone else must lose
- not all individuals make the most of life's opportunities
- executives do not always recognize opportunities for profit as quickly as they should
- the only factor that is important in decision making is cost
- because goods are scarce, in order to get some good you must give up some other good in return

22 If you enjoy playing golf, the opportunity cost of cleaning your room

- is the same on sunny days as it is on rainy days
- is greater on sunny days than it is on rainy days
- is smaller on sunny days than it is on rainy days
- does not change with the weather conditions
- is equal to the opportunity cost of any other chore you have to do that day

23 Melissa is a self-employed lawyer who chooses a higher-priced restaurant 2 miles from home over a cheaper restaurant 15 miles from home. Which of the following is the most likely explanation for her behavior?

- The opportunity cost of her time is very low.
- She doesn't take travel time into consideration.
- She doesn't like to cook or doesn't know how.
- The prices at the more expensive restaurant understate the opportunity cost of eating there.
- The higher monetary cost of the more expensive restaurant is offset by the higher opportunity cost of the lower-priced restaurant.

24 The opportunity cost of a particular activity

- must be the same for everyone
- is the value of all alternative activities that are forgone
- has a maximum value equal to the minimum wage
- (•) varies from person to person
- can usually be known with certainty

25 The opportunity cost of an activity is best measured

- only by the monetary costs
- by the number of alternative activities that were forgone
- by the cost difference between the chosen activity and the next best alternative
- (•) by the value expected from the best alternative that is forgone
- as the time wasted choosing among various activities

26 A university should not disband its football team if it has already paid for the stadium.

- True
- (•) False

27 Suppose you have purchased a non-refundable plane ticket and, at the last moment, you cannot take the trip. You can, however, sell the ticket. If you paid $700 for the ticket, the cost of sending the ticket to someone through overnight mail is $20, and you spend $10 on a courier to get the ticket to the post office for overnight delivery, what is the minimum you should accept for the ticket?

- $700 because that is what the ticket cost.
- $720 because that is the cost of the ticket and of getting it to the buyer.
- $730 because that is the total cost of the ticket and getting it to the buyer.
- More than $730, so that you can make a profit.
- (•) $30 because the $700 is a sunk cost.

28 Sunk costs

- can only be measured in monetary terms
- are opportunity costs
- should influence a person's choice if that person is a marginal decision maker
- lower the efficiency of production
- (•) should not be considered when making economic

decisions

29 If people specialize in producing those goods for which they possess a comparative advantage, then the economy as a whole can produce a greater quantity of goods.

- (•) True
- ( ) False

30 It is possible for one person to have a comparative advantage in the production of all products?

- ( ) True
- (•) False

31 Comparative advantage is based on opportunity costs.

- (•) True
- ( ) False

32 The law of comparative advantage says that a person should produce a good if she

- ( ) has the greatest desire to consume that good
- (•) has the lowest opportunity cost of producing that good
- ( ) has an absolute advantage in a related activity
- ( ) has a comparative advantage in a related activity
- ( ) is equally good at producing this good as someone else is

33 The law of comparative advantage says that

- (•) the individual with the lowest opportunity cost of producing a particular good should produce it
- ( ) comparative advantage exists only when one person has an absolute advantage in the production of two goods
- ( ) whoever has a comparative advantage in producing a good also has an absolute advantage in producing that good
- ( ) whoever has an absolute advantage in producing a good also has a comparative advantage in producing that good
- ( ) gains from trade are possible only when one person

has the comparative advantage in producing both goods

34 Comparative advantage is

- the ability of an individual to specialize and produce a greater amount of some good than can another individual
- the number of units of one good given up in order to acquire something
- the ability of an individual to produce a good at a lower opportunity cost than some other individual can
- an expression for the amount of labor a particular individual needs to produce a fixed amount of capital goods
- a reference to an individual having the greatest opportunity cost of producing the good and produces it with the fewest resources

35 If you and I agree to exchange four ginger snaps for one chocolate chip cookie, then it must be true that

- we are both at least as well off as we were before
- I am better off than I was before, but you are not
- you are better off than you were before, but I am not
- we are both better off than before
- we are both worse off than before

36 The law of comparative advantage states that the person who should produce a good is the person who

- has the lowest opportunity cost of producing that good
- can produce that good using the fewest resources
- will produce that good using the most expensive resources
- has the most desire for that good
- has produced that good in the past

37 A person who can produce more of a good than another person is said to possess a comparative advantage.

- True
- False

38 It is impossible for one person to have a comparative advantage in all tasks.

- (•) True
- ( ) False

39 It is possible for one person to have an absolute advantage in two tasks and a comparative advantage in only one.

- (•) True
- ( ) False

40 It is possible for one person to have an absolute advantage in something even if she has no comparative advantage in anything.

- ( ) True
- (•) False

41 Absolute advantage is based on opportunity cost.

- ( ) True
- (•) False

42 John takes 10 minutes to iron a shirt and 20 minutes to type a paper. Harry takes 10 minutes to iron a shirt and 30 minutes to type a paper. Which of the following statements is correct?

- (•) Harry has a comparative advantage in ironing.
- ( ) Harry has a comparative advantage in typing.
- ( ) Harry has an absolute advantage in typing.
- ( ) Harry has an absolute advantage in ironing.
- ( ) Neither can gain from specialization and exchange.

43 Don can produce 10 pens or 20 pencils in one hour while Bob can produce 5 pencils or 15 pens in one hour. Which of the following statements is correct?

- ( ) Don has an absolute advantage over Bob in the production of pencils and Bob in the production of pens
- ( ) Bob has an absolute advantage over Don in the production of pencils
- (•) Bob has a comparative advantage over Don in the production of pens
- ( ) Don has a comparative advantage over Bob in the

production of pens
- Don does not have a comparative advantage in the production of either good

44 If Jason can wash a car in 20 minutes and wash a dog in 10 minutes, and Megan can wash a car in 15 minutes and wash a dog in 15 minutes, which of the following statements is true?

- The opportunity cost of washing a car is greater for Megan.
- The opportunity cost of washing a car is one dog bath for Jason.
- Megan could wash two cars in the time it takes to wash a dog.
- (•) Jason has both a comparative and an absolute advantage in washing a dog.
- The opportunity cost of washing a dog is greater for Jason.

45 Janis mows the lawn in 1 hour and types a paper in 1 hour. Kristen mows the lawn in 2 hours and types a paper in 1 hour. Which of the following statements is true?

- Kristen has an absolute advantage in typing and a comparative advantage in mowing.
- Janis has an absolute advantage in both activities and a comparative advantage in typing.
- Janis has an absolute advantage in both activities and a comparative advantage in mowing.
- (•) The opportunity cost of mowing the lawn is greater for Kristen than it is for Janis.
- Neither Janis nor Kristen would gain from specialization.

46 If Monica has a comparative advantage in baking and George has a comparative advantage in sewing, then

- Monica must have an absolute advantage in baking
- Monica must have an absolute advantage in sewing
- George must have an absolute advantage in baking
- George must have an absolute advantage in sewing
- (•) we can conclude nothing about absolute advantage

47 If Evan has an absolute advantage in cleaning and bookkeeping when compared to Gloria, then

- Evan must also have a comparative advantage in cleaning and bookkeeping
- Evan must have a comparative advantage in cleaning
- Evan must have a comparative advantage in bookkeeping
- Gloria has a comparative advantage in neither activity
- (•) we can conclude nothing about comparative advantage

48 If Jeremy has an absolute advantage in cooking and Margaret has an absolute advantage in cleaning, then

- Jeremy has a comparative advantage in cooking, and Margaret has a comparative advantage in cleaning
- Jeremy has a comparative advantage in cleaning, and Margaret has a comparative advantage in cooking
- (•) we can conclude nothing about comparative advantage
- Jeremy has a comparative advantage in cooking, but we can conclude nothing about Margaret
- Margaret has a comparative advantage in cleaning, but we can conclude nothing about Jeremy

49 If Robin has an absolute advantage in both gardening and baking when compared to Robert, then

- Robin cannot benefit by trading with Robert
- Robin can benefit by specializing in gardening if Robert specializes in baking
- Robin can benefit by specializing in baking if Robert specializes in gardening
- (•) Robin and Robert may benefit from trading, but there is insufficient information to determine who should specialize in what
- neither Robin nor Robert can benefit from trading with the other

50 If one person has the absolute advantage in producing both of two goods, then that person

- must also have a comparative advantage in both goods
- cannot benefit from trade
- cannot have a comparative advantage in either good
- (•) will have the comparative advantage in only one

good
- should specialize in the production of both goods

51 A country has an absolute advantage in the production of a good if that country

- can produce the good using fewer resources than another country would require
- has the lowest opportunity cost of producing the good and can produce it with the fewest resources
- has the lowest opportunity cost of producing the good regardless of whether it is produced with the fewest resources
- has the greatest opportunity cost of producing the good regardless of whether it is produced with the fewest resources
- has the greatest opportunity cost of producing the good and produces it with the fewest resources

52 If Sam can chop up more carrots per minute than Joe can, then

- Joe has an absolute advantage in carrot chopping
- Joe must have a comparative advantage in carrot chopping
- Sam has an absolute advantage in carrot chopping
- Sam must have a comparative advantage in carrot chopping
- we can conclude nothing about absolute advantage

53 Eileen has a comparative advantage over Jan in piano tuning but not in shoe polishing. Therefore,

- Jan must have an absolute advantage in piano tuning
- Eileen must have an absolute advantage in shoe polishing
- Jan must have a lower opportunity cost of shoe polishing
- Eileen must have an absolute advantage in shoe polishing and in piano tuning
- Eileen must have an absolute advantage in piano tuning

54 If Helen gives up the opportunity to bake 40 cakes for each room she paints and Josh can paint one room in the time it takes him to bake 60 cakes, which of the following is true?

