Exam

Name_____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

Madeleine allows herself $100 per month for purchasing coffee. The diagram below illustrates the choices available to her.
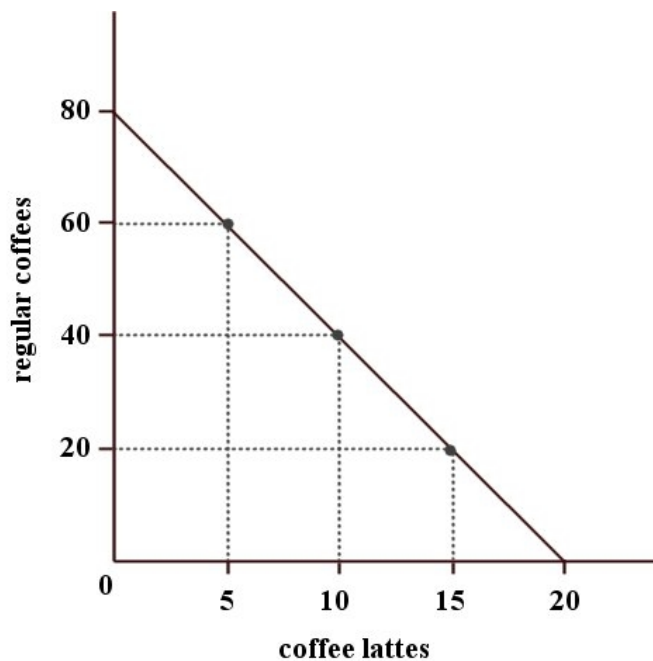

FIGURE 1-2

1) Refer to Figure 1-2. For Madeleine, the opportunity cost of one regular coffee is   1) _____
    A) 1/4 of a regular coffee.
    B) 80 lattes.
    C) 4 lattes.
    D) 1/4 of a latte.
    E) 20 lattes

  Answer: D
  Explanation: A)
               B)
               C)
               D)
               E)

2) A farmer selling tomatoes and corn at a roadside, and a currency trader in Hong Kong, are each   2) _____
   participating in
       A) international trade.
       B) an involuntary transaction.
       C) flexible manufacturing.
       D) barter.
       E) a market.

   Answer: E
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

3) Refer to Table 1-2. What is Sam's opportunity cost of completing 1 chemistry lab report?   3) _____
       A) 3 of a biology lab report
       B) 4 of a biology lab report
       C) $\frac{3}{4}$ of a biology lab report

       D) $\frac{2}{3}$ of a biology lab report

       E) $\frac{4}{3}$ of a biology lab report

   Answer: C
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

4) Most modern economies in the world today   4) _____
       A) are similar to feudal systems.
       B) have pure market exchange.
       C) are mostly run by government decree.
       D) have a mix of traditional, command and market elements.
       E) are complex systems that defy description and analysis.

   Answer: D
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

5) A basic underlying point in economics is that   5) _____
    A) people have unlimited wants in the face of limited resources.
    B) people have limited wants in the face of limited resources.
    C) governments should satisfy the needs of the people.
    D) there are unlimited resources.
    E) governments should never interfere in the workings of a market economy.

Answer: A
Explanation: A)
               B)
               C)
               D)
               E)

6) Which of the point(s) below is (are) true of money?   6) _____
    i) Money eliminated the need for barter.
    ii) Money allowed for specialization of labour and expansion of trade.
    iii) Money allowed for the development of a market economy.
    iv) Money allowed one to save current production for future use.
    A) Only i).
    B) Only i) and ii).
    C) Only i) and iv).
    D) Only i), ii), and iv).
    E) All of the points are true.

Answer: E
Explanation: A)
               B)
               C)
               D)
               E)

7) Suppose Andrea has a job that pays her $25 000 per year (after taxes). She is considering quitting   7) _____
   her job and going to university full time for four years. Tuition fees and books will cost $12 000 per
   year. Living expenses will cost $10 000 per year. What is the opportunity cost of Andrea's four-year
   university degree?
    A) $88 000   B) $100 000   C) $120 000   D) $148 000   E) $188 000

Answer: D
Explanation: A)
               B)
               C)
               D)
               E)

8) The Canadian economic system can best be described as

    A) traditional.
    B) pure free market.
    C) mixed socialism.
    D) mixed capitalism.
    E) command.

  Answer: D

  Explanation: A)
                            B)
                            C)
                            D)
                            E)

8) _____

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing lures	Mowed lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

9) Refer to Table 1-1. What is Tristan's opportunity cost of producing one fishing lure?

    A) one mowed lawn
    B) 3 mowed lawns
    C) 1/4 of a mowed lawn
    D) 1/3 of a mowed lawn
    E) 4 mowed lawns

  Answer: C

  Explanation: A)
                            B)
                            C)
                            D)
                            E)

9) _____

10) A barter system of exchange

    A) requires the use of money.
    B) is the most efficient form of exchange.
    C) involves the trading of goods directly for other goods
    D) does not involve the double coincidence of wants.
    E) developed late in history.

  Answer: C

  Explanation: A)
                            B)
                            C)
                            D)
                            E)

10) _____

11) Economists usually assume that households and firms, respectively, maximize

  A) wages and revenues.
  B) expenditures and profits.
  C) income and sales.
  D) savings and profits.
  E) utility and profits.

Answer: E
Explanation: A)
                B)
                C)
                D)
                E)

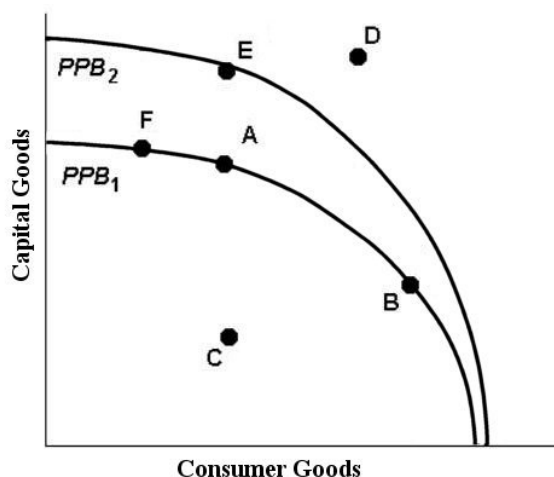*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

12) Refer to Figure 1-3. At point B,

  A) the opportunity cost of producing an extra unit of consumption goods is higher than at point A.
  B) the price of capital goods is higher than the price of consumption goods.
  C) the opportunity cost of producing an extra unit of capital goods is higher than at point A.
  D) Country X is producing too many consumption goods and too few capital goods.
  E) the price of consumption goods is equal to the price of capital goods.

Answer: A
Explanation: A)
                B)
                C)
                D)
                E)

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.
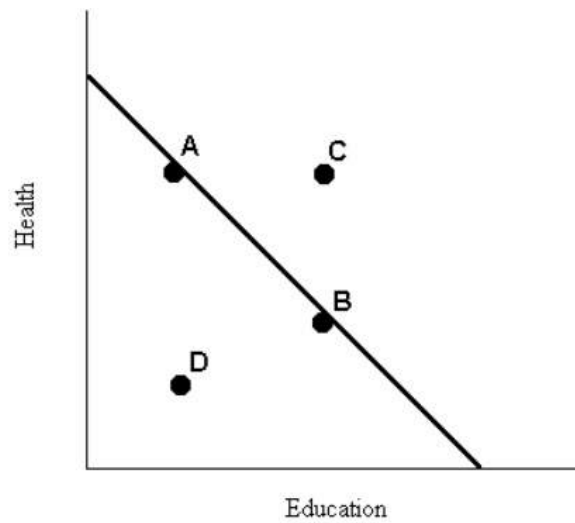

FIGURE 1-5

13) Refer to Figure 1-5. Suppose the government's current spending is shown by point D. In this case, 13) _____
    A) more education expenditures can be achieved only by sacrificing some health expenditures.
    B) the government should spend its total budget so as to get to point B, since more health spending and more education spending are both clearly desirable.
    C) the prices of education and health care have increased beyond the government's ability to pay.
    D) more health expenditures can be achieved only by sacrificing some education expenditures.
    E) the government is not spending its total budget.

