

## Chapter 2 The Economic Problem

### 2.1 Production Possibilities and Opportunity Cost

1) The production possibilities frontier

- A) is the boundary between attainable and unattainable levels of production.
- B) is the boundary between what we want to consume and what we want to produce.
- C) shows how production increases as prices rise.
- D) shows prices at which production is possible and impossible.
- E) illustrates why there need not be any scarcity in the world.

Answer: A

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

2) Which one of the following concepts is *not* illustrated by a production possibilities frontier?

- A) scarcity
- B) monetary exchange
- C) opportunity cost
- D) attainable and unattainable points
- E) the tradeoff between producing one good versus another

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

3) A point inside a production possibilities frontier

- A) indicates some unused or misallocated resources.
- B) is unattainable.
- C) is preferred to a point on the production possibilities frontier.
- D) indicates a point of production efficiency.
- E) illustrates the idea of opportunity cost.

Answer: A

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

4) Which one of the following concepts is illustrated by a production possibilities frontier?

- A) profit
- B) consumption
- C) investment
- D) monetary exchange
- E) the tradeoff between producing one good versus another

Answer: E

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 5) If Sam is producing at a point inside his production possibilities frontier, then he
- A) can increase production of both goods with zero opportunity cost.
  - B) is fully using all his resources and allocating his resources to their best use.
  - C) must be doing the best he can with limited resources.
  - D) is unaffected by costs and technology.
  - E) has a high opportunity cost of moving from this point.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

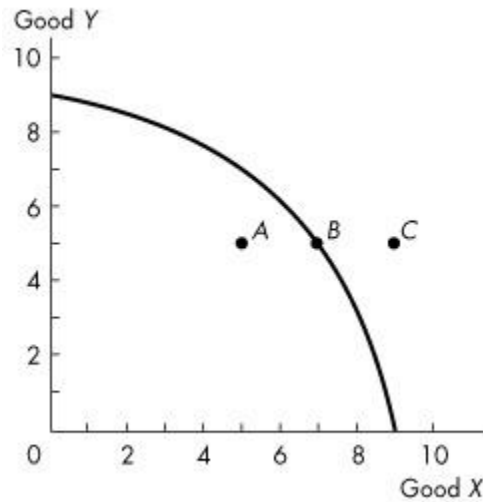
- 6) If Sam is producing at a point on his production possibilities frontier, then he
- A) cannot produce any more of either good.
  - B) is unaffected by costs and technology.
  - C) can produce more of both goods.
  - D) is not subject to scarcity.
  - E) can increase the production of one good only by decreasing the production of the other.

Answer: E

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the figure below to answer the following questions.



**Figure 2.1.1**

7) Refer to the production possibilities frontier in Figure 2.1.1. Which one of the following is true about point A?

- A) It is unattainable.
- B) While no more of good Y can be produced, more of good X can be produced.
- C) It is preferred to point B.
- D) Resources are either unused or misallocated or both.
- E) It is attainable only if the amount of capital goods is increased.

Answer: D

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

8) Complete the following sentence. In Figure 2.1.1,

- A) movement from A to B would require a technological advance.
- B) point B is a point of production efficiency.
- C) some resources must be unused at point C.
- D) the concept of decreasing opportunity cost is illustrated.
- E) movement from C to B would require a technological improvement.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

9) Refer to the production possibilities frontier in Figure 2.1.1, which one of the following is true about point *C*?

- A) It is attainable only if we consume more of good *X*.
- B) It is unattainable.
- C) It is attainable only if we consume less of good *Y*.
- D) It is attainable only if we consume less of good *X*.
- E) It is attainable only if we consume more of good *Y*.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

10) If Harold can increase production of good *X* without decreasing production of any other good, then Harold

- A) is producing on his production possibilities frontier.
- B) is producing outside his production possibilities frontier.
- C) is producing inside his production possibilities frontier.
- D) must have a linear production possibilities frontier.
- E) must prefer good *X* to any other good.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Source: Study Guide

11) If Harold must decrease production of some other good to increase production of good *X*, then Harold

- A) is producing on his production possibilities frontier.
- B) is producing outside his production possibilities frontier.
- C) is producing inside his production possibilities frontier.
- D) must prefer good *X* to any other good.
- E) has too few capital goods.

Answer: A

Type: MC

Topic: Production Possibilities and Opportunity Cost

12) A situation in which resources are either unused or misallocated or both is represented in a production possibilities frontier diagram by

- A) any point on either the horizontal or the vertical axis.
- B) a point above or to the right of the production possibilities frontier.
- C) a point outside the production possibilities frontier.
- D) a point inside the production possibilities frontier.
- E) a point on or inside the production possibilities frontier.

Answer: D

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

13) A production possibilities frontier is negatively sloped because

- A) more goods are purchased as price falls.
- B) of opportunity cost.
- C) some resources are unused.
- D) there is not enough capital in the economy.
- E) of increasing consumption.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

14) Ted chooses to study for his economics exam instead of going to the concert. The concert he will miss is Ted's \_\_\_\_\_ of studying for the exam.

- A) monetary cost
- B) absolute cost
- C) opportunity cost
- D) discretionary cost
- E) comparative cost

Answer: C

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

15) Opportunity cost of an action is

- A) the best choice that can be made.
- B) the highest-valued alternative forgone.
- C) the money cost.
- D) the comparative cost.
- E) the absolute cost.

Answer: B

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

16) The concept of opportunity cost

- A) cannot be explained by using a production possibilities frontier.
- B) explains that goods are swapped for other goods.
- C) implies that when a person is more efficient in the production of one good, he should produce that good and exchange it for some good that he is relatively less efficient at producing.
- D) implies that a double coincidence of wants must be present for exchange to take place.
- E) implies that because productive resources are scarce, we must give up some of one good to acquire more of another.

Answer: E

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 17) On a graph of a production possibilities frontier, opportunity cost is represented by
- A) a point on the horizontal axis.
  - B) a point on the vertical axis.
  - C) a ray through the origin.
  - D) the slope of the production possibilities frontier.
  - E) the  $x$ -axis intercept.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 18) Production efficiency is achieved when
- A) the production possibilities frontier shifts outward at an even pace.
  - B) there are no more tradeoffs.
  - C) all resources are equally productive in all activities.
  - D) resources are not equally productive in all activities.
  - E) we produce goods and services at the lowest possible cost.

Answer: E

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 19) A tradeoff exists when
- A) we move from a point within the production possibilities frontier (*PPF*) to a point on the *PPF*.
  - B) we move from a point on the *PPF* to a point within the *PPF*.
  - C) the *PPF* shifts outward.
  - D) we move along the *PPF*.
  - E) the *PPF* shifts towards the origin.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 20) Which of the following quotations best illustrates a tradeoff?
- A) "If the firm reorganized its production process, it could produce more widgets *and* more gadgets."
  - B) "The firm should sell more gadgets, even if it means less widget sales."
  - C) "The more and more gadgets the firm produces, the bigger the fall in widget production."
  - D) "If the firm invests more in capital equipment, it can expand sales next year."
  - E) "The firm has been able to lower costs due to its extensive experience in building widgets."