- The opportunity cost of painting is higher for Helen.

◉ The opportunity cost of baking cakes is lower for Josh.
○ The opportunity cost of painting one room is 1/40 of a cake for Helen.
○ The opportunity cost of baking one cake is 60 rooms painted for Josh.
○ The opportunity cost of cakes cannot be computed.

55 Helen gives up the opportunity to bake 40 cakes for each room she paints; Josh can paint one room in the time it takes him to bake 60 cakes. The opportunity cost of a cake for Helen is

○ painting one room
◉ painting 1/40 of a room
○ painting 1/60 of a room
○ painting 2/3 of a room
○ painting 3/2 of a room

56 Helen gives up the opportunity to bake 40 cakes for each room she paints; Josh can paint one room in the time it takes him to bake 60 cakes. The opportunity cost of a cake for Josh is

○ painting one room
○ painting 1/40 of a room
◉ painting 1/60 of a room
○ painting 2/3 of a room
○ painting 3/2 of a room

57 If Daniel produces one pair of shoes in 4 hours and Sarah produces one pair of shoes in 3 hours, then

○ Sarah has a comparative advantage in shoemaking
○ Daniel has a comparative advantage in shoemaking

○ Sarah has an absolute and a comparative advantage in shoemaking
○ Daniel has an absolute and a comparative advantage in shoemaking
◉ Sarah has an absolute advantage in shoemaking

58 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12

Pages typed per hour	6	8

According to Exhibit 2-1, Hans' opportunity cost of doing a load of laundry is

- 12 papers
- 8 papers
- 1 1/2 pages
- 2/3 of a page
- impossible to compute

59 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, Hans' opportunity cost of typing one page is

- 12 loads of laundry
- 8 loads of laundry
- 3/2 of a load of laundry
- 2/3 of a load of laundry
- impossible to compute

60 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, Maria's opportunity cost of typing a page is

- 4 loads of laundry
- 6 loads of laundry
- 2/3 of a load of laundry
- 3/2 of a load of laundry

- impossible to compute

61 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, Maria's opportunity cost of doing a load of laundry is

- 4 pages
- 6 pages
- 2/3 of a page
- 3/2 of a page
- impossible to compute

62 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, if Hans types one fewer page, how many loads of laundry can he do in the time saved on typing?

- 12 loads
- 8 loads
- 3/2 of a load
- 2/3 of a load
- it cannot be determined

63 **Exhibit 2-1**

	Hans	Maria

Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, if Hans does one fewer load of laundry, how many pages can he type in the time saved on laundry?

- 12 pages
- 8 pages
- 3/2 of a page
- 2/3 of a page
- it cannot be determined

64 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, if Maria does one fewer load of laundry, how many pages can she type in the time saved on laundry?

- 4 pages
- 6 pages
- 2/3 of a page
- 3/2 of a page
- it cannot be determined

65 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, if Maria types one fewer page, how many loads of laundry can she do in the time saved on typing?

- 4 loads
- 6 loads
- 2/3 of a load
- 3/2 of a load
- it cannot be determined

66 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, in any given amount of time,

- Maria has an absolute and a comparative advantage in typing
- Maria has an absolute and a comparative advantage in doing laundry
- Maria has a comparative advantage in both typing and doing laundry
- Hans has an absolute and a comparative advantage in typing
- Hans has an absolute advantage in doing laundry

67 **Exhibit 2-1**

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

According to Exhibit 2-1, Hans and Maria would be better off if

- Hans specialized in typing and Maria in doing laundry
- Hans specialized in doing laundry and Maria in typing
- each did their own laundry and typing
- Maria did all of the typing and all of the laundry

- Hans did all of the typing and all of the laundry

68 In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Tetah can knit 15 sweaters or bake 480 cookies. In this example,

- Mohammed has the absolute and comparative advantage in both tasks
- Tetah has the absolute and comparative advantage in both tasks
- Mohammed has the absolute advantage in both tasks and the comparative advantage in knitting sweaters
- (•) Tetah has the absolute advantage in both tasks and the comparative advantage in knitting sweaters
- Mohammed has the absolute advantage in both tasks and the comparative advantage in baking cookies

69 In one week, Mohammed can knit 5 sweaters or bake 240 cookies. The opportunity cost per sweater for Mohammed is

- $240
- 240 cookies
- 48 sweaters
- 1/48 of a cookie
- (•) 48 cookies

70 In one week, Mohammed can knit 5 sweaters or bake 240 cookies. The opportunity cost per cookie for Mohammed is

- $5
- 5 sweaters
- 48 sweaters
- (•) 1/48 of a sweater
- 48 cookies

71 In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Tetah can knit 15 sweaters or bake 480 cookies. Mohammed and Tetah would produce the maximum quantities of cookies and sweaters if

- Mohammed knitted and baked and Tetah did nothing
- Tetah knitted and baked and Mohammed did nothing
- Mohammed knitted and Tetah baked
- (•) Tetah knitted and Mohammed baked
- Mohammed knitted and baked and Tetah just knitted

72 In one week, Tetah can knit 15 sweaters or bake 480 cookies. The opportunity cost per sweater for Tetah is

- $480
- 480 cookies
- 32 cookies
- 1/32 of a cookie
- 15 cookies

73 In one week, Tetah can knit 15 sweaters or bake 480 cookies. The opportunity cost per cookie for Tetah is

- $15
- 15 sweaters
- 32 sweaters
- 1/32 of a sweater
- 480 sweaters

74 **Exhibit 2-2**

	Robinson Crusoe	Friday
Fishhooks per day	30	60
Fishing poles per day	2	10

Given the information in Exhibit 2-2, which product should Friday (an individual) make?

- fishhooks because he can make 30 more per day than Crusoe but only 8 more fishing poles
- both because he is better at both
- fishing poles because that is where his comparative advantage lies
- neither because Crusoe is better at both
- we cannot tell from the given information

75 Specialization can sometimes create problems such as boredom and repetitive motion injuries.

- True
- False

76 Specialization often leads to gains in productivity for society as a whole.

- (•) True
- ( ) False

77 Barter occurs when

- ( ) two people share everything
- (•) one product is exchanged directly for another product
- ( ) money is used to buy goods
- ( ) money is exchanged directly for other money
- ( ) goods are used to buy money

78 If I trade a ginger snap for a chocolate chip cookie, I am engaging in

- (•) barter
- ( ) comparative advantage
- ( ) absolute advantage
- ( ) privatization
- ( ) division of labor

79 Money facilitates trade because

- ( ) it eliminates the need for specialization
- ( ) it prevents people from taking advantage of each other
- (•) it serves as a medium of exchange
- ( ) division of labor allows money to be produced at a lower cost
- ( ) people do not benefit from barter unless money is used

80 Barter is

- ( ) illegal in the United States
- ( ) an efficient system of exchange
- ( ) most useful when there is much specialization and international trade
- ( ) only possible if money is used as a medium of exchange
- (•) the direct exchange of goods, without the use of money

81 A medium of exchange must be

- approved by the government
- socially acceptable in exchange for goods and services
- easy to reproduce
- used to eliminate specialization and the division of labor
- used when a system of barter exists

82 Division of labor allows people to do tasks for which they have greater natural ability.

- True
- False

83 Which of the following provide the best evidence of specialization?

- a firm that produces a line of related products, such as eight kinds of breakfast cereal
- an architect who is willing to practice in only one geographic area
- a physician that practices in a specialty area such as cardiology or orthopedic surgery
- a family that eats at Wendy's every Thursday night
- a retailer that sells goods but provides no services

84 The division of labor

- allows more people to be employed
- allows tasks to be performed more efficiently
- makes people happier on the job
- means that less management is required
- means that less equipment will be used

85 The division of labor facilitates productivity increases for all of the following reasons, *except* one. Which is the exception?