Answer: E
Explanation: A)
                  B)
                  C)
                  D)
                  E)

14) Karl Marx argued that 14) _____
    A) centrally planned economies could provide a more equitable distribution of total output than capitalist economies.
    B) benevolence, not self-interest, produced an effective economic order.
    C) technological change was not important in improving living standards.
    D) the unfettered market system driven by self-interest leads to the best social outcome.
    E) a free-market system would produce a low level of total output.

Answer: A
Explanation: A)
                  B)
                  C)
                  D)
                  E)

15) Consider the production possibilities boundary (PPB) of an economy. Economic growth is illustrated by

    A) a movement onto the PPB.
    B) an outward shift of the PPB.
    C) a movement along the PPB.
    D) the negative slope of the PPB.
    E) the movement to a point outside of the PPB.

Answer: B
Explanation: A)
                 B)
                 C)
                 D)
                 E)

16) A point lying inside the production possibilities boundary is one at which

    A) more output could be produced with existing resources.
    B) it is not possible to produce more output with existing resources.
    C) the economy has run out of resources.
    D) there is no scarcity.
    E) the opportunity cost of producing more output is negative.

Answer: A
Explanation: A)
                 B)
                 C)
                 D)
                 E)

17) In a modern mixed economy the government ensures that key institutions are in place to facilitate voluntary transactions between economic agents. These key institutions are

    A) labour and capital markets.
    B) securities regulators and the court system.
    C) private property and freedom of contract.
    D) the House of Commons and the Senate.
    E) the Department of Finance and the Bank of Canada.

Answer: C
Explanation: A)
                 B)
                 C)
                 D)
                 E)

18) In a pure market economy, the role of government is limited to provision of :

i) a basic legal and institutional structure.

ii) intervention in the allocation of resources in some areas of the economy.

iii) redistribution of income.

iv) stabilization of economic conditions generally.

Which of the above points is true?

  A) Only i).
  B) Only i) and ii).
  C) Only i) and iv).
  D) Only i), ii), and iv).
  E) All of the points are provided by government in a pure market economy.

Answer: A

Explanation: A)
                B)
                C)
                D)
                E)

19) Economics can best be described as

  A) the application of sophisticated mathematical models to address social problems.
  B) the study of how to reduce inflation and unemployment.
  C) the study of the use of scarce resources to satisfy unlimited human wants.
  D) the study of how a society *ought* to allocate its resources.
  E) a normative science.

Answer: C

Explanation: A)
                B)
                C)
                D)
                E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

20) Refer to Table 1-2. What is Sam's opportunity cost of completing 2 biology lab reports?　　　　20) _____

A) $2\frac{2}{3}$ chemistry lab reports

B) $\frac{3}{4}$ of a chemistry lab report

C) 4 chemistry lab reports

D) $\frac{2}{3}$ of a chemistry lab report

E) $1\frac{1}{3}$ chemistry lab reports

Answer: A
Explanation: A)
　　　　　　　B)
　　　　　　　C)
　　　　　　　D)
　　　　　　　E)

21) Income redistribution in a mixed economy　　　　21) _____
A) risks reducing individual incentives to work and produce.
B) is only accomplished through government intervention.
C) is supported by all individuals.
D) is not allowed.
E) rarely occurs.

Answer: A
Explanation: A)
　　　　　　　B)
　　　　　　　C)
　　　　　　　D)
　　　　　　　E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing lures	Mowed lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

22) Refer to Table 1-1. What is Thomas's opportunity cost of producing one mowed lawn?   22) _____
    A) one fishing lure
    B) 1/6 fishing lure
    C) 12 fishing lures
    D) 0 fishing lures
    E) 6 fishing lures

    Answer: A
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

23) Refer to Table 1-1. What is Thomas's opportunity cost of producing one fishing lure?   23) _____
    A) 1 mowed lawn
    B) 1/6 of a mowed lawn
    C) there is no opportunity cost
    D) 5 lures
    E) 1/6 of a lure

    Answer: A
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

24) If some income earned by households is not spent on output, or if some income earned by firms is   24) _____
not spent on factor services, the circular flow of income will
    A) contract.   B) expand.   C) run over.   D) stop.   E) explode.

    Answer: A
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

The diagram below shows two production possibilities boundaries for Country X.
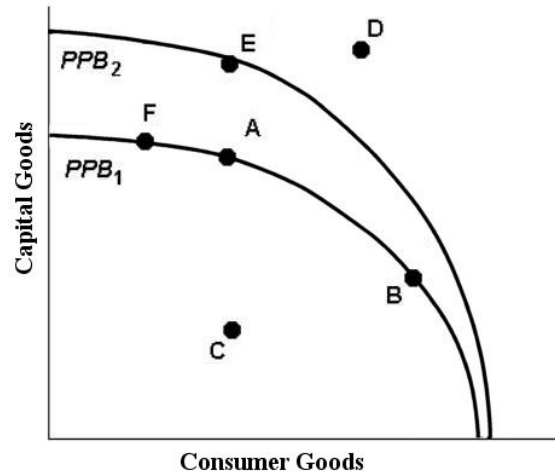

FIGURE 1-3

25) Refer to Figure 1-3. If Country X were producing at point C,   25) _____

    A) it is not possible to move to any point on PPB_1 or PPB_2 without technological progress.

   B) this is the maximum output possible from given resources.

   C) the opportunity cost of moving to point A is to give up some capital goods.

   D) the opportunity cost of moving to point B is to give up some consumption goods.

   E) the opportunity cost of moving to point A is zero.

Answer: E

Explanation: A)

                 B)

                 C)

                 D)

                 E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

26) Refer to Table 1-2.   What is Sam's opportunity cost of completing 3 biology lab reports?   26) _____
    A) 3 chemistry lab reports
    B) 4 chemistry lab reports
    C) 0 chemistry lab reports
    D) 2 chemistry lab reports
    E) 1 chemistry lab reports

Answer: B
Explanation: A)
                      B)
                      C)
                      D)
                      E)

27) Consider a production possibilities boundary showing the possible combinations of military goods   27) _____
and civilian goods that a country can produce. Suppose that the country is currently at a point on
the boundary. If the production of military goods is increased, the production of civilian goods will
necessarily
    A) remain the same.
    B) decrease.
    C) increase.
    D) increase at a decreasing rate.
    E) increase at a increasing rate.

Answer: B
Explanation: A)
                      B)
                      C)
                      D)
                      E)

28) In the current Canadian economy, the majority of choices on how resources are allocated are made   28) _____
by
    A) legal contracts.
    B) the various levels of government.
    C) consumers and firms through the price system.
    D) negotiation between unions and firms.
    E) business firms only.

Answer: C
Explanation: A)
                      B)
                      C)
                      D)
                      E)

29) In the Canadian economy, most decisions regarding resource allocation are made by   29) _____
    A) the various levels of government.
    B) consumers and producers interacting in the price system.
    C) legal contract.
    D) business firms only.
    E) negotiation between unions and firms.

Answer: B
Explanation: A)
                   B)
                   C)
                   D)
                   E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing lures	Mowed lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

30) Refer to Table 1-1. If Tristan and Thomas want to maximize their joint output from one day of   30) _____
    work, how should they specialize their production?
    A) Tristan produces 3 mowed lawns; Thomas produces 6 mowed lawns
    B) Tristan produces 6 lures and 3 mowed lawns
    C) Tristan produces 6 lures; Thomas produces 6 lures
    D) Tristan produces 12 lures; Thomas produces 6 mowed lawns
    E) Tristan produces nothing, Thomas produces 6 lures and 6 mowed lawns

Answer: D
Explanation: A)
                   B)
                   C)
                   D)
                   E)

31) If a country's production possibilities boundary is drawn as a straight (downward-sloping) line it   31) _____
    indicates
    A) the use of the scarce resources in an economy.
    B) constant opportunity cost of producing more of either good.
    C) increasing opportunity cost of producing more of either good.
    D) decreasing opportunity cost of producing more of either good.
    E) an unfair distribution of resources in an economy.