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

21) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The production possibilities frontier of this firm would show

- A) increasing opportunity cost.
- B) decreasing opportunity cost.
- C) constant opportunity cost.
- D) zero opportunity cost.
- E) infinite opportunity cost.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

22) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The opportunity cost of one more unit of medical services is

- A) 2 units of secretarial services.
- B) 5 units of secretarial services.
- C) 0.4 units of secretarial services.
- D) 2.5 units of secretarial services
- E) dependent on the level of services.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

23) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 10 units of medical services and 30 units of secretarial services. This output level is

- A) efficient.
- B) unattainable.
- C) inefficient.
- D) costless.
- E) is attainable if the firm reduces the number of its workers.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

24) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 16 units of medical services and 5 units of secretarial services. This output level is

- A) efficient.
- B) unattainable.
- C) inefficient.
- D) costless.
- E) attainable and efficient.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

25) The bowed-out (concave) shape of a production possibilities frontier

- A) is due to the equal usefulness of resources in all activities.
- B) is due to capital accumulation.
- C) is due to technological change.
- D) reflects the existence of increasing opportunity cost.
- E) reflects the existence of decreasing opportunity cost.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Source: Study Guide

26) If opportunity costs are increasing, then the production possibilities frontier

- A) will be bowed out and have a positive slope.
- B) will be positively sloped.
- C) will be linear and have a negative slope.
- D) will be bowed out and have a negative slope.
- E) reflects the fact that available resources are equally useful in all production activities.

Answer: D

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

27) The fact that resources are not equally productive in all activities

- A) implies that a production possibilities frontier will be bowed outward.
- B) implies that gains from specialization and trade are unlikely.
- C) follows from the law of demand.
- D) implies a linear production possibilities frontier.
- E) implies that an economy should not produce certain goods.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

28) If additional units of any good could be produced at a *constant* opportunity cost, the production possibilities frontier would be

- A) bowed inward.
- B) bowed outward.
- C) positively sloped.
- D) negatively sloped.
- E) linear.

Answer: E

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost



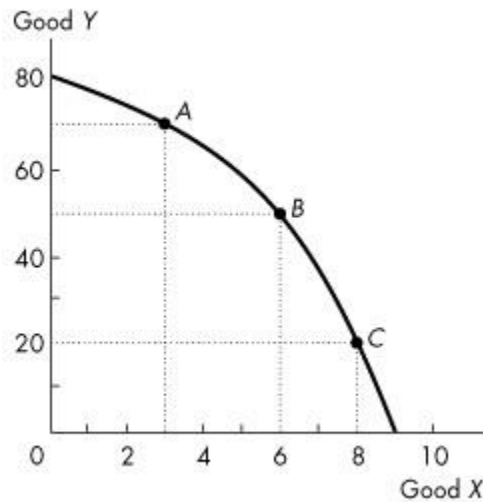
- 29) The existence of *increasing* opportunity cost
- A) explains why specialization is frequently useful.
  - B) explains why resources are scarce.
  - C) explains the bowed-out shape of the production possibilities frontier.
  - D) follows from the existence of property rights.
  - E) explains why some societies produce inside their production possibilities frontier.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the figure below to answer the following questions.



**Figure 2.1.2**

- 30) Refer to the production possibilities frontier in Figure 2.1.2. If 6 units of X are currently being produced, then
- A) 40 units of Y cannot be produced unless production of X is decreased.
  - B) 40 units of Y cannot be produced unless production of X is increased.
  - C) 60 units of Y can be produced with some resources *not* fully used.
  - D) 50 units of Y must be produced, regardless of resource utilization.
  - E) 50 units of Y can be produced if all resources are used and assigned to the task for which they are the best match.

Answer: E

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

31) Refer to the production possibilities frontier in Figure 2.1.2. Suppose that 50 units of *Y* are currently being produced. Then

- A) 7 units of *X* are being produced.
- B) 6 units of *X* can be produced if all resources are used and assigned to the task for which they are the best match.
- C) 9 units of *X* can be produced if all resources are used and assigned to the task for which they are the best match.
- D) resources are not being fully utilized.
- E) 6 units of *X* are being produced.

Answer: B

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

32) Refer to the production possibilities frontier in Figure 2.1.2. At point *A*, the opportunity cost of producing 3 more units of *X*

- A) is 30 units of *Y*.
- B) is 3 units of *X*.
- C) is 20 units of *Y*.
- D) is 10 units of *Y*.
- E) cannot be determined from the diagram.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

33) Refer to the production possibilities frontier in Figure 2.1.2. At point *A*, the opportunity cost of increasing production of *Y* to 80 units is

- A) 10 units of *Y*.
- B) 80 units of *Y*.
- C) 2 units of *X*.
- D) 3 units of *X*.
- E) 1 unit of *X*.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

34) Refer to the production possibilities frontier in Figure 2.1.2. At point *C*, the opportunity cost of producing one more unit of *X* is

- A) 1 unit of *Y*.
- B) 1 unit of *X*.
- C) 8 units of *X*.
- D) 20 units of *X*.
- E) 20 units of *Y*.

Answer: E

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

35) Refer to the production possibilities frontier in Figure 2.1.2. At point C, what is the opportunity cost of increasing the production of Y from 20 to 50 units?

- A) 6 units of X
- B) 2 units of X
- C) 8 units of X
- D) 20 units of Y
- E) 30 units of Y

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

36) Consider the production possibilities frontier in Figure 2.1.2, and assume that everything that is produced is also consumed. Which of the following statements is *false*?

- A) Resources are not equally useful in all activities.
- B) Points inside the frontier indicate unused or misallocated resources.
- C) Starting at point A, an increase in the production of Y will shift the frontier outward.
- D) The opportunity cost of producing Y increases as production of Y increases.
- E) The opportunity cost of producing X increases as production of X increases.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

37) As we increase the production of X, we find we must give up larger and larger amounts of Y per unit of X. Select the best statement.

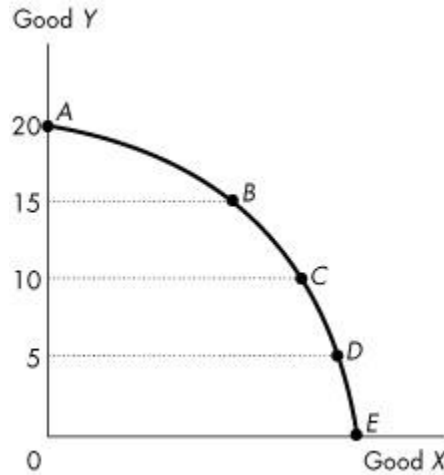
- A) This illustrates increasing opportunity cost.
- B) As a result, we should not specialize in the production of X.
- C) The production possibilities frontier for X and Y is a straight line.
- D) Good Y will be more highly regarded by consumers than good X.
- E) We must be inside the production possibilities frontier.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the figure below to answer the following questions.