- It allows people to do those tasks for which they have the greatest natural ability.
- Workers get better at tasks, the more they repeat them.
- The more experience workers gain by specializing in a task, the more likely they will enjoy that task.
- More sophisticated production techniques are introduced.
- The division of labor often permits the introduction of labor-saving machinery.

86 Which of the following is not a gain from division of labor?

- Workers' abilities are matched to tasks.
- Workers gain experience from the repetition of the tasks.
- Workers save time by not moving to different tasks.
- Workers' morale increases as tasks become more specialized.
- The introduction of labor-saving machinery is possible.

87 Division of labor increases productivity because

- tasks can be assigned according to individual tastes and abilities
- workers who repeatedly perform the same tasks become bored
- each worker must learn each of the numerous tasks in the total production process
- specialization of labor allows for the introduction of cheaper, less sophisticated production techniques
- managers can force workers to produce goods that are valued more highly than the costs of producing them.

88 Because of specialization and comparative advantage, most people

- consume only what they produce themselves
- consume the products produced by their family and friends
- consume the products of many other specialists
- do not use money as a medium of exchange
- share whatever they produce

89 Fast food is faster and cheaper than a similar meal you could prepare for yourself. Which of the following does *not* explain that fact?

- meal preparation has been divided into many separate tasks
- larger-scale production allows the introduction of more efficient machines
- workers gain productivity at a task over time
- there is less time lost moving from one task to another
- workers are more productive when they are being paid

90 The "division of labor" refers to

- discrimination in labor markets
- separating a job into smaller tasks completed by different people
- one worker who divides his time among different jobs and duties
- defining a job according to the appropriate sex
- the fact that two 20-year-olds are more productive than one 40-year-old

91 Specialization of labor

- increases productivity without creating any problems
- reduces productivity, and is usually eliminated by business firms
- can create problems of boredom and repetitive motion injuries
- prevents the introduction of more sophisticated and efficient production techniques
- ignores individual preferences and natural abilities

92 In economics, specialization means

- producing something using only one type of resource, such as labor
- producing something using only one type of labor
- focusing efforts on a particular product or a single task
- producing only one unit of output
- producing something using only one unit of a variable resource

93 Which of the following is an example of division of labor?

- an author writing a book one chapter at a time
- a firm trying to get rid of a labor union
- separating resources into four categories: land, labor, capital, and entrepreneurial ability
- allocating revenue among a firm's resource suppliers
- dividing an assembly process into separate steps

94 Each point on a production possibilities frontier requires full employment of resources.

- True

- False

95 The production possibilities frontier represents all desirable combinations of outputs.

- True
- False

96 Each point along a nation's production possibilities frontier represents efficient use of all resources.

- True
- False

97 On a given production possibilities frontier, which of the following is *not* assumed to be fixed?

- the amount of labor available
- the amount of capital available
- the level of technology
- the amount of land and natural resources available
- production of each item

98 At various points along the production possibilities frontier,

- the greatest achievable output levels are illustrated
- resources are not fully employed
- more of one good can be obtained without giving up more of the other
- more efficient output levels are possible
- society is equally well off

99 When drawing a production possibilities frontier, all of the following are usually assumed *except one*. Which is the exception?

- The quantity of resources is rapidly growing.
- Technology is fixed.
- Resources can be shifted between production of the two goods.
- The production possibilities frontier is drawn for a particular time period.
- Resources are fully and efficiently employed.

100 Society's production possibilities frontier

- helps explain the immense complexity of the real economy
- demonstrates that, although resources are scarce for individuals, there is no problem of scarcity for society as a whole
- is based on unrealistic assumptions and therefore has no value as an economic tool
- (•) is based on simplifying assumptions, but is still useful for illustrating scarcity, opportunity cost, and economic growth
- is based on the assumption that technology is constantly changing

101 Which of the following is most appropriately measured along one axis of the production possibilities frontier diagram?

- (•) the quantity of a produced good
- the price of a produced good
- the quantity of natural resources
- the state of technology
- society's welfare and satisfaction

102 "Efficiency" refers to

- producing output using the least amount of labor
- producing output using the least amount of capital
- producing as far inside the production possibilities frontier as possible
- producing only one out of many possible commodities
- (•) getting the maximum possible output from available resources

103 If all resources are used efficiently to produce goods and services, a nation will find itself producing

- inside its production possibilities frontier
- (•) somewhere on its production possibilities frontier
- outside of its production possibilities frontier
- at one extreme end of its production possibilities frontier
- more of one product with no decrease in the production of any other product

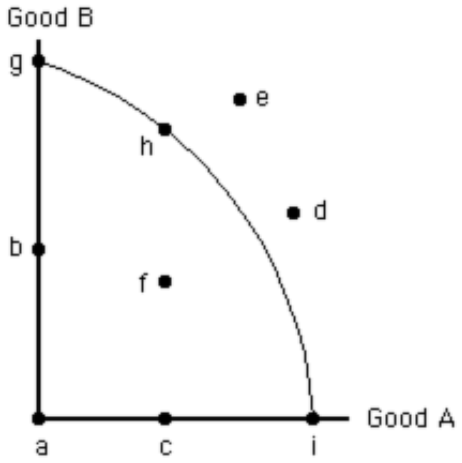
104 The production possibilities frontier represents the boundary between attainable and unattainable prices of commodities.

- True
- False

105 A point outside the production possibilities frontier

- represents unemployment of resources
- represents full employment of resources
- would not represent an efficient combination of goods
- cannot be reached using the available technology
- is less desirable than one that lies inside the frontier

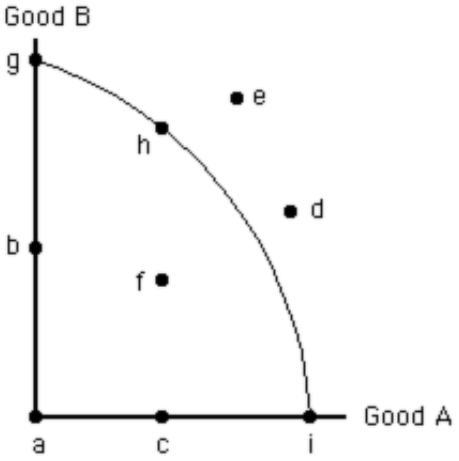
106 **Exhibit 2-3**



In Exhibit 2-3, if all the economy's resources are used efficiently to produce good B, then the economy is at point

- g
- b
- h
- i
- e

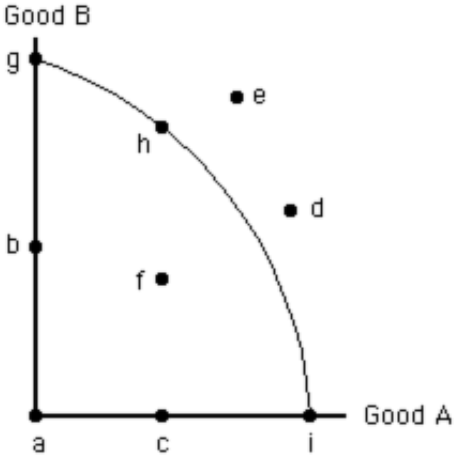
107 **Exhibit 2-3**



In Exhibit 2-3, if all the economy's resources are used efficiently to produce good A, then the economy is at point

- h
- e
- d
- i
- c

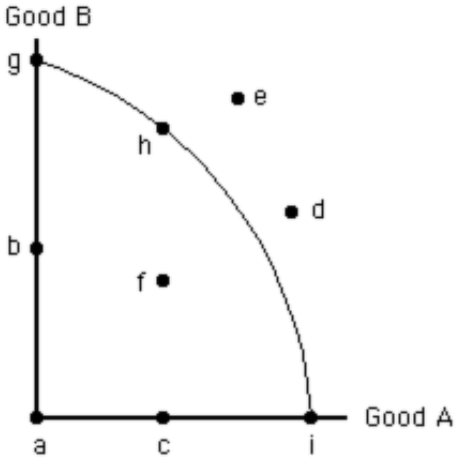
108 **Exhibit 2-3**



Which of the following points in Exhibit 2-3 is unattainable, given the quantity of resources and level of technology?

- h
- g
- f
- i
- e

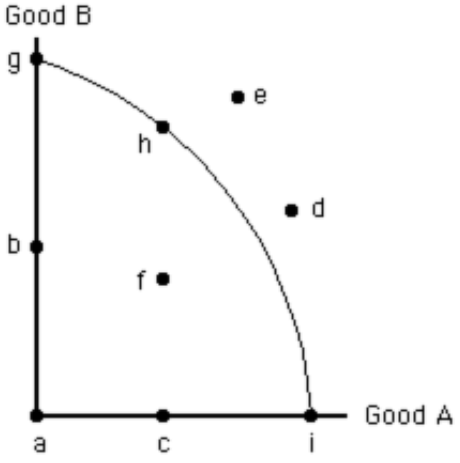
109 **Exhibit 2-3**



Which of the following points in Exhibit 2-3 represents an inefficient use of the economy's resources?