Answer: B
Explanation: A)
                   B)
                   C)
                   D)
                   E)

Madeleine allows herself $100 per month for purchasing coffee. The diagram below illustrates the choices available to her.
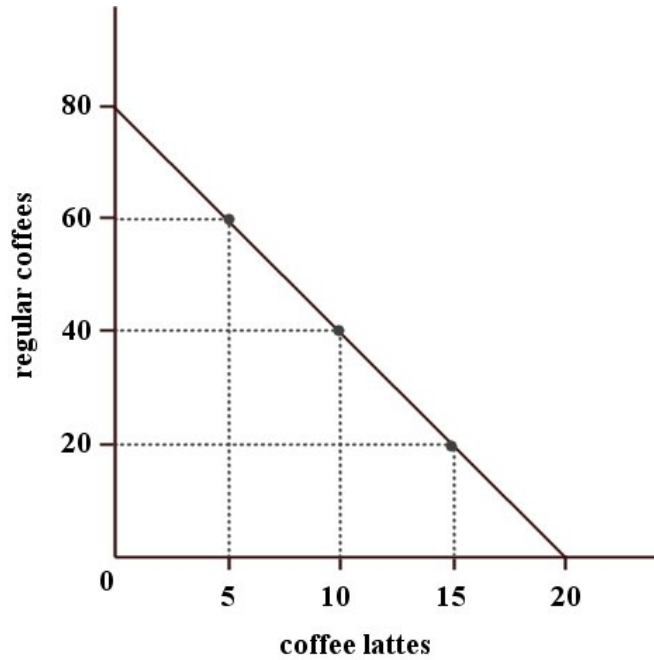

FIGURE 1-2

32) Refer to Figure 1-2. For Madeleine, the opportunity cost of one latte is   32) _____
   A) 1/4 of a latte.
   B) 1/4 of a regular coffee.
   C) 8 regular coffees.
   D) 4 regular coffees.
   E) 80 regular coffees.

   Answer: D
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

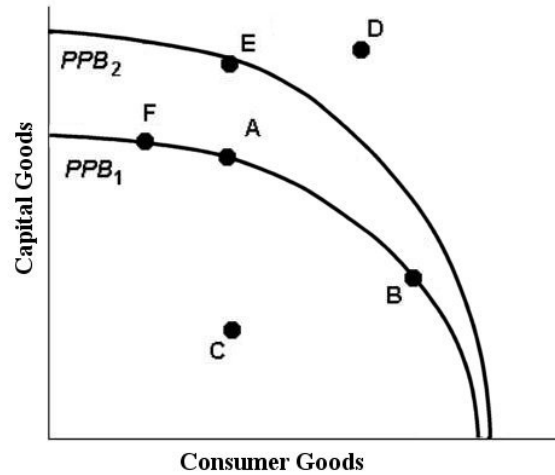*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

33) Refer to Figure 1-3. Growth in the country's productive capacity is illustrated by

33) _____

    A) a movement from a point inside the boundary such as C to the boundary.
    B) the movement between points on a given boundary.
    C) a point like D outside the boundary.
    D) a single point such as A on the boundary.
    E) an outward shift of the boundary, for example from PPB_1 to PPB_2.

Answer: E
Explanation: A)
                  B)
                  C)
                  D)
                  E)

34) Which countries have mostly public ownership of resources?

34) _____

    A) Brazil and Argentina
    B) Sweden and Norway
    C) Cuba and North Korea
    D) United States and Canada
    E) France and Germany

Answer: C
Explanation: A)
                  B)
                  C)
                  D)
                  E)

35) If there is always a three-for-one trade-off between the production of goods X and Y, then the production possibilities boundary for X and Y is

    A) a downward-sloping straight line.
    B) a downward-sloping curve convex to the origin.
    C) a downward-sloping curve concave to the origin.
    D) semi-circular.
    E) a downward-sloping straight line that is broken at one point.

Answer: A
Explanation: A)
                B)
                C)
                D)
                E)

36) With regard to various economic systems, most economists agree that

    A) most production and consumption decisions are more efficiently coordinated by markets than through central planning.
    B) the mix of market and command principles that exists in Canada is the best.
    C) command economies have been very successful in distributing income in socially just ways.
    D) the optimal mix of market and command systems remains constant over time.
    E) government intervention in the economy is only justified in time of war.

Answer: A
Explanation: A)
                B)
                C)
                D)
                E)

37) Suppose fire destroy many millions of hectares of valuable Canadian forest. The effect on the Canadian economy would be best illustrated by _____ the production possibilities boundary.

    A) a shift outward of
    B) a movement to a point beyond
    C) a movement inside
    D) an inward shift of
    E) a movement along

Answer: D
Explanation: A)
                B)
                C)
                D)
                E)

38) On a diagram of a production possibilities boundary, the concept of opportunity cost is illustrated by the

    A) distance from the origin to the boundary.
    B) unattainable points outside the boundary.
    C) negative slope of the boundary.
    D) area bounded by the two axes and the boundary.
    E) boundary being concave to the origin.

38) _____

Answer: C
Explanation: A)
             B)
             C)
             D)
             E)

39) A country's production possibilities boundary shows that

    A) when a society combines its resources efficiently, it cannot produce more of one good without producing less of the other good.
    B) the supply for goods always exceeds the demand.
    C) when a society combines its resources inefficiently, it cannot produce more of one good without producing less of the other good.
    D) when a society combines its resources efficiently, it is always possible to produce more of all goods.
    E) all points inside the boundary are preferred to all points on the boundary.

39) _____

Answer: A
Explanation: A)
             B)
             C)
             D)
             E)

40) Economics is the study of

    A) how to limit human wants so that scarce resources are sufficient.
    B) the allocation of scarce resources among alternative uses.
    C) how to plan an economy.
    D) how to distribute income as equally as possible.
    E) why resources are scarce.

40) _____

Answer: B
Explanation: A)
             B)
             C)
             D)
             E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

41) Refer to Table 1-2. What is Claire's opportunity cost of completing 1 chemistry lab report?   41) _____
   A) 3 biology lab reports

   B) $\frac{2}{3}$ of a biology lab report

   C) 2 biology lab reports

   D) $\frac{3}{4}$ of a biology lab report

   E) $1\frac{1}{2}$ biology lab reports

   Answer: B
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

42) Consider a production possibilities boundary showing the quantity of military goods and the   42) _____
   quantity of civilian goods on the two axes. A movement along the production possibilities
   boundary could be caused by
      A) an increase in the labour supply.
      B) the employment of previously idle resources.
      C) the reallocation of resources between military and civilian goods.
      D) technological progress.
      E) the growth of productive capacity.

   Answer: C
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing lures	Mowed lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

43) Refer to Table 1-1. Which of the following statements about Tristan's and Thomas's opportunity costs is correct?   43) _____
   A) Tristan has a higher opportunity cost of producing mowed lawns.
   B) Thomas has a higher opportunity cost of producing mowed lawns.
   C) Tristan has a higher opportunity cost of producing fishing lures.
   D) Thomas has a higher opportunity cost of producing fishing lures.
   E) Both A and D are correct.

Answer: E
Explanation: A)
               B)
               C)
               D)
               E)

19

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.
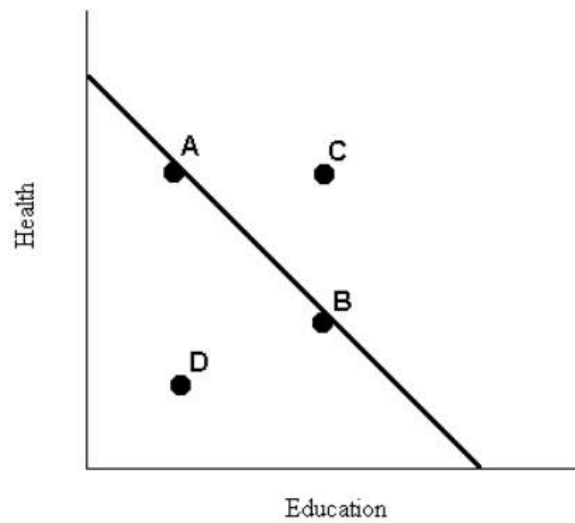

FIGURE 1-5

44) Refer to Figure 1-5. If the government's spending on health and education is given by point B, a move to point A must involve

    A) more spending on education.
    B) less spending on education.
    C) less spending in total.
    D) less spending on health.
    E) zero opportunity cost.