**Figure 2.1.3**

38) Figure 2.1.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *B* to point *C*,

- A) it will be necessary to improve technology.
- B) it will be necessary to increase the accumulation of capital.
- C) it will be necessary to give up some of good *X* to obtain more of good *Y*.
- D) it will be necessary to give up some of good *Y* to obtain more of good *X*.
- E) she can accomplish this without any opportunity cost.

Answer: D

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

39) Figure 2.1.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *D* to point *C*,

- A) it will be necessary to improve technology.
- B) it will be necessary to increase the accumulation of capital.
- C) it will be necessary to give up some of good *X* to obtain more of good *Y*.
- D) it will be necessary to give up some of good *Y* to obtain more of good *X*.
- E) she can accomplish this without any opportunity cost.

Answer: C

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

40) Refer to the production possibilities frontier in Figure 2.1.3. The opportunity cost of moving from *C* to *B* will be

- A) greater than moving from *D* to *C* but less than moving from *B* to *A*.
- B) less than moving from *D* to *C* but greater than moving from *B* to *A*.
- C) the same as moving from *D* to *C* or moving from *B* to *A*.
- D) greater than moving either from *D* to *C* or from *B* to *A*.
- E) neither greater than moving from *D* to *C* nor moving from *B* to *A*.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

41) Refer to the production possibilities frontier in Figure 2.1.3. The fact that less of *X* must be given up when moving from *D* to *C* than when moving from *B* to *A* indicates

- A) decreasing opportunity cost.
- B) increasing opportunity cost.
- C) comparative advantage in the production of *X*.
- D) the consequences of technological improvement.
- E) unemployed resources at *D*.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the table below to answer the following questions.

**Table 2.1.1**

The following table gives points on the production possibilities frontier for goods *X* and *Y*.

Point	Production of <i>X</i>	Production of <i>Y</i>
<i>A</i>	0	40
<i>B</i>	4	36
<i>C</i>	8	28
<i>D</i>	12	16
<i>E</i>	16	0

42) Refer to Table 2.1.1. What does point *C* mean?

- A) If 8 units of *X* are produced, then at least 28 units of *Y* can be produced.
- B) If 8 units of *X* are produced, then at most 28 units of *Y* can be produced.
- C) If 28 units of *Y* are produced, then more than 8 units of *X* can be produced.
- D) If 8 units of *X* are produced, then only 36 units of *Y* can be produced.
- E) There is unemployment at this point.

Answer: B

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

43) Refer to Table 2.1.1. The opportunity cost of increasing the production of X from 8 to 12 units is

- A) 4 units of X.
- B) 4 units of Y.
- C) 8 units of Y.
- D) 12 units of Y.
- E) 16 units of Y.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

44) Refer to Table 2.1.1. The opportunity cost of increasing the production of Y from 16 to 36 units is

- A) 4 units of X.
- B) 8 units of X.
- C) 12 units of X.
- D) 16 units of X.
- E) 20 units of Y.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

45) The economy illustrated by the data in Table 2.1.1 exhibits

- A) decreasing opportunity cost.
- B) constant opportunity cost in the production of X.
- C) constant opportunity cost in the production of Y.
- D) increasing opportunity cost.
- E) initially increasing, then decreasing opportunity cost.

Answer: D

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

46) From the data in Table 2.1.1, the production of 7 units of X and 28 units of Y is

- A) unattainable.
- B) attainable but leaves some resources unused or misallocated or both.
- C) on the *PPF* between points C and D.
- D) on the *PPF* between points B and C.
- E) outside the *PPF*.

Answer: B

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 47) Refer to Table 2.1.1. As we increase the production of  $X$ ,
- A) the amount of  $Y$  that is given up for each additional unit of  $X$  decreases.
  - B) the output of  $Y$  increases.
  - C) the opportunity cost of each additional unit of  $X$  increases.
  - D) unemployment increases.
  - E) the amount of  $X$  increases at an increasing rate.

Answer: C

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 48) From the data in Table 2.1.1 we can infer that
- A) the economy illustrated has a comparative advantage in the production of  $Y$ .
  - B) the economy illustrated has a comparative advantage in the production of  $X$ .
  - C) the opportunity cost of producing an additional unit of  $Y$  increases as the production of  $Y$  increases.
  - D) the opportunity cost of producing an additional unit of  $Y$  decreases as the production of  $Y$  increases.
  - E) none of the above.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 49) The diagram of the production possibilities frontier corresponding to the data in Table 2.1.1 would be
- A) negatively sloped and linear.
  - B) negatively sloped and bowed inward.
  - C) negatively sloped and bowed outward.
  - D) positively sloped for  $X$  and negatively sloped for  $Y$ .
  - E) a horizontal line.

Answer: C

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

- 50) From the data in Table 2.1.1, the production of 10 units of  $X$  and 28 units of  $Y$  is
- A) unattainable.
  - B) attainable but leaves some resources misallocated.
  - C) on the production possibilities frontier between points  $C$  and  $D$ .
  - D) inside the *PPF*.
  - E) possible if we reduce the amount of capital goods.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the table below to answer the following questions.

**Table 2.1.2**  
Production Possibilities

Possibility	Kilograms of Butter	Guns
A	8	0
B	6	1
C	0	3

51) Refer to Table 2.1.2. In moving from combination *B* to combination *C*, the opportunity cost of producing *one* additional unit of guns is

- A) 2 kilograms of butter.
- B) 1/2 kilogram of butter.
- C) 6 kilograms of butter.
- D) 1/6 kilogram of butter.
- E) 3 kilograms of butter.

Answer: E

Diff: 3 Type: MC

Topic: Production Possibilities and Opportunity Cost

52) Refer to Table 2.1.2. According to this production possibilities frontier,

- A) a combination of 6 kilograms of butter and 1 gun leaves some resources unused.
- B) a combination of 0 butter and 4 guns is attainable.
- C) resources are equally useful in all activities.
- D) the opportunity cost of producing guns increases as more guns are produced.
- E) the opportunity cost of producing guns decreases as more guns are produced.

Answer: D

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost



Use the table below to answer the following questions.

**Table 2.1.3**  
Production possibilities for a society that produces only two goods — hockey sticks and maple leaves.

Possibility	Units of Hockey Sticks	Units of Maple Leaves
A	3	0
B	2	3
C	0	9

53) Refer to Table 2.1.3. In moving from combination C to combination B, the opportunity cost of producing *one* additional hockey stick is

- A) 2 maple leaves.
- B) 1/2 maple leaves.
- C) 6 maple leaves.
- D) 1/6 maple leaves.
- E) 3 maple leaves.

Answer: E

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

Source: Study Guide

Use the table below to answer the following question.