- g
- i
- f
- d
- h

110 **Exhibit 2-3**

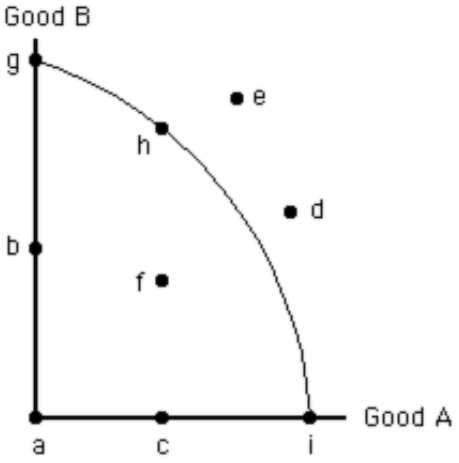


In Exhibit 2-3, if resources are used fully and efficiently, then the economy can produce at point(s)

- f
- h, d, or e
- a, b, or c
- d or e
- g, h, or i

111

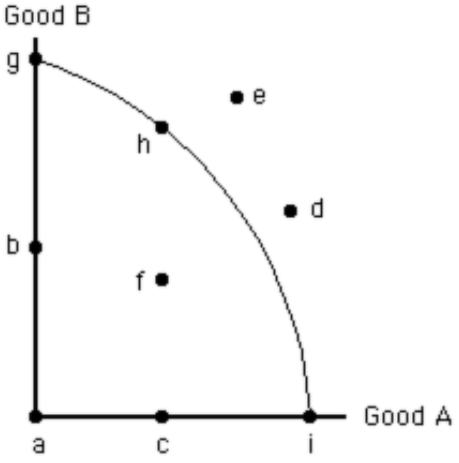
Exhibit 2-3



Point e in Exhibit 2-3 represents

- an attainable combination of good A and good B
- an unattainable combination of good A and good B
- the combination of good A and good B that the economy will produce
- one possible efficient combination of good A and good B
- the only unattainable combination of good A and good B

112 **Exhibit 2-3**

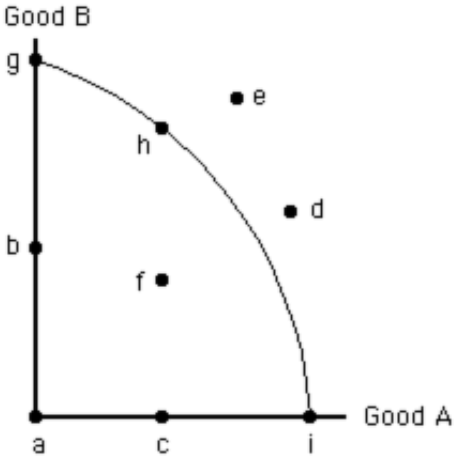


Point f in Exhibit 2-3 represents

- an efficient combination of good A and good B
- the only efficient combination of good A and good B
- the combination of good A and good B that the

economy will produce
- ◉ an inefficient combination of good A and good B
- ○ the only unattainable combination of good A and good B

113 **Exhibit 2-3**



Point g in Exhibit 2-3 is efficient because

- ◉ the only way to increase production of A is by decreasing production of B
- ○ the economy can increase production of both A and B from point b
- ○ it is impossible to move to any other point along the production possibilities frontier
- ○ it is impossible to move to any other point inside the production possibilities frontier
- ○ no other production possibilities frontier exists

114 Points inside the production possibilities frontier represent

- ○ full and efficient use of all resources
- ◉ inefficiency or unemployment (or both)
- ○ currently unattainable combinations of outputs
- ○ currently unattainable combinations of resources
- ○ the most desirable combinations of outputs

115 Points outside the production possibilities frontier represent

- ○ unemployment of resources
- ○ inefficient use of resources
- ○ combinations that are attainable only if all resources are used fully and efficiently
- ◉ currently unattainable combinations of outputs

- the only currently attainable combinations from which society must choose

116 A point inside the production possibilities curve illustrates a situation in which resources are not fully employed

- True
- False

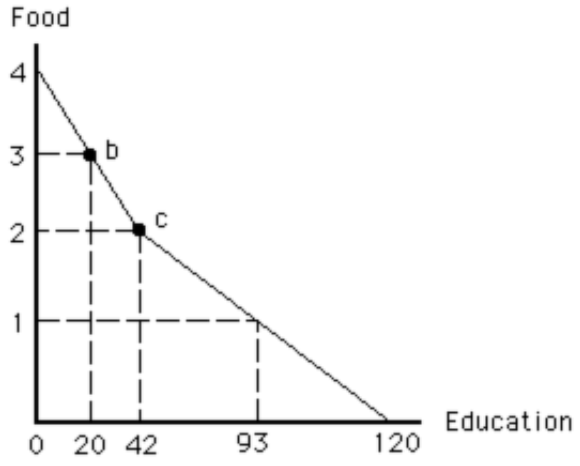
117 The bowed-out shape of the production possibilities frontier indicates increasing opportunity costs.

- True
- False

118 The typical concave (i.e., bowed-out) shape of the production possibilities frontier reflects the law of increasing opportunity cost.

- True
- False

119 **Exhibit 2-4**



In Exhibit 2-4, what is the opportunity cost of moving from point c to point b?

- 3 units of food
- 22 units of education
- 1 unit of food
- 12 units of education
- 62 units of education

120 Along a bowed-out production possibilities frontier, as more of one good is produced,

- the opportunity cost of producing that good remains constant
- the opportunity cost of producing that good decreases
- efficiency decreases
- the opportunity cost of producing both goods must remain constant
- technology remains constant

121 If an economy is operating at a point inside the production possibilities frontier, then

- some of the nation's resources are unemployed
- the production decisions are made by the government
- unlimited resources must satisfy scarce desires
- there is a scarcity of human resources relative to human wants therefore society must have some mechanism for making choices
- society is paying too much for wages

122 If the production possibilities frontier is a straight line,

- its slope will equal -1
- resources must not be used efficiently
- resources must be unemployed
- society must not be using the latest technology
- resources must be equally adaptable at producing either product

123 A production possibilities frontier will be bowed out if

- there is scarcity
- resources are used efficiently
- production of one good involves an opportunity cost
- resources are not perfectly adaptable to making each good
- technology is improving

124 Because resources are not perfectly adaptable to the production of both good A and good B,

- the opportunity cost of A increases as production of A increases

- the opportunity cost of A decreases as production of A increases
- it is impossible for the economy to produce both A and B
- the opportunity cost of A is constant
- the opportunity cost of B is constant

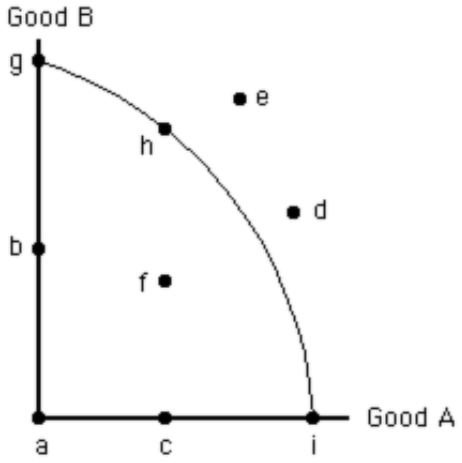
125 On a production possibilities frontier showing possible output levels of good A and good B, the opportunity cost of producing the first 10 units of A will usually be

- the same as the opportunity cost of producing the second 10 units of A
- (•) less than the opportunity cost of producing the second 10 units of A
- greater than the opportunity cost of making the second 10 units of A
- 10 units of A
- 10 units of B

126 The concave shape of a production possibilities frontier showing possible output levels of good A and good B indicates that if the economy produces more and more of good B,

- (•) larger and larger amounts of good A must be sacrificed
- smaller and smaller amounts of good A must be sacrificed
- more of good A will be produced
- the amount of resources available in the economy must be increased
- there must be an improvement in technology

127 **Exhibit 2-5**



In moving from point f to point g in Exhibit 2-3, the

- production of B increases without a change in the production of A
- production of A increases without a change in the production of B
- production of both A and B increase
- production of both A and B decrease
- production of B increases and production of A decreases

128 If the production possibilities curve is a downward-sloping straight line, that would indicate

- that society cannot decide which good it prefers
- an absence of scarcity
- constant opportunity cost
- inefficiency
- specialization

129 The law of increasing opportunity cost explains why

- opportunity cost is constant along the production possibilities frontier
- the production possibilities frontier is downward sloping
- the production possibilities frontier is curved
- efficient points lie along the production possibilities frontier
- technology remains constant along a production possibilities frontier