44) _____

Answer: B
Explanation: A)
              B)
              C)
              D)
              E)

45) Because resources are scarce, individuals are required to

    A) sacrifice production but not consumption.
    B) improve production but not distribution.
    C) use resources inefficiently.
    D) improve distribution but not production.
    E) make choices among alternatives.

45) _____

Answer: E
Explanation: A)
              B)
              C)
              D)
              E)

46) Complex economic plans for many economic sectors are most associated with a 46) _____
    A) feudal system.
    B) traditional economy.
    C) free-market system.
    D) command economy.
    E) mixed market system..

Answer: D
Explanation: A)
                  B)
                  C)
                  D)
                  E)

With a budget of $200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.
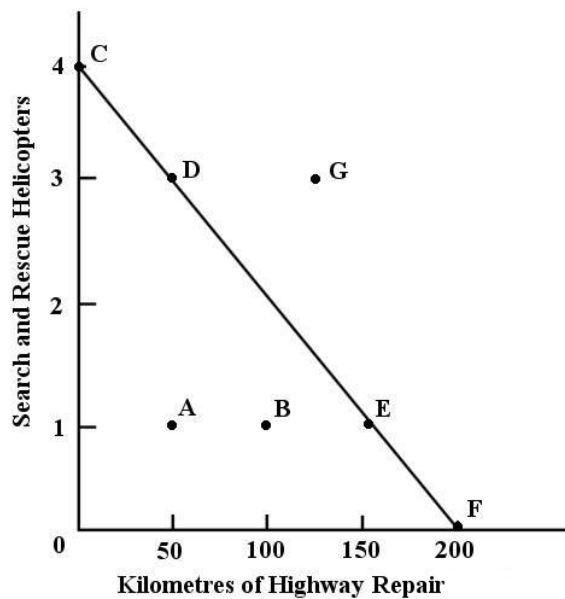

FIGURE 1-1

47) Refer to Figure 1-1. Which of the following combinations of kilometres of highway repair and 47) _____
helicopters is unaffordable, given the government's budget of $200 million.
    A) D   B) E   C) F   D) G   E) B

Answer: D
Explanation: A)
                  B)
                  C)
                  D)
                  E)

48) Refer to Figure 1-1. For the government, the opportunity cost of one search and rescue helicopter is   48) _____
    A) 50 kilometres of highway repair.
    B) 150 kilometres of highway repair.
    C) 0 kilometres of highway repair.
    D) 200 kilometres of highway repair.
    E) 100 kilometres of highway repair.

Answer: A
Explanation: A)
                B)
                C)
                D)
                E)

49) In mixed economies, economic behaviour is   49) _____
    A) based primarily on custom and habit.
    B) random and unpredictable.
    C) directed only by self interest.
    D) largely determined by a central authority.
    E) affected by elements of tradition, government command, and market incentives.

Answer: E
Explanation: A)
                B)
                C)
                D)
                E)

50) The circular flow of income illustrates   50) _____
    A) the flows of expenditures and income in a household.
    B) that there is no relationship between goods markets and factor markets.
    C) that firms own the factors of production.
    D) the interaction of households and firms through the factors and goods markets.
    E) that the flow of payments moves in the same direction as the flow of goods.

Answer: D
Explanation: A)
                B)
                C)
                D)
                E)

51) The concept of scarcity in economics usually refers to a condition   51) _____
    A) where society is not employing all of its available resources in an efficient manner.
    B) that afflicts only poor countries.
    C) where people's wants can never be satisfied by the available resources.
    D) where production is efficient, but distribution is inefficient.
    E) where too many frivolous goods and services are produced at the expense of socially
       desirable goods and services.

Answer: C
Explanation: A)
                B)
                C)
                D)
                E)

52) Economics is generally NOT concerned with   52) _____
   A) restricting the level of human wants.
   B) the distribution of income among households.
   C) the concept of opportunity cost.
   D) the rate of growth of productive capacity.
   E) the allocation of resources among alternative uses.

   Answer: A
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

53) Suppose there are only two goods produced in our economy—snowplows and helicopters. If there   53) _____
   is always a two-for-one tradeoff between the production of these two goods (in terms of
   opportunity cost), then the production possibilities boundary between snowplows and helicopters
   is
   A) circular.
   B) a downward-sloping straight line.
   C) a downward-sloping curve convex to the origin.
   D) a downward-sloping straight line with slope equal to -1.
   E) a downward-sloping curve concave to the origin.

   Answer: B
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

54) In command economies, economic behaviour is   54) _____
   A) largely affected by elements of tradition and market incentives.
   B) largely determined by a central authority.
   C) random and unpredictable.
   D) based primarily on custom and habit.
   E) directed by individual self interest.

   Answer: B
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

55) Suppose drought destroys many millions of acres of valuable Canadian farmland. The effect on the Canadian economy would be to move

    A) its production possibilities boundary inward.
    B) it beyond its production possibilities boundary.
    C) it along its production possibilities boundary.
    D) its production possibilities boundary outward.
    E) none of the above. There would be no change in Canada's production possibilities boundary.

Answer: A
Explanation: A)
                B)
                C)
                D)
                E)

56) During the nineteenth and early twentieth centuries, millions of people immigrated to western Canada. The effect on the Canadian economy was to

    A) move it beyond its new production possibilities boundary.
    B) shift its production possibilities boundary inward.
    C) shift its production possibilities boundary outward.
    D) move it inside its new production possibilities boundary.
    E) move it along an unchanged production possibilities boundary.

Answer: C
Explanation: A)
                B)
                C)
                D)
                E)

57) Which of the following statements best describes the underlying feature in most economic problems?

    A) Governments should never interfere in the workings of a market economy.
    B) People have unlimited wants in the face of limited resources.
    C) People have limited wants in the face of limited resources.
    D) There are unlimited resources.
    E) Our country is rich; we just don't realize it.

Answer: B
Explanation: A)
                B)
                C)
                D)
                E)

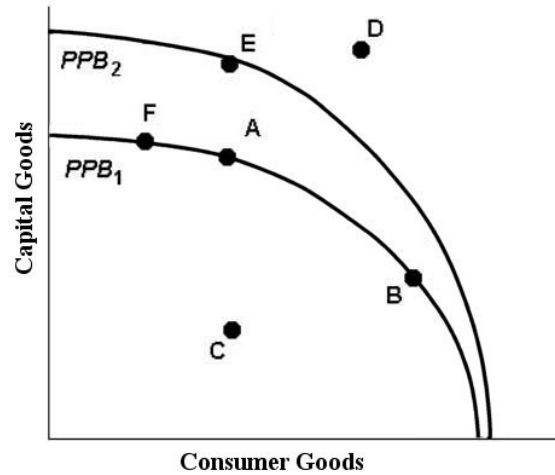*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

58) Refer to Figure 1-3. A shift of the production possibilities boundary from PPB_1 to PPB_2 implies   58) _____
   A) that if point E is the new choice of outputs, productivity has increased in the consumption goods industry.
   B) a movement from full employment to some unemployment.
   C) that technology in the capital goods industries has improved.
   D) that technology in the consumption goods industry has improved.
   E) an inevitable decrease in total output.

   Answer: C
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

59) Suppose that one unit of labour can produce either 5 units of wool or 2 pineapples. What is the   59) _____
   opportunity cost of producing 1 pineapple?
   A) 2/5 unit of wool
   B) 5 units of wool
   C) 5/2 units of wool
   D) zero
   E) 2 units of wool

   Answer: C
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

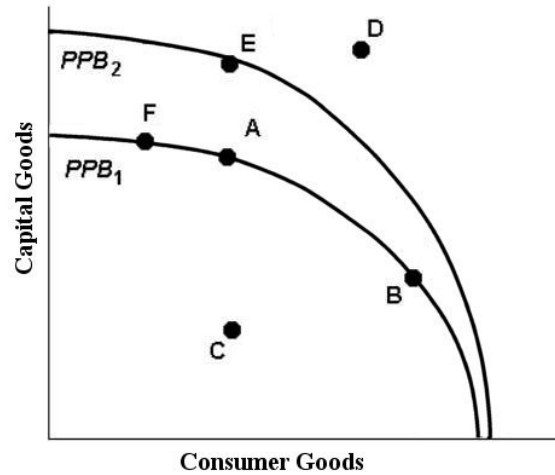*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

60) Refer to Figure 1-3. If Country X, constrained by the production possibilities boundary PPB_1, is currently producing at point A, it can produce more capital goods by moving to point

60) _____

    A) E.   B) F.   C) B.   D) C.   E) D.