**Table 2.1.4**  
Consider the following production possibilities for A. Student for the typical week:

Possibility	Beer	Pizza
a	14 cases	0
b	12 cases	6
c	9 cases	11
d	5 cases	14
e	0 cases	15

54) Refer to Table 2.1.4. Complete the following sentence. The production possibilities frontier in the table shows

- A) increasing opportunity cost.
- B) learning-by-doing.
- C) constant opportunity cost.
- D) under-utilization of resources.
- E) decreasing opportunity cost.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

55) The slope of the production possibilities frontier curve indicates

- A) opportunity cost.
- B) comparative advantage.
- C) absolute advantage.
- D) marginal benefit.
- E) preferences.

Answer: A

Diff: 2 Type: MC

Topic: Production Possibilities and Opportunity Cost

56) As we move down the bowed-out production possibilities frontier, opportunity cost

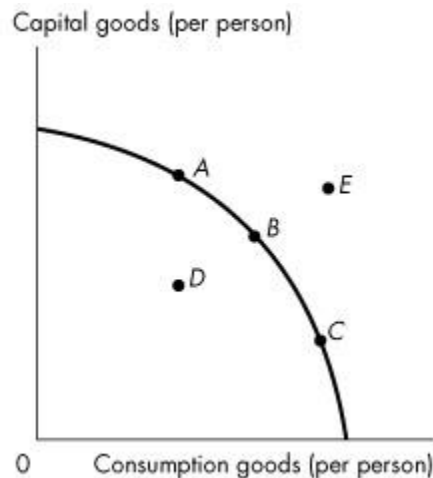
- A) increases.
- B) decreases.
- C) remains constant.
- D) initially decreases, then increases.
- E) decreases but at an increasing rate.

Answer: A

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the figure below to answer the following questions.



**Figure 2.1.4**

57) Refer to the production possibilities frontier in Figure 2.1.4. Which point is unattainable?

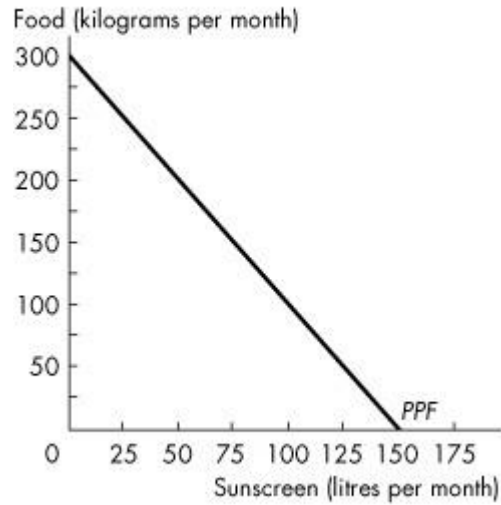
- A) A
- B) B
- C) C
- D) D
- E) E

Answer: E

Diff: 1 Type: MC

Topic: Production Possibilities and Opportunity Cost

Use the figure below to answer the following question.



**Figure 2.1.5**

58) The graph in Figure 2.1.5 shows Sunland's *PPF* for food and sunscreen. Sunland faces \_\_\_\_\_ opportunity cost of food and \_\_\_\_\_ opportunity of sunscreen, which can be seen by the shape of the *PPF*.

- A) an increasing; a decreasing
- B) a constant; a constant
- C) a decreasing; an increasing
- D) an increasing; an increasing
- E) a decreasing; a decreasing

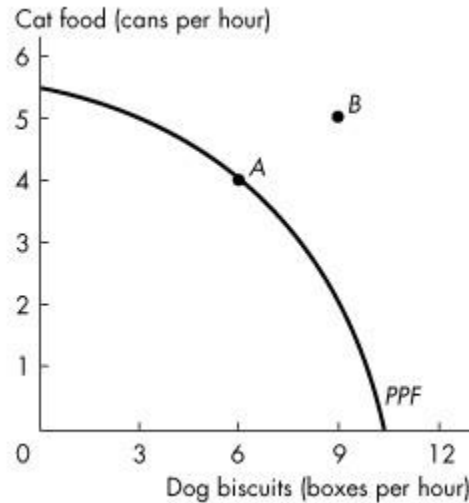
Answer: B

Type: MC

Topic: Production Possibilities and Opportunity Cost

Source: MyEconLab

Use the figure below to answer the following question.



**Figure 2.1.6**

59) Figure 2.1.6 shows the production possibilities frontier for a firm that produces pet food. Point A is \_\_\_\_\_ and point B is \_\_\_\_\_. This *PPF* \_\_\_\_\_ illustrate scarcity because \_\_\_\_\_.

- A) unattainable; attainable; does; because the firm cannot attain the points outside the frontier
- B) attainable; unattainable; does not; the firm can produce any quantity it wants if it is willing to pay a high enough price
- C) unattainable; attainable; does not; the firm can produce any quantity it wants if it is willing to pay a high enough price
- D) attainable; unattainable; does; the firm cannot produce points outside the frontier and as the firm moves along the *PPF*, it cannot produce more dog biscuits without producing less cat food
- E) attainable; unattainable; does not; it is downward sloping

Answer: D

Type: MC

Topic: Production Possibilities and Opportunity Cost

Source: MyEconLab

60) When producing at a point of production efficiency, \_\_\_\_\_.

- A) our choice of goods to produce can be either on or inside the production possibilities frontier
- B) we can satisfy all our wants
- C) the opportunity cost of producing goods other than those measured on the axes of the production possibilities frontier is zero
- D) we face a tradeoff and incur an opportunity cost
- E) resources are either unused or misallocated

Answer: D

Type: MC

61) Jane produces only corn and cloth. If her preferences for corn and cloth change, then \_\_\_\_\_.

- A) her *PPF* becomes steeper
- B) her *PPF* becomes flatter
- C) her *PPF* becomes straighter
- D) the world *PPF* shifts outward
- E) her *PPF* does not change

Answer: E

Type: MC

## 2.2 Using Resources Efficiently

1) Complete the following sentence. Marginal cost

- A) is the opportunity cost of producing one more unit of a good or service.
- B) is unrelated to the production possibilities frontier.
- C) always equals marginal benefit.
- D) remains constant.
- E) is always greater than marginal benefit.

Answer: A

Diff: 1 Type: MC

Topic: Using Resources Efficiently

2) The quantity of shoes produced is measured along the  $x$ -axis of a bowed-outward production possibilities frontier and the quantity of shirts produced is measured along the  $y$ -axis. As you move down towards the right along the production possibilities frontier, the marginal cost of

- A) a pair of shoes decreases.
- B) a pair of shoes increases.
- C) a shirt remains constant.
- D) a shirt increases or decreases but we don't know for sure.
- E) a pair of shoes and a shirt is equal at the midpoint between the  $x$ -axis and the  $y$ -axis.

Answer: B

Diff: 2 Type: MC

Topic: Using Resources Efficiently

3) Which of the following is true regarding marginal benefit?

- I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.
- II. Marginal benefit increases as more and more of a good is consumed.
- III. Marginal benefit is the maximum amount a person is willing to pay to obtain one more unit of a good.