130 The law of increasing opportunity cost reflects the fact that

- the production possibilities frontier is bowed inward
- resources are not perfectly substitutable
- resources cannot always be used efficiently
- an economy will operate at a point inside the production possibilities frontier
- an economy will operate at a point along the production possibilities frontier

131 On a straight-line production possibilities frontier, which of the following is true?

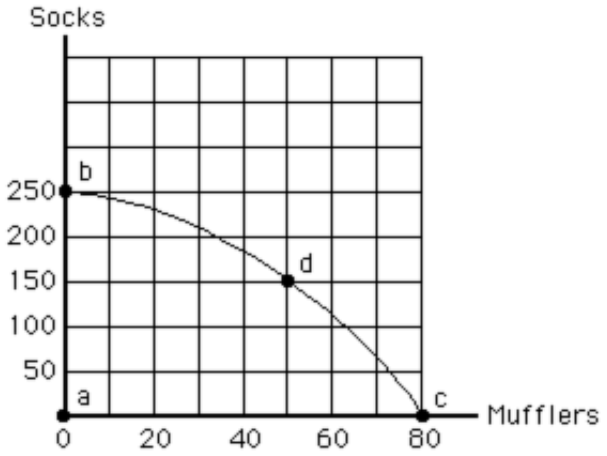
- The problem of scarcity does not exist.
- Resources are imperfect substitutes.

- Opportunity costs are constant.
- Technology is rapidly expanding.
- Some resources are not being used efficiently.

132 Any movement along the production possibilities frontier involves the production of

- more of both goods
- more of one good and less of the other
- less of both goods
- more resources
- better technology

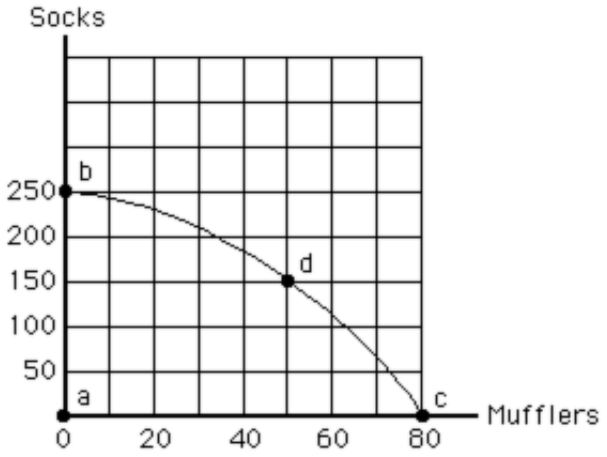
133 **Exhibit 2-6**



In Exhibit 2-5, the opportunity cost of moving from point b to d is

- 30 mufflers
- 50 mufflers
- 100 socks
- 150 socks
- 250 socks

134 **Exhibit 2-6**



In Exhibit 2-5, if society moves from point c to point d, society

- gains 100 socks
- loses 30 mufflers
- is worse off after the change in production
- is not operating efficiently
- experiences some unemployment of resources

135 On a production possibilities frontier, the opportunity cost of one more unit of a commodity per time period is measured by the

- monetary price of the commodity
- amount of the other commodity that must be sacrificed
- amount of unemployed resources that must be used
- amount of satisfaction it gives consumers
- amount of tax paid to government for production, sale, and use of the commodity

136 A production possibilities frontier will shift outward if there is an improvement in technology.

- True
- False

137 A production possibilities frontier will shift inward if there is more unemployment of labor.

- True
- False

138

Increases in resources or improvements in technology will cause the production possibilities frontier to

- (•) shift outward
- ( ) shift inward
- ( ) become a straight line
- ( ) become horizontal
- ( ) become vertical

139 Which of the following would shift the production possibilities frontier outward?

- (•) an increase in the size of the labor force
- ( ) more efficient use of existing resources and technology
- ( ) the government prints more money
- ( ) the end of a strike by a labor union
- ( ) society's desire to produce more of one of the goods

140 Which of the following would *not* shift the production possibilities frontier?

- ( ) an increase in worker training
- ( ) a war that destroyed many buildings
- ( ) a technological improvement that improved fuel efficiency in cars
- ( ) a decrease in the size of the labor force
- (•) a change to a more inefficient production process

141 Which of the following would shift the production possibilities frontier outward?

- ( ) a reduction in inefficiency
- ( ) a reduction in the size of the labor force
- (•) an improvement in technology
- ( ) a change in the combination of goods produced
- ( ) increasing opportunity costs

142 An improvement in technology

- ( ) will always result in a parallel shift of the production possibilities frontier
- ( ) will never result in a parallel shift of the production possibilities frontier
- ( ) will be indicated as a movement along the production possibilities frontier
- (•) will shift the production possibilities frontier

outward but not necessarily to a parallel position
- may not shift the production possibilities frontier

143 An improvement in technology would

- enable the economy to produce outside its original production possibilities frontier
- enable the economy to move along its original production possibilities frontier
- eliminate scarcity; therefore, the production possibilities frontier would no longer exist
- have no effect on the production possibilities frontier
- change the production possibilities frontier to a line with a positive slope

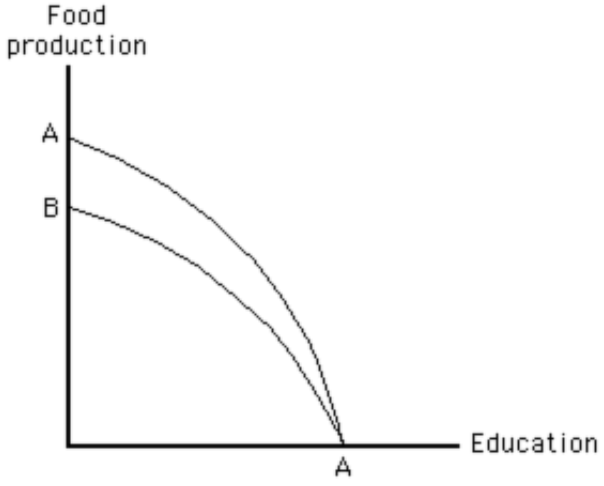
144 A production possibilities frontier can shift outward for all of the following reasons *except one*. Which is the exception?

- a decrease in the unemployment rate
- an improvement in labor skills
- an improvement in technology
- a larger work force
- a larger capital stock

145 A production possibilities frontier can shift inward if there is

- an increase in the unemployment rate
- mandatory retirement at age 55
- an improvement in technology
- a larger work force
- a larger capital stock

146 **Exhibit 2-7**

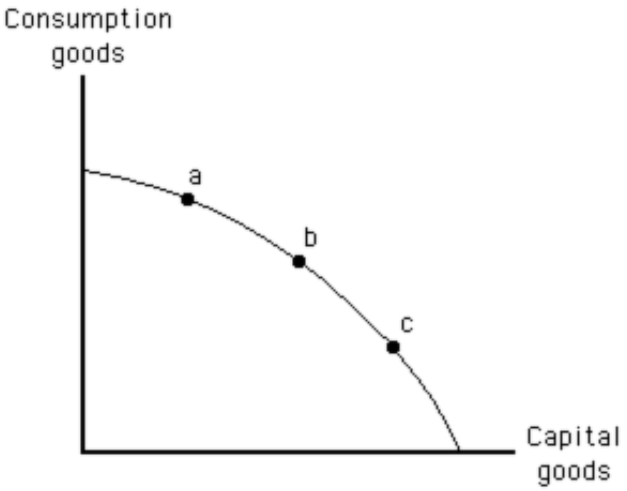


Which of the following would cause the production possibilities frontier in Exhibit 2-6 to shift from AA to BA?

- a drought that affected food production but had no effect on education
- a technological improvement in education that had no effect on food production
- a technological improvement in food production that had no effect on education
- a disease that affected students' ability to learn (and therefore education) but not food production
- an increase in the size of the labor force that affected both food production and education

147

Exhibit 2-8



Current production at which labeled point in Exhibit 2-7 would lead to the largest outward shift in the production possibilities frontier in a later year?

- point a because this point represents a greater consumption level than point b
- point b because this point represents greater total production than the other two points
- point c because this point represents a greater consumption level than the other two points
- point b because this point represents greater production of capital than point c
- point c because this point represents greater production of capital than the other two points

148

The production possibilities frontier will shift if there is a change in

- technology

- unemployment
- product prices
- society's preferences for commodities
- the quantities of the two goods being produced

149 The production possibilities frontier represents all desirable combinations of two goods

- True
- False

150 The reason that the production possibilities frontier is usually a bow-shaped curve instead of a straight line is that

- it makes it easier to illustrate the concepts of scarcity and prices with a bow-shaped curve than it is with a straight line
- early economists began drawing them in this way and the convention has continued throughout the years
- output eventually reaches a maximum and then declines
- resources are not perfectly adaptable to the production of all goods
- the frontier will shift outward over time

151 The production possibilities frontier can be used to show all of the following *except one*. Which is the exception?

- scarcity
- opportunity cost
- the law of increasing opportunity cost
- efficiency
- the best combination of goods and services for an economy

152 An outward shift of the production possibilities frontier

- reflects economic stability
- reflects economic growth
- reflects economic decline
- does not relate to the state of the economy
- is always a parallel shift

153 Which of the following *cannot* be determined from a nation's position relative to its production possibilities frontier?