Answer: B
Explanation: A)
                              B)
                              C)
                              D)
                              E)

61) Scarcity is likely to be

61) _____

    A) a problem that will always exist.
    B) a problem that will be solved by the proper use of available resources.
    C) eliminated with a better understanding of economics.
    D) a result of the work ethic.
    E) unique to the twentieth century.

Answer: A
Explanation: A)
                              B)
                              C)
                              D)
                              E)

62) The opportunity cost of producing good *A* is defined to be
    A) the cost of having to get by using something else in place of good *A*.
    B) the money cost of the factors of production used in good *A*.
    C) what must be sacrificed of other goods to get an additional unit of good *A*.
    D) the cheapest method of producing good *A*.
    E) the retail price of good *A*.

62) _____

Answer: C
Explanation: A)
               B)
               C)
               D)
               E)

63) Many economies in central and Eastern Europe, including the countries of the former Soviet Union, are still in the process of moving from a command economy to a market economy. In the first years of this transition, most of these countries experienced sharp drops in output and reductions in living standards. Economists generally see this as
    A) an indication of the extreme difficulty of transition from one type of economic system to another.
    B) the failure of the market system.
    C) the difficulty of corruption in non-market economies.
    D) the triumph of capitalism over communism.
    E) an indication that these economies should return to being command economies.

63) _____

Answer: A
Explanation: A)
               B)
               C)
               D)
               E)

64) Scarcity arises from limited resources. For this reason, all economic choices involve
    A) an opportunity cost.
    B) greed.
    C) a value judgement.
    D) complementary ends.
    E) pride.

64) _____

Answer: A
Explanation: A)
               B)
               C)
               D)
               E)

65) In the circular flow of income, the allocation of resources is largely decided by

65) _____

    A) central authorities and firms only.

    B) individuals only.

    C) central authorities only.

    D) firms and households acting independently.

    E) political parties and firms only.

Answer: D

Explanation: A)

                        B)

                        C)

                        D)

                        E)

66) The famous economist who developed the idea of the division of labour was

66) _____

    A) Adam Smith.

    B) David Ricardo.

    C) Milton Friedman.

    D) Karl Marx.

    E) John Maynard Keynes.

Answer: A

Explanation: A)

                        B)

                        C)

                        D)

                        E)

67) The opportunity cost of going to college or university for four years is

67) _____

    A) zero.

    B) equal to the wage rate a person will earn after graduation.

    C) the cost of tuition and books and four years of lost wages from employment.

    D) the cost of tuition, residence fees and books.

    E) the least valued alternative one forfeits to attend.

Answer: C

Explanation: A)

                        B)

                        C)

                        D)

                        E)

68) Behaviour in free-market economies is

68) _____

    A) determined by a central authority.

    B) based primarily on custom and habit.

    C) random and unpredictable.

    D) mostly affected by elements of tradition and government command.

    E) mostly directed by self interest.

Answer: E

Explanation: A)

                        B)

                        C)

                        D)

                        E)

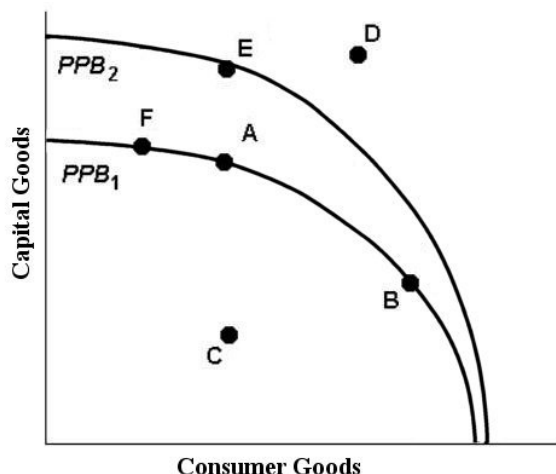*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

69) Refer to Figure 1-3. Suppose that Country X is currently producing at point E. Country X could   69) _____
achieve production at point D if
   A) firms reduced output of capital goods.
   B) sufficient improvements in technology occurred in either the capital goods industry or the
      consumer goods industries.
   C) the given resources were more efficiently employed.
   D) the given resources were fully employed.
   E) the prices of capital goods and consumption goods fell.

Answer: B
Explanation: A)
                B)
                C)
                D)
                E)

70) Katie and Hugh are producing pies and jars of pickles. Katie can produce either 200 jars of pickles   70) _____
or 100 pies per month. Hugh can produce either 800 jars of pickles or 200 pies per month.
Currently, each divide their time equally between production of the two goods per month -- Katie
produces 100 jars of pickles and 50 pies while Hugh produces 400 jars of pickles and 100 pies. In
order for Katie and Hugh to jointly gain from specialization, which of the following changes should
take place?
   A) Hugh should produce more pies and fewer jars of pickles.
   B) Katie should produce more pies and fewer jars of pickles.
   C) Katie and Hugh should both produce more pies and fewer jars of pickles.
   D) Katie and Hugh should both produce more jars of pickles and fewer pies.
   E) Katie should produce more jars of pickles and fewer pies.

Answer: B
Explanation: A)
                B)
                C)
                D)
                E)

71) On a diagram of a production possibilities boundary, the concept of scarcity is illustrated by the 　　71) _____
    A) area within the boundary.
    B) distance from the origin to the boundary.
    C) unattainable points outside the boundary.
    D) negative slope of the boundary.
    E) points on the boundary.

  Answer: C
  Explanation: A)
                  B)
                  C)
                  D)
                  E)

72) The use of money for transactions 　　72) _____
    A) makes specialization of labour more difficult.
    B) increases the use of barter.
    C) enables humanity to satisfy all wants.
    D) makes exchange easier and thus promotes the specialization of labour.
    E) fosters self-sufficiency.

  Answer: D
  Explanation: A)
                  B)
                  C)
                  D)
                  E)

73) Which of the following has most contributed to the globalization of the economy? 　　73) _____
    A) tariffs and trade barriers
    B) reductions in transportation and communication costs
    C) the decline in the relative importance of manufacturing
    D) the decreased importance of agriculture
    E) the shift toward a market economy in China

  Answer: B
  Explanation: A)
                  B)
                  C)
                  D)
                  E)

74) Suppose there are three alternatives to attending a social event: read a novel (you value this at $10), 　　74) _____
go to work (you could earn $20), or watch videos with some friends (you value this at $25). The
opportunity cost of attending the social event is
    A) $45.   B) $20.   C) $10.   D) zero.   E) $25.

  Answer: E
  Explanation: A)
                  B)
                  C)
                  D)
                  E)

75) Economists usually assume that households

75) _____

    A) make consistent decisions, maximize utility, and are the principal owners of the factors of production.

    B) make consistent decisions, maximize savings, and are the principal users of the factors of production.

    C) do not make consistent decisions, maximize satisfaction, and are the principal owners of the factors of production.

    D) make consistent decisions, maximize profits, and are the principal users of the factors of production.

    E) do not make consistent decisions, maximize profits, and are the principal users of the factors of production.

Answer: A

Explanation: A)

                   B)

                   C)

                   D)

                   E)

76) The key decision makers in a market economy are:

76) _____

    A) households, firms, and government.

    B) corporations and governments.

    C) individual citizens, non-profit organizations, and the Bank of Canada.

    D) governments and all institutions under government control.

    E) large corporations and labour organizations.

Answer: A

Explanation: A)

                   B)

                   C)

                   D)

                   E)

77) An economic system that relies primarily upon custom and habit in economic decision making is a

77) _____

    A) mixed system.

    B) market system.

    C) traditional system.

    D) communist system.

    E) command system.

Answer: C

Explanation: A)

                   B)

                   C)

                   D)

                   E)

78) Consider the following list: a worker with training in video gaming technology, 10 hectares of   78) _____
    arable land in southern Ontario, a fishing trawler in Nova Scotia, an ice-cream truck at a park in
    Quebec. Each of these is an example of
        A) an economic service.
        B) a capital resource.
        C) a commodity.
        D) goods and services.
        E) a factor of production.