- A) I only
- B) I and II
- C) I and III
- D) III only
- E) I, II, and III

Answer: D

Diff: 3 Type: MC

Topic: Using Resources Efficiently

4) To describe preferences, economists use the concept of

- A) opportunity cost.
- B) scarcity.
- C) marginal benefit.
- D) marginal cost.
- E) none of the above.

Answer: C

Diff: 1 Type: MC

Topic: Using Resources Efficiently

- 5) Complete the following sentence. As you consume more and more of a good,
- A) marginal benefit increases.
  - B) marginal benefit decreases.
  - C) marginal benefit always equals marginal cost.
  - D) marginal benefit increases or decreases depending on where you are on the production possibilities frontier.
  - E) the price of the good falls.

Answer: B

Diff: 1 Type: MC

Topic: Using Resources Efficiently

- 6) The marginal benefit curve for a good
- A) shows the benefit a firm receives from producing one more unit of that good.
  - B) shows the most a consumer is willing to pay for one more unit of that good.
  - C) is upward-sloping.
  - D) is bowed outward.
  - E) none of the above.

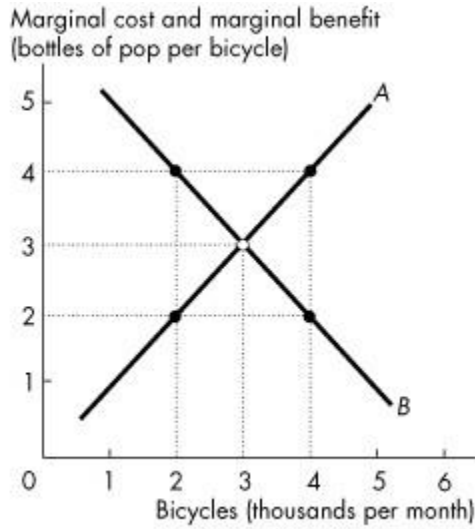
Answer: B

Diff: 1 Type: MC

Topic: Using Resources Efficiently

Source: Study Guide

Use the figure below to answer the following questions.



**Figure 2.2.1**

7) In Figure 2.2.1, the curve labeled *B* shows

- A) the bottles of pop that people are *willing* to forgo to get another bicycle.
- B) the bicycles that people are *willing* to forgo to get another bottle of pop.
- C) the bottles of pop that people *must* forgo to get another bicycle.
- D) that the benefits of producing more bicycles is greater than the benefits of producing more pop.
- E) that the benefits of producing more pop is greater than the benefits of producing more bicycles.

Answer: A

Diff: 1 Type: MC

Topic: Using Resources Efficiently

8) In Figure 2.2.1, when 2,000 bicycles are produced each month

- A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
- B) more bicycles must be produced to reach the efficient level of output.
- C) fewer bicycles must be produced to reach the efficient level of output.
- D) the economy is efficient at this level of production of bicycles.
- E) both A and B.

Answer: E

Diff: 2 Type: MC

Topic: Using Resources Efficiently



9) In Figure 2.2.1, the curve labelled *A* is the \_\_\_\_\_ curve and the curve labelled *B* is the \_\_\_\_\_ curve.

- A) marginal cost; marginal benefit
- B) marginal cost; trade
- C) marginal benefit; trade
- D) production possibilities; trade
- E) marginal benefit; marginal cost

Answer: A

Diff: 1 Type: MC

Topic: Using Resources Efficiently

10) In Figure 2.2.1, when 4,000 bicycles are produced each month

- A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
- B) more bicycles must be produced to reach the efficient level of output.
- C) fewer bicycles must be produced to reach the efficient level of output.
- D) the economy is very efficient at this level of production of bicycles.
- E) both A and B.

Answer: C

Diff: 2 Type: MC

Topic: Using Resources Efficiently

11) A marginal benefit curve measures

- A) comparative advantage.
- B) willingness to pay.
- C) absolute advantage.
- D) opportunity cost.
- E) expenditure.

Answer: B

Diff: 1 Type: MC

Topic: Using Resources Efficiently

12) Allocative efficiency refers to a situation where

- A) opportunity costs are equal.
- B) we cannot produce more of any one good without giving up some other good.
- C) goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit.
- D) opportunity cost is zero.
- E) none of the above.

Answer: C

Diff: 1 Type: MC

Topic: Using Resources Efficiently

13) As production of food increases, marginal benefit from food

- A) increases and marginal cost increases.
- B) increases and marginal cost decreases.
- C) decreases and marginal cost increases.
- D) decreases and marginal cost decreases.
- E) decreases and marginal cost is zero.

Answer: C

Diff: 1 Type: MC

Topic: Using Resources Efficiently

Source: Study Guide

14) Suppose the production possibilities frontier for skirts and pants is a straight line. As the production of skirts increases, the marginal benefit from skirts

- A) increases and marginal cost is constant.
- B) is constant and marginal cost decreases.
- C) decreases and marginal cost increases.
- D) decreases and marginal cost decreases.
- E) decreases and marginal cost is constant.

Answer: E

Diff: 1 Type: MC

Topic: Using Resources Efficiently

Source: Study Guide

15) With allocative efficiency, for each good produced,

- A) marginal benefit equals marginal cost.
- B) marginal benefit is at its maximum.
- C) marginal benefit exceeds marginal cost by as much as possible.
- D) marginal cost exceeds marginal benefit by as much as possible.
- E) marginal cost is at its minimum.

Answer: A

Diff: 1 Type: MC

Topic: Using Resources Efficiently

Source: Study Guide

16) Marginal benefit from a good or service is the benefit received from consuming \_\_\_\_\_. It is measured by the most that people are willing to pay for \_\_\_\_\_.

- A) goods that you prefer; an additional unit of it
- B) goods that you prefer; more of it
- C) one more unit of it; an additional unit of it
- D) one more unit of it; more of it
- E) as much as is available; the total amount consumed

Answer: C

Type: MC

Topic: Using Resources Efficiently

Source: MyEconLab

Use the table below to answer the following questions.

**Table 2.2.1**

<i>Ethanol</i> (barrels per day)		<b>Food crops</b> (tonnes per day)
<b>70</b>	<i>and</i>	<b>0</b>
<b>64</b>	<i>and</i>	<b>1</b>
<b>54</b>	<i>and</i>	<b>2</b>
<b>40</b>	<i>and</i>	<b>3</b>
<b>22</b>	<i>and</i>	<b>4</b>
<b>0</b>	<i>and</i>	<b>5</b>

17) Refer to Table 2.2.1. Marginal benefit from food crops

- A) equals the marginal cost of food crops.
- B) remains constant as the quantity of food crops increases from 1 tonne a day to 2 tonnes a day.
- C) cannot be calculated from the table.
- D) increases as the quantity of food crops increases from 1 tonne a day to 2 tonnes a day.
- E) equals 70 barrels of ethanol.

Answer: C

Type: MC

Topic: Using Resources Efficiently

Source: MyEconLab

18) The principle of decreasing marginal benefit implies that the \_\_\_\_\_.