- whether it is producing efficiently
- whether it has unemployed resources
- the opportunity cost of each good illustrated
- the society's relative preferences regarding each good illustrated
- (•) the price of each good illustrated

154 The economic question of "what to produce" is often referred to as the distribution question.

- True
- (•) False

155 Which economic question does the decision to produce butter instead of guns answer?

- (•) What to produce?
- How to produce?
- For whom to produce?
- Who has a comparative advantage in gun production?
- Who has an absolute advantage in butter production?

156 If dairy farmers use automatic milking machines instead of milking by hand, which economic question does their decision answer?

- What to produce?
- (•) How to produce?
- For whom to produce?
- Who has a comparative advantage in milking?
- What is the price of milk?

157 Which economic question does the decision to give all of the butter the economy produces to the homeless answer?

- What to produce?
- How to produce?
- (•) For whom to produce?
- Who has a comparative advantage in butter production?
- Who has an absolute advantage in butter production?

158 Every economy must answer each of the following questions *except one*. Which is the exception?

- Which goods will be produced?
- Why are these particular goods produced?
- Which resources should be used?
- How should resources be combined to produce each product?
- Who will actually consume the goods produced?

159 The economic question of what will be produced is

- primarily answered by the government in a system of pure capitalism
- primarily answered by markets in a command economy
- faced by all economies regardless of their wealth
- does not have to be answered by economies possessing great wealth
- cannot be illustrated by the economic concept of the production possibilities frontier

160 The set of mechanisms and institutions that resolve the basic economic questions is called the

- economic system
- production possibilities dilemma
- business resolution device
- absolute advantage determination
- comparative advantage determination

161 An economic system

- must answer the three economic questions to the satisfaction of everyone in society
- must not allow some members of society to gain an unfair advantage when answering the three economic questions
- must choose pure capitalism to adequately answer the three economic questions
- is a set of social institutions and mechanisms organized to answer the three economic questions
- can address problems of scarcity only by embracing the social institution of private property

162 Of the various types of economic systems, pure market capitalism involves the greatest government interference and control over the economy.

- True
- False

163 One flaw of pure capitalism is that a person who owns no resources could starve.

- (•) True
- ( ) False

164 Which of the following is *not* a characteristic of pure capitalism?

- ( ) private property rights
- ( ) competitive markets
- ( ) laissez-faire policies
- (•) central planning
- ( ) a reliance on prices to direct resources to their best uses

165 Adam Smith's term, "the invisible hand," refers to

- ( ) the hidden role of government in setting regulations that govern trading in markets
- ( ) the most capable entrepreneurs in the economy
- (•) market forces
- ( ) the unseen work of the financial markets that facilitates trade
- ( ) the role of technological change and random events in the economy

166 A major distinguishing feature between capitalist and socialist (or command) economies is that

- ( ) under capitalism the average citizen is always wealthier than in socialist economies
- ( ) decision making is typically decentralized in socialist economies and is centralized in capitalist economies
- ( ) socialist countries all have red flags and capitalistic economies do not
- ( ) resources are publicly owned in capitalist economies
- (•) decision making is typically decentralized under capitalism while it is centralized in command economies

167 Adam Smith believed that people's pursuit of their own self-interests

- (•) tended to promote the general welfare
- ( ) required the government's "invisible hand" to keep

the economy running smoothly
- might cause aggregate demand to be greater than aggregate supply
- would increase the wealth of a nation, which was the quantity of gold and silver it owned
- would decrease the wealth of a nation, which was its ability to produce goods and services

168 Pure capitalism and a pure command system represent

- two different ways of answering the basic economic questions
- two names describing the same method of answering the basic economic questions
- the only two ways of answering the basic economic questions
- the most efficient ways to answer the basic economic questions
- none of the above

169 Which of the following is a characteristic of pure capitalism?

- all resources are owned communally
- economic activity is coordinated by government decision makers
- the price system is used to guide resources to their highest-valued uses
- centralized economic planning is used to answer the basic economic questions
- individual choices are reflected only through collective decisions

170 The "invisible hand" described by Adam Smith refers to the

- allocative role of markets and market forces
- importance of government intervention and central planning
- actions of successful entrepreneurs in directing the economy
- role of monopolized industries in leading the nation
- value of religious belief in creating an ideal economy

171 Inefficiency is a flaw of a command economy because there is less incentive for resources to flow to their highest-valued uses.

- True

- False

172 In a command economy

- a dictator makes every economic decision
- owners can sell their resources to the highest bidder
- no individual or group coordinates the economy
- in theory, individual choices are reflected in collective decisions, and decisions are made by central planners
- public ownership of resources is combined with free markets to direct economic activity

173 Which of the following is a characteristic of a pure command economy?

- all resources are privately owned
- economic activity is coordinated by the price system
- competitive markets guide resources to their highest-valued uses
- centralized economic planning is used to answer the basic economic questions
- economic choices are voluntary and are based on rational self-interest

174 One of the most centrally planned economies in the world today is found in

- the United States
- Germany
- Canada
- Japan
- North Korea

175 The primary differences in economic structure among different countries relate to ownership of resources and the manner in which economic activities are coordinated.

- True
- False

176 The U.S. economy is best characterized as

- pure capitalism
- a command economy
- socialism

- a mixed capitalist economy
- market socialism

177 The mixed economy is the dominant economic system in the world because

- custom and religion have no influence on economic decisions in these systems
- pure capitalist economies have placed more control in the hands of individuals in recent years
- there is public (i.e., governmental) ownership of resources but regulation of government by individuals reduces some of the flaws of pure capitalism
- there is private ownership of property but government regulation of individuals reduces some of the flaws of pure capitalism
- governments in pure command economies have increased their control over decision-making in recent years

178 A mixed capitalist economy is one in which

- decisions are based primarily on religion or custom
- all resources are publicly owned and economic planning is centralized
- all resources are privately owned and prices are used to coordinate economic activity
- resources are both publicly and privately owned and some markets are regulated
- all resources are publicly owned and prices are used to coordinate economic activity

179 The opportunity cost of going to college consists of more than just the tuition that will be paid.

- True
- False

180 When faced with a choice, a person assesses alternatives as long as the expected marginal _____ of gathering more information about the person's opinions _____ the expected marginal _____.

- benefit, is less than, cost
- cost, exceeds, benefit
- benefit, exceeds, cost
- benefit, is greater than, benefit
- cost, is greater than, benefit

181 The law of comparative advantage does not apply to

- entire nations
- natural resources like air and sunshine
- individuals
- firms
- regions of a country

182 All of the following are evidence of specialization except

- a solo carpenter who builds a whole bedroom set
- restaurants that range from subs to sushi
- the credits at the end of a movie
- professional mourners in Taiwan
- online sellers

183 Just as resources are scarce for the individual,

- they are also scarce for the economy as a whole
- they are never scarce for the economy as a whole
- they are randomly abundant for other individuals
- there will be zero resources available for the economy as a whole
- the economy a whole is never faced with having to make rational choices about using resources

184 A PPF will not shift because of an increase in

- the stability of the rules of the game
- capital stock
- resource availability
- unemployment
- technological change

185 People have less incentive to invest the more concerned they are that their investment will not be

- appropriated by government
- stolen by thieves
- protected from high tax rates
- destroyed by civil unrest
- blown up by terrorists

186 A command economic system does not need to be concerned with what to produce, how to produce things, or who will get the goods and services

produced.