    Answer: E
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.
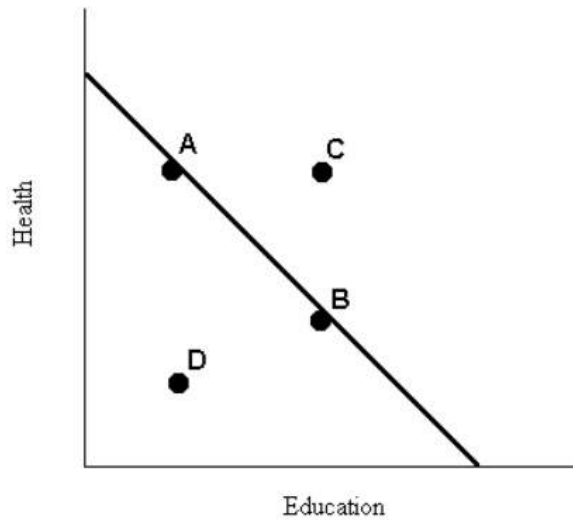
FIGURE 1-5

79) Refer to Figure 1-5. The levels of health and education expenditures at point C   79) _____
        A) are equal to those of point A and point B.
        B) are less than at point D.
        C) could be achieved if the prices of health and/or education increased.
        D) are more cost-effective than those at points A, B, and D.
        E) are not attainable with the government's current budget.

    Answer: E
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

80) Money facilitates trade and specialization by
    A) increasing the value of gold.
    B) eliminating the need for barter.
    C) reducing the shift of resources between uses.
    D) providing employment for coin makers.
    E) increasing investment.

Answer: B

Explanation: A)
                  B)
                  C)
                  D)
                  E)

80) _____

81) One of the major results of the greater specialization of labour is that
    A) there is an increased need for government to intervene in the marketplace.
    B) there is a greater need for trade.
    C) the circular flow of income contracts.
    D) each worker must become more self-sufficient.
    E) the overall output of the economy declines.

Answer: B

Explanation: A)
                  B)
                  C)
                  D)
                  E)

81) _____
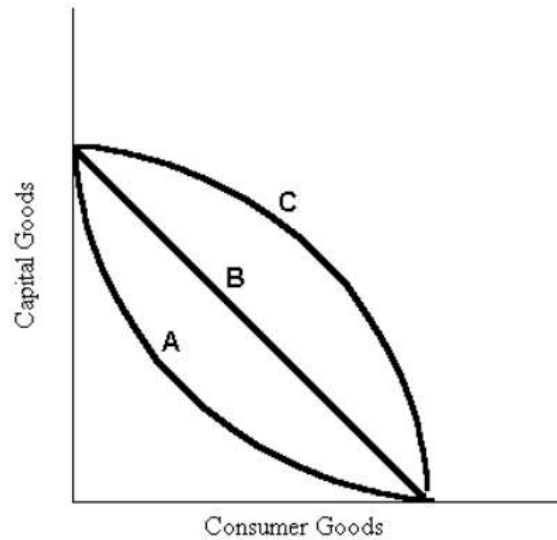
FIGURE 1-4

82) Refer to Figure 1-4. Suppose that the relevant production possibilities boundary is the one labelled   82) _____
   B. This boundary implies that
      A) consumer goods are preferred to capital goods.
      B) capital goods are preferred to consumer goods.
      C) the concept of opportunity cost is not at work in this economy.
      D) in this society the resources are not efficiently employed.
      E) the opportunity cost of producing either capital goods or consumer goods does not depend on
         how much of each good is produced.

   Answer: E
   Explanation: A)
                   B)
                   C)
                   D)
                   E)

83) A modern economy like Canada's is largely organized by   83) _____
      A) benevolent individuals pursuing the public interest.
      B) individuals following their own self interest, doing what seems best for themselves.
      C) individuals forming cooperative enterprises and labour unions.
      D) the self-interested behaviour of a small number of individuals.
      E) governments at all levels coordinating the activities of firms and citizens.

   Answer: B
   Explanation: A)
                   B)
                   C)
                   D)
                   E)
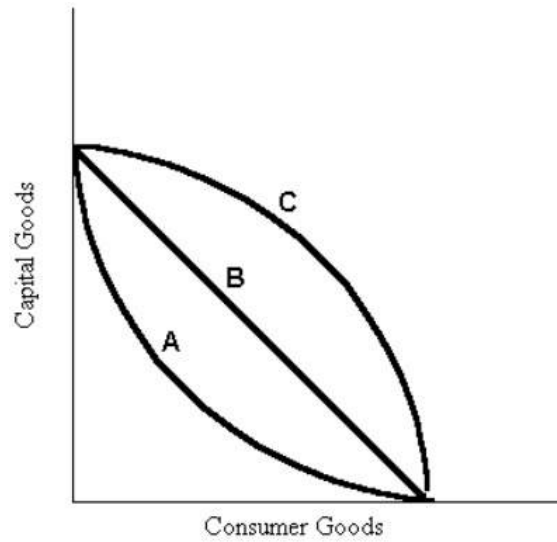
FIGURE 1-4

84) Refer to Figure 1-4. Which production possibilities boundaries exhibit decreasing opportunity costs?

    A) boundary A only
    B) boundary C only
    C) boundary B only
    D) boundaries A and C
    E) boundaries A and B

Answer: A
Explanation: A)
                  B)
                  C)
                  D)
                  E)

84) _____

85) Refer to Figure 1-4. Which production possibilities boundaries are consistent with increasing opportunity costs?

    A) boundary C only
    B) boundaries A and B
    C) boundary A only
    D) boundaries A, B, and C
    E) boundaries B and C

Answer: A
Explanation: A)
                  B)
                  C)
                  D)
                  E)

85) _____

86) The Canadian economy is best described as   86) _____
    A) primarily a public ownership economy.
    B) primarily free-market decision making.
    C) traditional.
    D) a mixed economic system.
    E) a command economy.

Answer: D
Explanation: A)
                     B)
                     C)
                     D)
                     E)

87) Labour services are bought and sold in a   87) _____
    A) foreign exchange market.
    B) mixed market.
    C) product market.
    D) factor market.
    E) goods market.

Answer: D
Explanation: A)
                     B)
                     C)
                     D)
                     E)

*With a budget of $200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.*
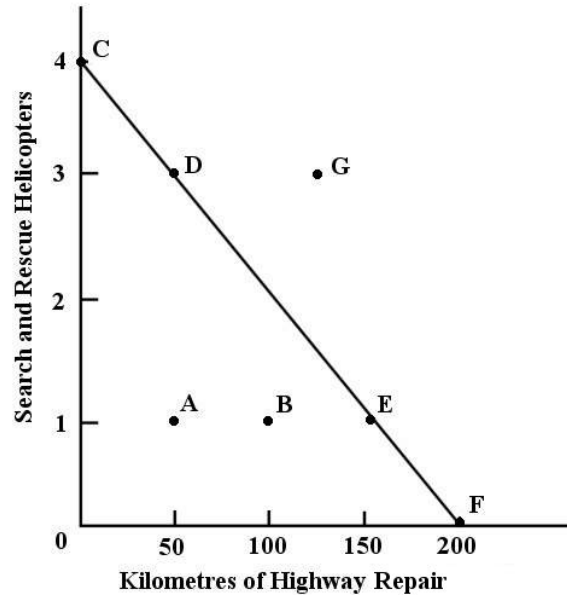
FIGURE 1-1

88) Refer to Figure 1-1. If the government chooses to allocate all $200 million to highway repair, we can say that   88) _____

    A) the opportunity cost of the highway repair is uncertain.
    B) there is no opportunity cost involved because the government has achieved its objectives.
    C) there is no opportunity cost involved because the government stayed within its budget.
    D) the opportunity cost of the highway repair is 4 search and rescue helicopters.
    E) the opportunity cost of the highway repair is $0.

Answer: D
Explanation: A)
                B)
                C)
                D)
                E)

89) Suppose a scientific breakthrough leads to a lower-cost method of producing battery-operated cars in Canada. The likely effect would be to move Canada's current production   89) _____

    A) possibilities boundary inward.
    B) above the level of U.S. production.
    C) to a point inside its new production possibilities boundary.
    D) to a point beyond its new production possibilities boundary.
    E) possibilities boundary outward.