- A) additional benefit from obtaining one more unit of a good or service decreases as more of that good or service is consumed
- B) additional benefit from obtaining one more unit of a good or service increases as more of that good or service is consumed
- C) total benefit from obtaining more of a good or service decreases as more is consumed
- D) total benefit from obtaining more of a good or service remains the same as more is consumed
- E) additional benefit from producing one more unit of a good or service decreases as more of that good or service is produced

Answer: A

Type: MC

19) The most anyone is willing to pay for another purse is \$30. Currently the price of a purse is \$40, and the cost of producing another purse is \$50. The marginal benefit from a purse is \_\_\_\_\_.

- A) \$40
- B) \$50
- C) \$10
- D) \$20
- E) \$30

Answer: E

Type: MC

### 2.3 Economic Growth

- 1) A technological improvement is represented by
- A) an outward shift of the production possibilities frontier.
  - B) a movement along the production possibilities frontier.
  - C) a point inside the production possibilities frontier.
  - D) a point outside the production possibilities frontier.
  - E) a movement from a point inside the production possibilities frontier to a point on the production possibilities frontier.

Answer: A

Diff: 1 Type: MC

Topic: Economic Growth

- 2) In general, if country *A* is accumulating capital at a faster rate than country *B*, then country *A*
- A) will soon have a comparative advantage in the production of most goods.
  - B) is using a larger proportion of resources to produce consumption goods.
  - C) will have a production possibilities frontier that is shifting out faster than country *B*'s.
  - D) will have a higher rate of inflation than country *B*.
  - E) will have more unemployment than country *B*.

Answer: C

Diff: 2 Type: MC

Topic: Economic Growth

- 3) The principal reason that production possibilities have grown more rapidly in Hong Kong than in Canada over the last 50 years is because
- A) of cheap Hong Kong labour.
  - B) of foreign aid to Hong Kong.
  - C) Hong Kong has fewer workers.
  - D) Hong Kong has more natural resources.
  - E) Hong Kong has devoted a larger proportion of its resources to capital accumulation.

Answer: E

Diff: 2 Type: MC

Topic: Economic Growth

- 4) Which one of the following would cause a production possibilities frontier to shift *outward*?
- A) an increase in the stock of capital
  - B) an increase in the production of consumption goods
  - C) bad weather
  - D) a decision to fully utilize unemployed resources
  - E) a decrease in the population

Answer: A

Diff: 1 Type: MC

Topic: Economic Growth

- 5) The development of new goods and better ways of producing goods and services is
- A) capital accumulation.
  - B) technological change.
  - C) the big tradeoff.
  - D) allocative efficiency.
  - E) none of the above.

Answer: B

Diff: 1 Type: MC

Topic: Economic Growth

- 6) The growth of capital resources, including human capital is
- A) technological change.
  - B) capital accumulation.
  - C) depreciation.
  - D) opportunity cost.
  - E) none of the above.

Answer: B

Diff: 1 Type: MC

Topic: Economic Growth

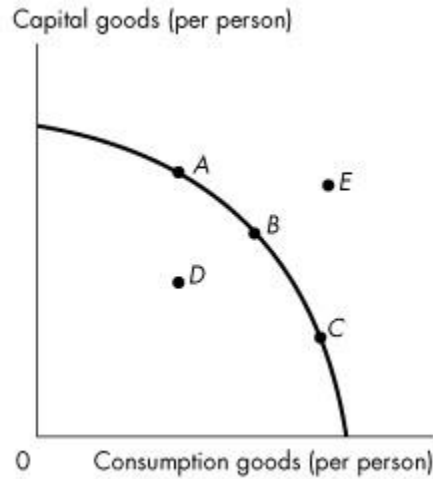
- 7) Which one of the following would likely shift a production possibilities frontier *inward*?
- A) technological change.
  - B) a drought.
  - C) a decrease in the price of natural resources.
  - D) all of the above
  - E) None of the above, because production possibilities frontiers do not shift inward.

Answer: B

Diff: 2 Type: MC

Topic: Economic Growth

Use the figure below to answer the following questions.



**Figure 2.3.1**

8) Refer to the production possibilities frontier in Figure 2.3.1. The production possibilities frontier will shift rightward most rapidly if current production is at

- A) A.
- B) B.
- C) C.
- D) D.
- E) E.

Answer: A

Diff: 2 Type: MC

Topic: Economic Growth

9) A production possibilities frontier will shift outward FOR ALL OF THE FOLLOWING REASONS *EXCEPT*

- A) a technological improvement.
- B) an increase in the stock of capital.
- C) an increase in the labour force.
- D) opportunity cost is increasing.
- E) none of the above.

Answer: D

Diff: 1 Type: MC

Topic: Economic Growth

10) A movement *along* the production possibilities frontier will result from

- A) technological change.
- B) change in the stock of capital.
- C) change in the labour force.
- D) all of the above.
- E) none of the above.

Answer: E

Diff: 1 Type: MC

Topic: Economic Growth

Source: Study Guide

11) The opportunity cost of pushing the production possibilities frontier outward is

- A) capital accumulation.
- B) technological change.
- C) reduced current consumption.
- D) the gain in future consumption.
- E) all of the above.

Answer: C

Diff: 2 Type: MC

Topic: Economic Growth

Source: Study Guide

12) In general, the higher the proportion of resources devoted to technological research in an economy, the

- A) greater will be current consumption.
- B) faster the production possibilities frontier will shift outward.
- C) faster the production possibilities frontier will shift inward.
- D) closer it will come to having a comparative advantage in the production of all goods.
- E) more bowed out will be the shape of the production possibilities frontier.

Answer: B

Diff: 2 Type: MC

Topic: Economic Growth

Source: Study Guide

13) Consider a country that has two industries. In the north, they grow wild rice, which requires a lot of rainfall. In the south, they grow wheat, which requires just a moderate amount of rainfall (too much rainfall is bad for wheat production). One year, there is a record rainfall. This will result in

- A) a parallel shift inward of the production possibilities frontier.
- B) a parallel shift outward of the production possibilities frontier.
- C) the production possibilities frontier swiveling, with the wild rice intercept increasing, and the wheat intercept decreasing.
- D) the production possibilities frontier swiveling, with the wild rice intercept decreasing, and the wheat intercept increasing.
- E) none of the above.

Answer: C

Diff: 3 Type: MC

Topic: Economic Growth

14) Suppose a hurricane causes extensive devastation, destroying houses, roads, schools and factories. What would be the effect of this hurricane on a production possibilities frontier consisting of consumption goods and capital goods?

- A) It would shift outward at all points.
- B) It would shift inward at all points.
- C) There would be a movement along the existing production possibilities frontier towards a less capital-intensive point.
- D) There would be a movement along the existing production possibilities frontier towards a more capital-intensive point.
- E) There would be a movement from the existing production possibilities frontier inwards towards a point with unused or misallocated resources.