- True
- False

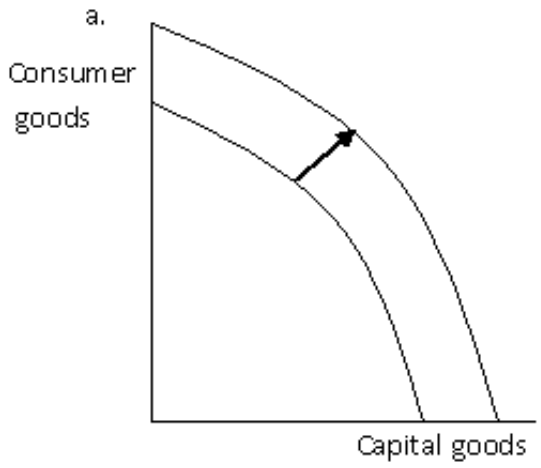
187 The "rules of the game," the set of conditions that shape individual incentives and constraints, are determined by

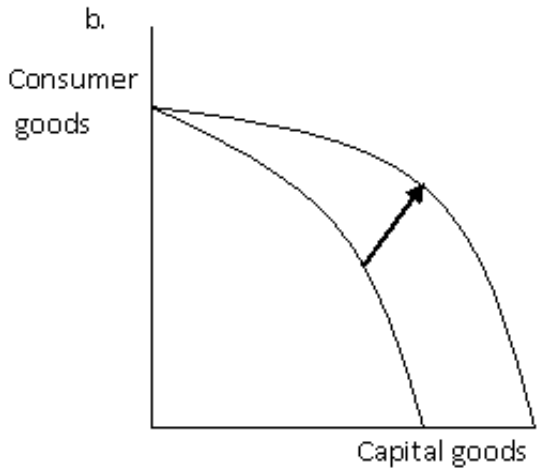
- the production possibilities frontier
- scarcity
- technology
- the amount of consumer goods in the economy
- laws about resource ownership and the role of government

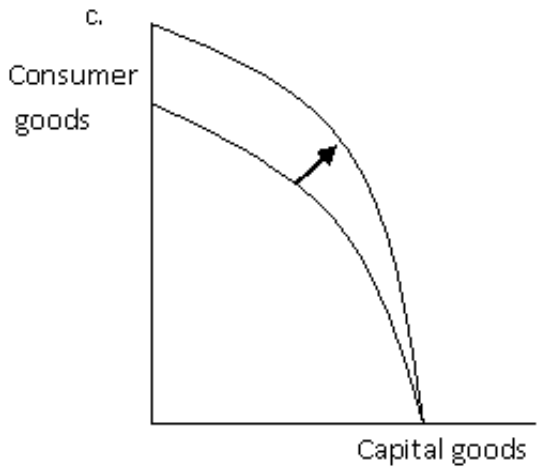
188 Recognizing the incentive power of property rights and markets, some of the most die-hard central planners are now allowing

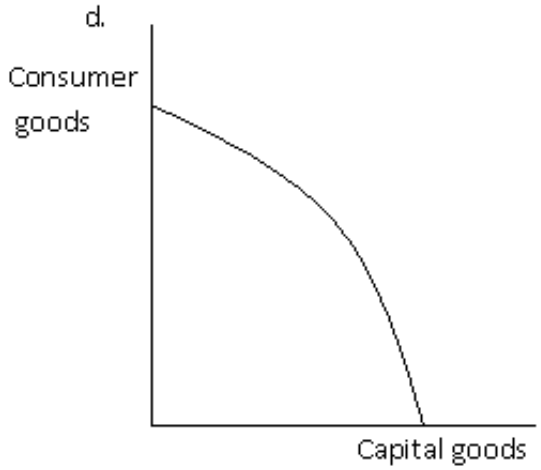
- more influence from custom or religion
- family relations to play significant roles
- a role for markets
- communal ownership of property
- inefficient use of resources

189 **Exhibit 2-9**







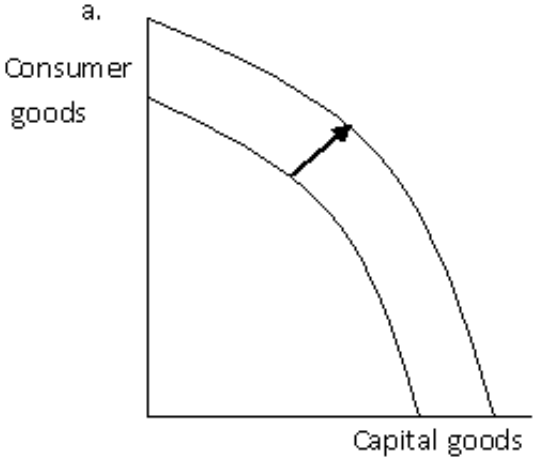


Refer to Exhibit 2-9. Which of the graphs best illustrates the impact on the production possibilities frontier of a dramatic increase in the rate of immigration into a country?

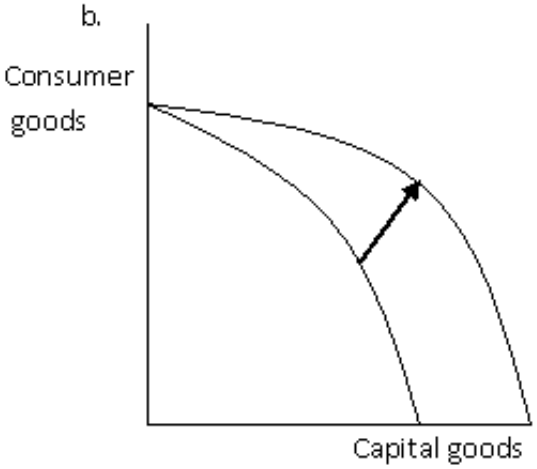
- a
- b
- c
- d
- b and c

190 **Exhibit 2-9**

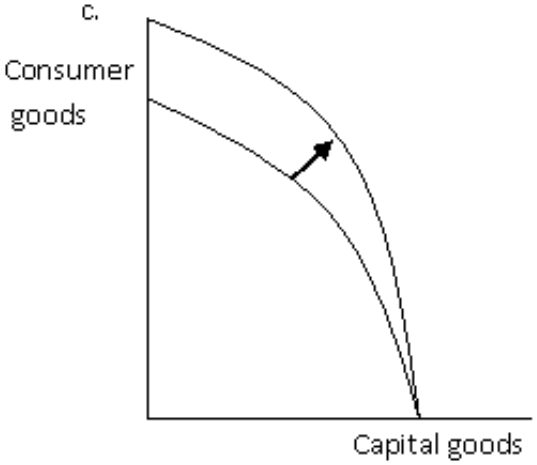
a.


Consumer goods
Capital goods

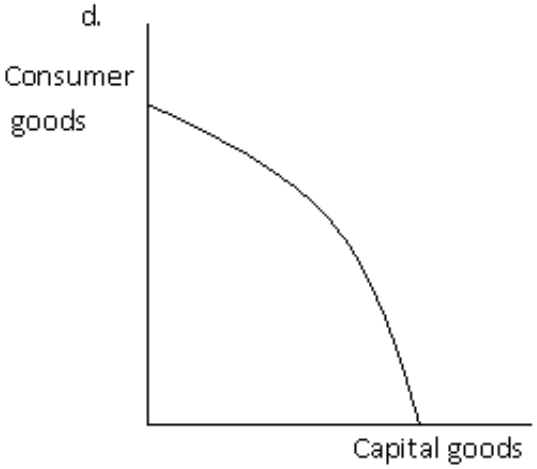
b.


Consumer goods
Capital goods

c.


Consumer goods
Capital goods

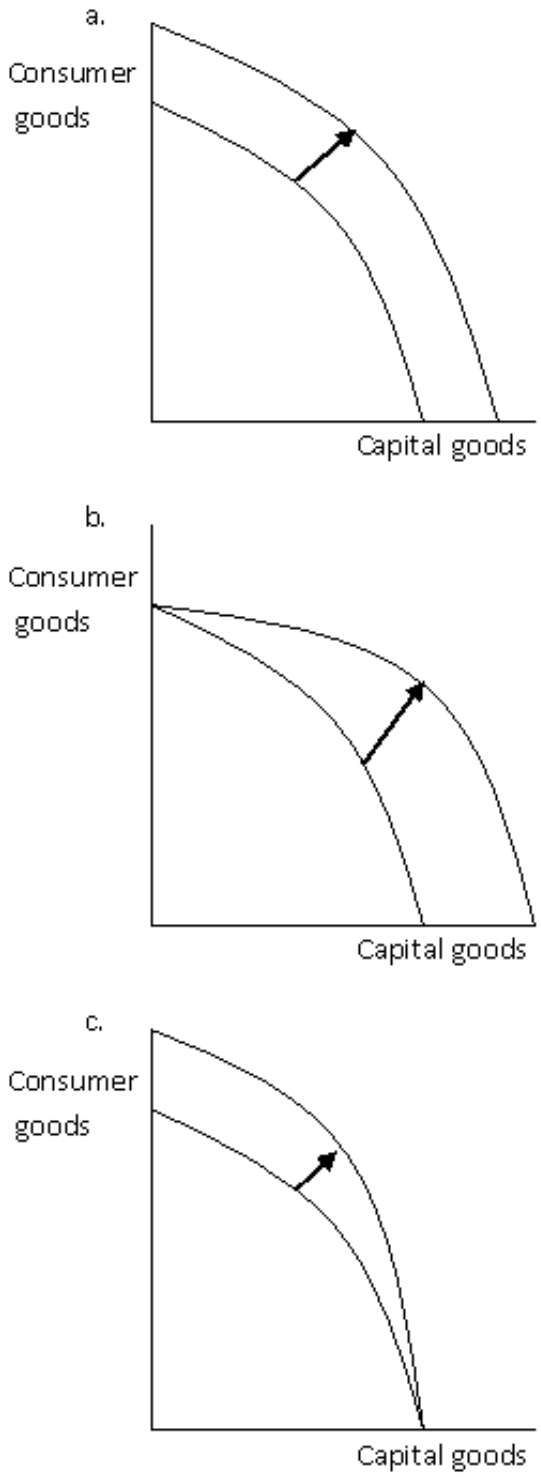
d.