Answer: E
Explanation: A)
                B)
                C)
                D)
                E)

90) An insight first fully developed by Adam Smith is that 90) _____
    A) all individuals are motivated solely by self-interest.
    B) individual self-interest is the only necessary force for social order.
    C) self-interest, not benevolence, is the foundation of economic order.
    D) self-interest undermines effective economic order.
    E) without benevolence production would not occur.

Answer: C
Explanation: A)
                B)
                C)
                D)
                E)

With a budget of $200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.
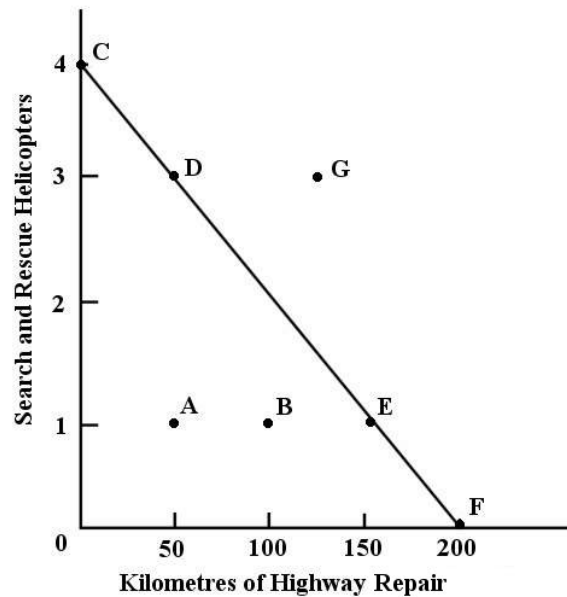
FIGURE 1-1

91) Refer to Figure 1-1. For the government, the opportunity cost of one kilometre of highway repair is 91) _____
    A) 1/50 of a search and rescue helicopter.
    B) 1/2 of a search and rescue helicopter.
    C) 1/10 of a search and rescue helicopter.
    D) 1/100 of a search and rescue helicopter.
    E) 1 search and rescue helicopter.

Answer: A
Explanation: A)
                B)
                C)
                D)
                E)

92) Specialization and trade   92) _____
    A) developed only where government and political institutions were stable.
    B) arose as humans changed from nomadic and self-sufficient food gatherers to settled food
       producers.
    C) *-exist only in capitalist economies.
    D) occur only in the private sector.
    E) developed only in the twentieth century.

  Answer: B
  Explanation: A)
                  B)
                  C)
                  D)
                  E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing lures	Mowed lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

93) Refer to Table 1-1. What is Tristan's opportunity cost of producing one mowed lawn?   93) _____
    A) 4 fishing lures
    B) 12 fishing lures
    C) 6 fishing lures
    D) one fishing lure
    E) 3 fishing lures

  Answer: A
  Explanation: A)
                  B)
                  C)
                  D)
                  E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

94) Refer to Table 1-2. Which of the following statements about Claire's and Sam's opportunity costs 94) _____
is correct?
   A) Claire has a higher opportunity cost for completing 1 chemistry lab report.
   B) Sam has a lower opportunity cost for completing 1 chemistry lab report.
   C) Claire and Sam have equal opportunity costs.
   D) Claire has a higher opportunity cost for completing 1 biology lab report.
   E) Sam has a higher opportunity cost for completing 1 biology lab report.

Answer: D
Explanation: A)
                B)
                C)
                D)
                E)

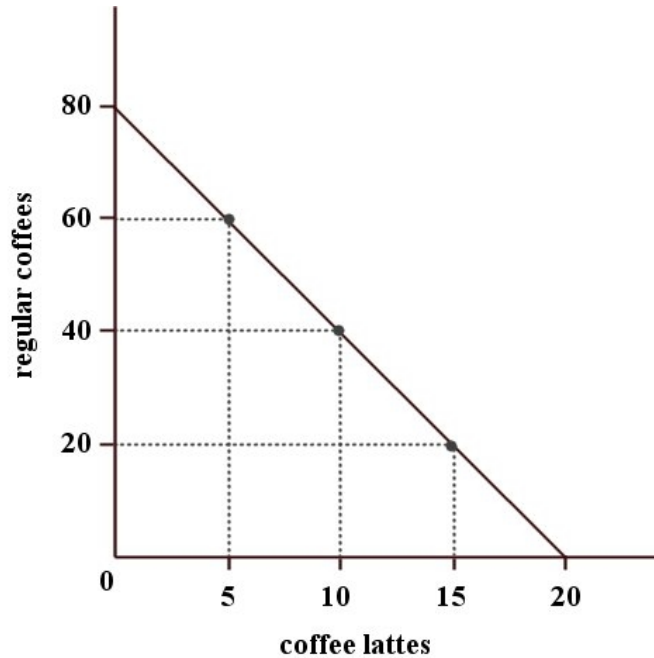*Madeleine allows herself $100 per month for purchasing coffee. The diagram below illustrates the choices available to her.*

FIGURE 1-2

95) Refer to Figure 1-2. If Madeleine chooses to allocate all $100 to buying lattes, we can say that her opportunity cost in one month is

    A) zero because she stayed within her budget.
    B) 20 cups of regular coffee.
    C) 40 cups of regular coffee.
    D) zero because she bought what she desired.
    E) 80 cups of regular coffee.

95) _____

Answer: E
Explanation: A)
                   B)
                   C)
                   D)
                   E)

96) Specialization of labour means that

    A) job security is ensured.
    B) each worker is self-sufficient.
    C) different individuals perform different tasks in the production process of any given product.
    D) different individuals produce different products.
    E) a barter economy is not necessary.

96) _____

Answer: D
Explanation: A)
                   B)
                   C)
                   D)
                   E)

97) Comparison of economic systems indicates that

    A) capitalist economies are clearly superior in distributing income.

    B) all countries have largely traditional economies.

    C) most nations have either a purely socialist economy or a purely capitalist economy.

    D) socialist economies are clearly superior in producing consumer goods.

    E) most countries have mixed economies.

Answer: E

Explanation: A)

                     B)

                     C)

                     D)

                     E)

98) Specialization of labour led to greater efficiency in the allocation of resources because of

    A) the principle of comparative advantage.

    B) an increase in total work effort.

    C) greater reliance on self-sufficiency.

    D) the use of barter.

    E) the opportunity cost of labour increased.

Answer: A

Explanation: A)

                     B)

                     C)

                     D)

                     E)

99) One of the "real" flows in the circular flow of income is

    A) goods going from consumers to producers.

    B) goods going from producers to consumers.

    C) money payments going from consumers to producers.

    D) factor services going from producers to consumers.

    E) money payments going from producers to consumers.

Answer: B

Explanation: A)

                     B)

                     C)

                     D)

                     E)

100) It has been observed that university enrollment in Canada is higher during periods of high unemployment. A possible explanation for this is that

    A) when prospects for getting a job are poor, the opportunity cost of getting a job is lower.

    B) during periods of high unemployment, tuition fees are reduced.

    C) when prospects for getting a job are poor, the opportunity cost of going to university is lower.

    D) during periods of high unemployment, the opportunity cost is no longer relevant.

    E) when prospects for getting a job are poor, the opportunity cost of doing nothing is higher.

Answer: C

Explanation: A)

                     B)

                     C)

                     D)

                     E)

101) In traditional economies, economic behaviour is

    A) based primarily on custom and habit.

    B) largely determined by a central authority.

    C) random and unpredictable.

    D) directed only by self interest.

    E) affected by elements of tradition, government command, and market incentives.

Answer: A

Explanation: A)

                B)

                C)

                D)

                E)

101) _____

102) The barter system of exchange is inefficient because

    A) exchange partners need to know each other.

    B) markets do not exist.

    C) "fair" values cannot be defined without the use of money.

    D) bargaining power is unequal between rich and poor.

    E) the double coincidence of wants may not exist.