Answer: B

Diff: 2 Type: MC

Topic: Economic Growth

15) The depletion of fish stocks in Eastern Canada, with its accompanying unemployment, will lead to a

- A) movement from the existing production possibilities frontier to a point inside the production possibilities frontier.
- B) shift inward of the existing production possibilities frontier and production at a point on the new *PPF*.
- C) shift outward of the existing production possibilities frontier.
- D) movement along the existing production possibilities frontier to a point of less fish production.
- E) shift inward of the existing production possibilities frontier plus a movement to a point inside the new production possibilities frontier.

Answer: E

Diff: 3 Type: MC

Topic: Economic Growth



16) Which of the following quotations illustrates economic growth?

- A) "The firm should lower the price it charges for widgets and gadgets."
- B) "The firm should sell more gadgets, even if it means less widget sales."
- C) "The more and more gadgets the firm produces, the bigger the fall in widget production."
- D) "If the firm invests more in capital equipment, it can expand production next year."
- E) "The firm has been able to lower costs due to its extensive experience in building widgets."

Answer: D

Diff: 2 Type: MC

Topic: Economic Growth

17) Economic growth \_\_\_\_\_ overcome scarcity because \_\_\_\_\_.

- A) does; with economic growth the *PPF* rotates outward and eventually becomes a horizontal line
- B) does; we will eventually reach the point where we have too much
- C) does not; we can produce more goods and services but it is still impossible to satisfy all our wants
- D) does not; economic growth requires capital accumulation and technological change
- E) does; with economic growth the *PPF* rotates outward and eventually becomes a vertical line

Answer: C

Type: MC

Topic: Economic Growth

Source: MyEconLab

18) In 1960, the production possibilities per person in Canada were \_\_\_\_\_ than those in Hong Kong. Canada devoted \_\_\_\_\_ of its resources to accumulating capital and the remainder to consumption. Hong Kong devoted \_\_\_\_\_ of its resources to accumulating capital and the remainder to consumption. Because Hong Kong devoted a \_\_\_\_\_ fraction of its resources to accumulating capital, its production possibilities have \_\_\_\_\_.

- A) smaller; one-fifth; one-third; greater; expanded more quickly
- B) smaller; one-third; one-fifth; smaller; not expanded as quickly
- C) greater; one-third; one-fifth; smaller; not expanded as quickly
- D) greater; one-fifth; one-third; greater; expanded more quickly
- E) greater; one-half; one-quarter; smaller; not expanded as quickly

Answer: D

Type: MC

Topic: Economic Growth

Source: MyEconLab

19) The production possibilities frontier shifts outward when \_\_\_\_\_.

- A) tastes and preferences change
- B) the quantity of money in the economy grows
- C) prices rise
- D) human capital accumulates
- E) the political party in power changes

Answer: D

Type: MC

20) Consider a production possibilities frontier with corn production measured on the vertical axis and car production measured on the horizontal axis. Unusually good weather for growing corn shifts \_\_\_\_\_.

- A) the horizontal intercept of the *PPF* rightward and the vertical intercept of the *PPF* upward
- B) the horizontal intercept of the *PPF* rightward but does not shift the vertical intercept of the *PPF*
- C) the vertical intercept of the *PPF* upward but does not shift the horizontal intercept of the *PPF*
- D) neither the horizontal intercept nor the vertical intercept of the *PPF*
- E) the vertical intercept of the *PPF* downward and the horizontal intercept of the *PPF* leftward

Answer: C

Type: MC

## 2.4 Gains from Trade

1) Individuals *A* and *B* can both produce good *X*. We say that *A* has a comparative advantage in the production of good *X* if

- A) *A* has a lower opportunity cost of producing *X* than *B*.
- B) *A* has a higher opportunity cost of producing *X* than *B*.
- C) *A* can produce more units of *X* in a given time period than *B*.
- D) *A* can produce *X* using newer technology than *B*.
- E) *A* can produce less units of *X* in a given time period than *B*.

Answer: A

Diff: 3 Type: MC

Topic: Gains from Trade

2) Individuals *A* and *B* can both produce goods *X* and *Y*. Individual *A* has a comparative advantage in the production of *X* if

- A) *A* is faster than *B* at producing *X*.
- B) the amount by which *A* must reduce production of *Y* is less than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
- C) *B* has superior knowledge about how to produce *X*.
- D) *A* has a preference to consume *X*.
- E) the amount by which *A* must reduce production of *Y* is more than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.

Answer: B

Diff: 2 Type: MC

Topic: Gains from Trade

3) Debra has an absolute advantage in producing a good when she

- A) has a comparative advantage in producing that good.
- B) can produce the good at lower opportunity cost than anyone else.
- C) can produce more of that good than anyone else, using the same quantity of inputs.
- D) has exclusive rights to sell that good.
- E) has better technology than anyone else.

Answer: C

Diff: 2 Type: MC

Topic: Gains from Trade

4) A person who has an absolute advantage in the production of all goods will

- A) also have a comparative advantage in the production of all goods.
- B) not be able to gain from specialization and trade.
- C) produce all goods at the lowest opportunity cost.
- D) not have a comparative advantage in the production of any goods.
- E) have a comparative advantage in the production of only some goods and not others.

Answer: E

Diff: 2 Type: MC

Topic: Gains from Trade

Use the information below to answer the following questions.

**Fact 2.4.1**

In an eight-hour day, Andy can produce either 24 loaves of bread or 8 kilograms of butter. In an eight-hour day, Rolfe can produce either 8 loaves of bread or 8 kilograms of butter.

5) Given Fact 2.4.1, the opportunity cost of producing 1 loaf of bread is

- A) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.
- B) 1/3 kilogram of butter for Andy and 1 kilogram of butter for Rolfe.
- C) 3 kilograms of butter for Andy and 1 kilogram of butter for Rolfe.
- D) 8 kilograms of butter for both Andy and Rolfe.
- E) not calculable from the given information.

Answer: B

Diff: 2 Type: MC

Topic: Gains from Trade

6) From Fact 2.4.1, we know that

- A) Andy has the lower opportunity cost of producing bread, while Andy and Rolfe have equal opportunity costs of producing butter.
- B) Andy has the lower opportunity cost of producing both bread and butter.
- C) Andy has the lower opportunity cost of producing bread, while Rolfe has the lower opportunity cost of producing butter.
- D) Andy has the lower opportunity cost of producing butter, while Rolfe has the lower opportunity cost of producing bread.
- E) Andy has the higher opportunity cost of producing both bread and butter.

Answer: C

Diff: 3 Type: MC

Topic: Gains from Trade

7) Refer to Fact 2.4.1. Which one of the following statements is true?

- A) Andy has an absolute advantage in butter production.
- B) Rolfe has an absolute advantage in butter production.
- C) Andy has a comparative advantage in bread production.
- D) Andy has a comparative advantage in butter production.
- E) Rolfe has a comparative advantage in bread production.