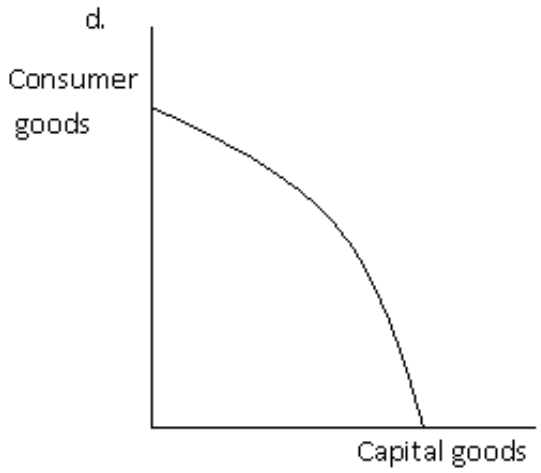

Consumer goods
Capital goods

Refer to Exhibit 2-9. Which of the graphs best illustrates the impact on the production possibilities frontier of a decrease in unemployment?

- a
- b
- c
- d
- a, b and c

191 **Exhibit 2-9**

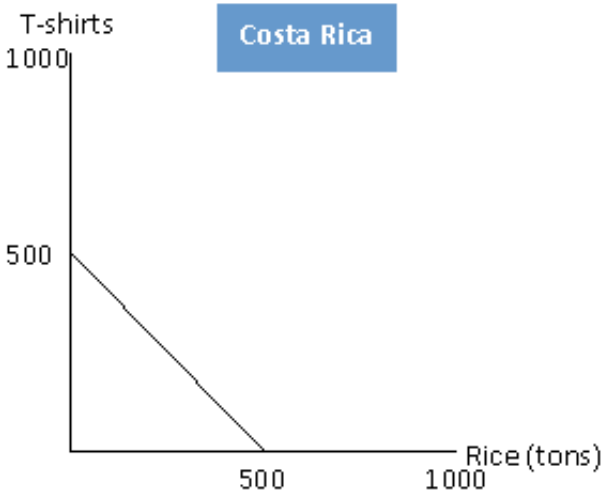


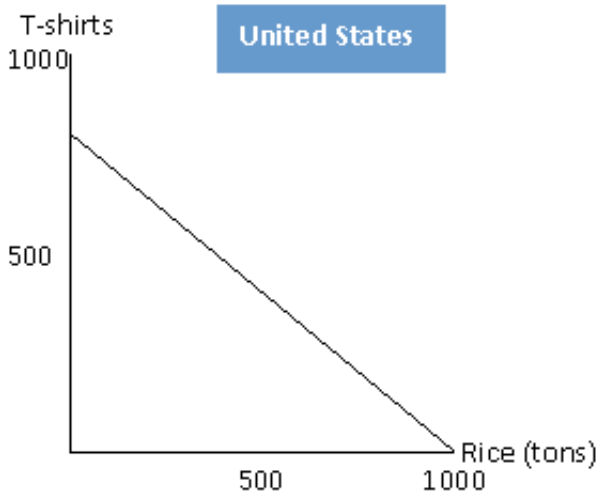


Refer to Exhibit 2-9. Which of the graphs best illustrates the impact on the production possibilities frontier of a technological improvement that will make the resources used to produce consumer goods more efficient?

- a
- b
- c
- d
- b and c

192 **Exhibit 2-10**

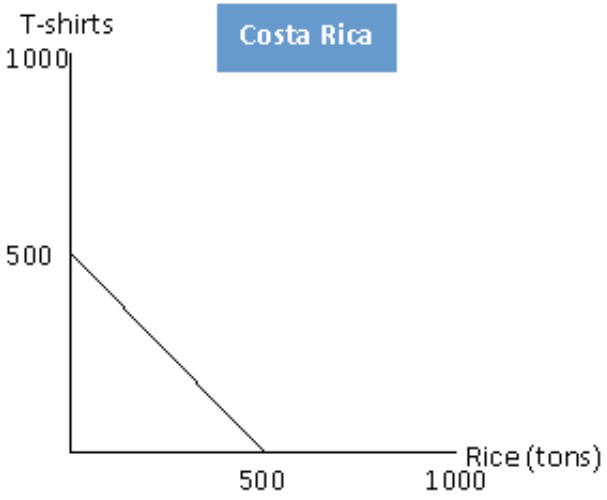


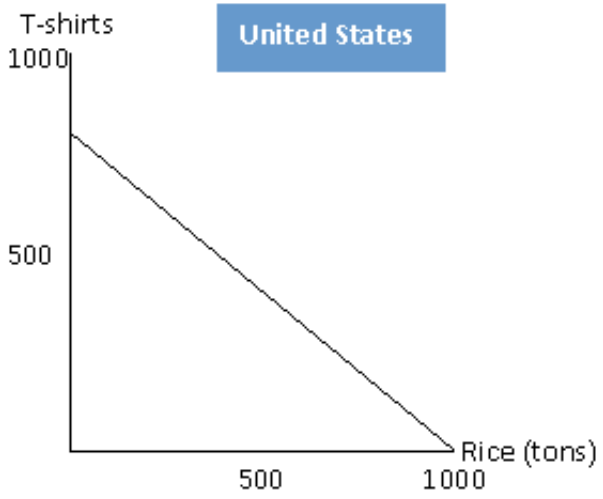


Refer to exhibit 2-10. The United States has a comparative advantage in the production of T-shirts.

- True
- False

193 **Exhibit 2-10**

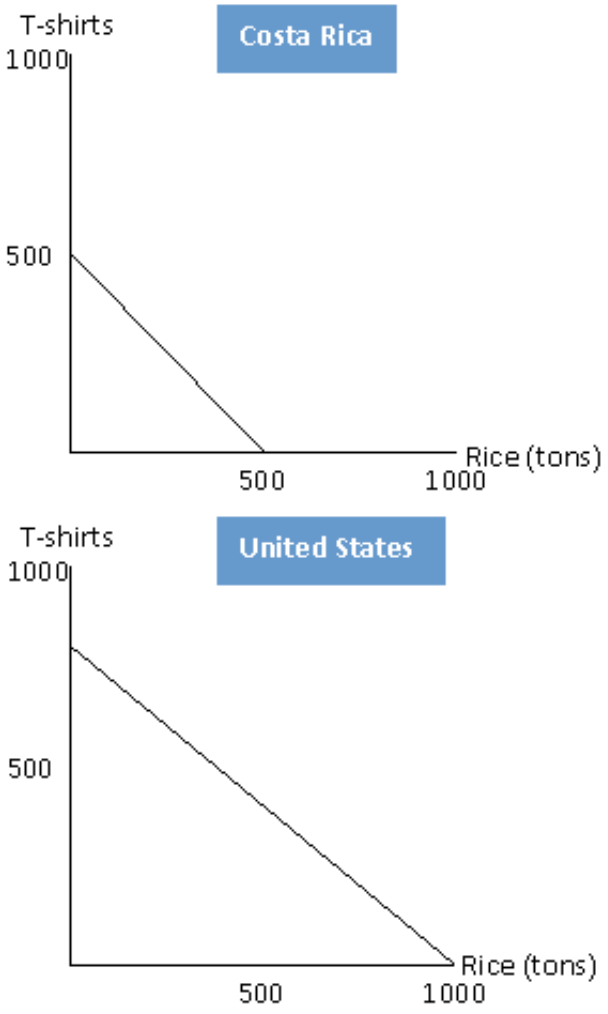




Refer to exhibit 2-10. Costa Rica has a comparative advantage in the production of T-shirts.

- (•) True
- ( ) False

194 **Exhibit 2-10**



Refer to exhibit 2-10. The United States has an absolute advantage in bothe the production of T-shirts and rice.

- (•) True
- ( ) False

195 **Exhibit 2-10**

Refer to exhibit 2-10. In Costa Rica the opportunity cost of 1 ton of rice is:

- 1/2 of a T-shirt
- 3/4 of a T-shirt
- 1 T-shirt
- 11/2 T-shirts
- 2 T-shirts