Answer: E

Explanation: A)

                B)

                C)

                D)

                E)

102) _____

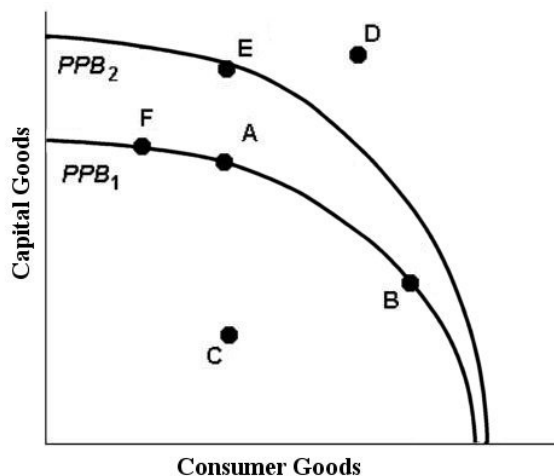*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

103) Refer to Figure 1-3. That the production possibilities boundaries are drawn concave to the origin reflects the   103) _____
    A) unfair distribution of resources in the economy.
    B) constant opportunity cost of producing more of either good.
    C) decreasing opportunity cost of producing more of either good.
    D) increasing opportunity cost of producing more of either good.
    E) scarcity of resources in the economy.

Answer: D
Explanation: A)
                  B)
                  C)
                  D)
                  E)

104) Katie and Hugh are producing pies and jars of pickles. Katie can produce either 200 jars of pickles or 100 pies per month. Hugh can produce either 800 jars of pickles or 200 pies per month.   104) _____
    A) Katie's opportunity cost of producing 1 jar of pickles is 1/2 of a pie.
    B) Hugh's and Katie's opportunity costs of producing are the same.
    C) Katie's opportunity cost of producing 1 jar of pickles is 2 pies.
    D) Hugh's opportunity cost of producing 1 pie is 1/4 jar of pickles.
    E) Hugh's opportunity cost of producing 1 jar of pickles is 4 pies.

Answer: A
Explanation: A)
                  B)
                  C)
                  D)
                  E)

105) A move from inside the production possibilities boundary to the boundary itself could be caused   105) _____
     by
       A) an improvement in the government's ability to control its spending.
       B) technological progress.
       C) an increase in the labour supply.
       D) the employment of previously idle resources.
       E) a reallocation of resources from military to civilian goods.

     Answer: D
     Explanation: A)
                     B)
                     C)
                     D)
                     E)

Madeleine allows herself $100 per month for purchasing coffee. The diagram below illustrates the choices available to her.
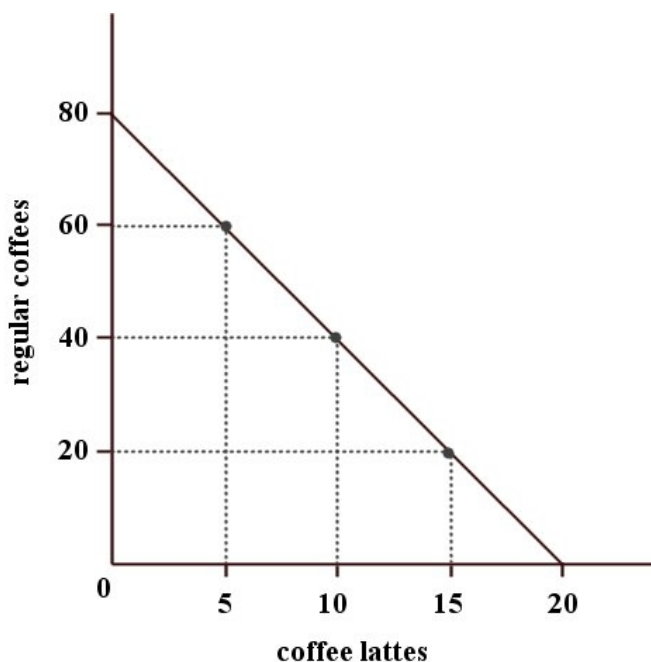
FIGURE 1-2

106) Refer to Figure 1-2. Which of the following combinations of regular coffees and lattes is affordable   106) _____
     over the one-month period, given Madeleine's budget?
       A) 8 lattes and 50 coffees
       B) 4 lattes and 66 coffees
       C) 15 lattes and 30 coffees
       D) 20 lattes and 80 coffees
       E) 16 lattes and 16 coffees

     Answer: E
     Explanation: A)
                     B)
                     C)
                     D)
                     E)

107) A straight-line production possibilities boundary differs from a concave boundary in which of the   107) _____
following ways?
   A) The concave boundary illustrates constant opportunity costs, whereas the straight-line
      boundary illustrates decreasing opportunity costs.
   B) The straight-line boundary illustrates constant opportunity costs, whereas the concave
      boundary illustrates increasing opportunity costs.
   C) A straight-line boundary is associated with a command economy, whereas a concave
      boundary is associated with a free-market economy.
   D) The straight-line boundary does not show scarcity, whereas the concave boundary does.
   E) The straight-line boundary shows opportunity cost, whereas the concave boundary does not.

Answer: B
Explanation: A)
                B)
                C)
                D)
                E)

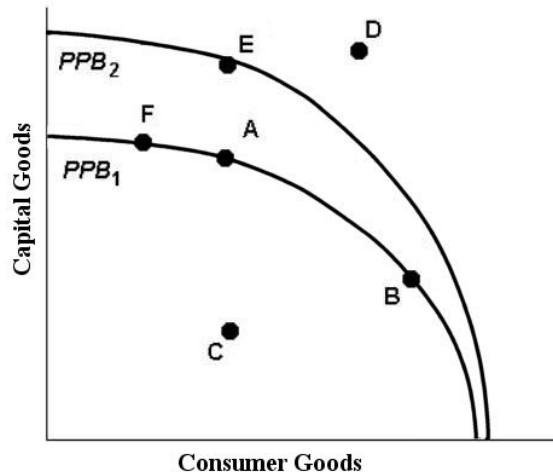*The diagram below shows two production possibilities boundaries for Country X.*

FIGURE 1-3

108) Refer to Figure 1-3. If Country X, constrained by the production possibilities boundary PPB_1, is   108) _____
producing the combination of goods indicated at point F, it can produce more consumer goods by
moving to one of the points
   A) A, B, C, D, or E.
   B) A or B, but not C.
   C) A, B, or C.
   D) D or E
   E) A or E.

Answer: C
Explanation: A)
                B)
                C)
                D)
                E)

109) Refer to Figure 1-3. If Country X is currently producing at point A, it could move to point B if   109) _____
    A) Country X is no longer able to produce the quantity of capital goods at point A.
    B) some resources were switched from the consumption goods industries to the capital goods industries.
    C) some resources were switched from the capital goods industries to the consumption goods industries.
    D) the cost of producing consumer goods were to increase.
    E) the cost of producing capital goods were to increase.

Answer: C
Explanation: A)
               B)
               C)
               D)
               E)

110) In practice, the term "centrally planned economy" refers to an economy in which   110) _____
    A) the military is in control of the government.
    B) economic decisions are made in the geographic centre of the country.
    C) all commodities are rationed.
    D) the government makes all production and consumption decisions.
    E) the mix of market and command principles is heavily weighted towards the latter.

Answer: E
Explanation: A)
               B)
               C)
               D)
               E)

1) D
2) E
3) C
4) D
5) A
6) E
7) D
8) D
9) C
10) C
11) E
12) A
13) E
14) A
15) B
16) A
17) C
18) A
19) C
20) A
21) A
22) A
23) A
24) A
25) E
26) B
27) B
28) C
29) B
30) D
31) B
32) D
33) E
34) C
35) A
36) A
37) D
38) C
39) A
40) B
41) B
42) C
43) E
44) B
45) E
46) D
47) D
48) A
49) E
50) D

51) C
52) A
53) B
54) B
55) A
56) C
57) B
58) C
59) C
60) B
61) A
62) C
63) A
64) A
65) D
66) A
67) C
68) E
69) B
70) B
71) C
72) D
73) B
74) E
75) A
76) A
77) C
78) E
79) E
80) B
81) B
82) E
83) B
84) A
85) A
86) D
87) D
88) D
89) E
90) C
91) A
92) B
93) A
94) D
95) E
96) D
97) E
98) A
99) B
100) C

Answer Key
Testname: C1

101) A
102) E
103) D
104) A
105) D
106) E
107) B
108) C
109) C
110) E