Answer: C

Diff: 3 Type: MC

Topic: Gains from Trade

8) Refer to Fact 2.4.1. The opportunity cost of producing 1 kilogram of butter is

- A) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.
- B) 1 hour for Andy and 1 hour for Rolfe.
- C) 3 loaves of bread for Andy and 1/3 loaf of bread for Rolfe.
- D) 3 loaves of bread for Andy and 1 loaf of bread for Rolfe.
- E) 8 loaves of bread for Rolfe and 24 loaves of bread for Andy.

Answer: D

Diff: 2 Type: MC

Topic: Gains from Trade

9) Given Fact 2.4.1, Andy and Rolfe

- A) can gain from trade if Andy specializes in butter production and Rolfe specializes in bread production.
- B) can gain from trade if Andy specializes in bread production and Rolfe specializes in butter production.
- C) cannot gain from trade.
- D) can trade, but only Rolfe will gain.
- E) can trade, but only Andy will gain.

Answer: B

Diff: 3 Type: MC

Topic: Gains from Trade

Source: Study Guide

10) Consider Fact 2.4.1. After specialization, *total* consumption will

- A) depend on the preferences of Andy and Rolfe.
- B) be 8 loaves of bread and 24 kilograms of butter.
- C) be 32 loaves of bread and 16 kilograms of butter.
- D) be 8 loaves of bread and 8 kilograms of butter.
- E) be 24 loaves of bread and 8 kilograms of butter.

Answer: E

Diff: 2 Type: MC

Topic: Gains from Trade

Use the information below to answer the following questions.

**Fact 2.4.2**

Agnes can produce either 1 unit of *X* or 1 unit of *Y* in an hour, while Brenda can produce either 2 units of *X* or 4 units of *Y* in an hour.

11) Refer to Fact 2.4.2. Which one of the following statements is true?

- A) Brenda has an absolute advantage over Agnes in the production of both goods.
- B) Agnes has a comparative advantage in the production of *Y*.
- C) Brenda has a comparative advantage in the production of *X*.
- D) Brenda will not gain from trade.
- E) Agnes will not gain from trade.

Answer: A

Diff: 3 Type: MC

Topic: Gains from Trade

12) Given Fact 2.4.2, the opportunity cost of producing a unit of *X* is

- A) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
- B) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
- C) 1 hour for Agnes and 1/2 hour for Brenda.
- D) 1 hour for Agnes and 2 hours for Brenda.
- E) 1 hour for Agnes and 1/4 hour for Brenda.

Answer: A

Diff: 2 Type: MC

Topic: Gains from Trade

13) Given Fact 2.4.2, the opportunity cost of producing a unit of *Y* is

- A) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
- B) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
- C) 1 hour for Agnes and 1/2 hour for Brenda.
- D) 1 hour for Agnes and 2 hours for Brenda.
- E) 1 unit of *X* for Agnes and 1/2 unit of *X* for Brenda.

Answer: E

Diff: 2 Type: MC

Topic: Gains from Trade

14) Complete the following sentence. Given Fact 2.4.2,

- A) there will be gains from trade, no matter what Brenda and Agnes specialize in, as long as they specialize.
- B) there will be gains from trade only if Agnes specializes in the production of *Y* and Brenda in *X*.
- C) there will be gains from trade only if Agnes becomes faster at producing *X*.
- D) there will be no gains from trade because Agnes has an absolute advantage.
- E) there will be gains from trade if Agnes specializes in the production of *X* and Brenda in *Y*.

Answer: E

Diff: 2 Type: MC

Topic: Gains from Trade

15) Given Fact 2.4.2, what would be the total output of *X* and *Y* in an eight-hour day if Agnes and Brenda each specialized in producing the good in which they have a comparative advantage?

- A) 3 units of *X* and 5 units of *Y*
- B) 8 units of *X* and 16 units of *Y*
- C) 8 units of *X* and 32 units of *Y*
- D) 24 units of *X* and 40 units of *Y*
- E) 16 units of *X* and 8 units of *Y*

Answer: C

Diff: 3 Type: MC

Topic: Gains from Trade

16) Any two individuals will gain from exchange

- A) unless one has an absolute advantage in producing all goods.
- B) if each specializes in the production of the good for which he has the higher opportunity cost.
- C) unless they have the same opportunity costs for producing all goods.
- D) unless they have different opportunity costs for producing all goods.
- E) unless they have the same absolute advantage in producing all goods.

Answer: C

Diff: 3 Type: MC

Topic: Gains from Trade

Use the figure below to answer the following questions.

**Table 2.4.1**

The planets of Vulcan and Romulus each produce goods X and Y. The following table gives points on their production possibilities frontiers.

Vulcan		Romulus	
Good X	Good Y	Good X	Good Y
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

17) Refer to Table 2.4.1. Which one of the following is true?

- A) Romulus has both an absolute advantage and a comparative advantage in the production of Y.
- B) Romulus has both an absolute advantage and a comparative advantage in the production of X.
- C) Vulcan has a comparative advantage in the production of X.
- D) Romulus has a comparative advantage in the production of X.
- E) Vulcan should specialize in the production of X.

Answer: D

Diff: 3 Type: MC

Topic: Gains from Trade

18) Refer to Table 2.4.1. Which one of the following is true?

- A) The opportunity cost of producing more of good X is the same for both planets.
- B) The opportunity cost of producing more of good Y is the same for both planets.
- C) The opportunity cost of producing more of good X is lower in Vulcan.
- D) The opportunity cost of producing more of good Y is lower in Vulcan.
- E) Vulcans are smarter than Romulans.

Answer: D

Diff: 3 Type: MC

Topic: Gains from Trade

19) Refer to Table 2.4.1. For Vulcan, the opportunity cost of producing an additional unit of X is

- A) 4 units of Y.
- B) 2 units of Y.
- C) 2/3 units of Y.
- D) 1 unit of Y.
- E) dependent upon how many units of X are already produced.

Answer: B

Diff: 2 Type: MC

Topic: Gains from Trade



20) Refer to Table 2.4.1. For Romulus, the opportunity cost of producing an additional unit of  $X$  is

- A) 4 units of  $Y$ .
- B) 2 units of  $Y$ .
- C)  $2/3$  units of  $Y$ .
- D) 1 unit of  $Y$ .
- E)  $3/2$  units of  $Y$ .

Answer: E

Diff: 2 Type: MC

Topic: Gains from Trade

21) Refer to Table 2.4.1. For Romulus, the opportunity cost of producing an additional unit of  $Y$  is

- A)  $2/3$  units of  $X$ .
- B)  $1/2$  unit of  $X$ .
- C) 2 units of  $X$ .
- D) 3 units of  $X$ .
- E)  $3/2$  units of  $Y$ .

Answer: A

Diff: 2 Type: MC

Topic: Gains from Trade

22) Refer to Table 2.4.1. For Vulcan, the opportunity cost of producing an additional unit of  $Y$  is

- A)  $2/3$  units of  $X$ .
- B)  $1/2$  units of  $X$ .
- C) 2 units of  $X$ .
- D) 3 units of  $X$ .
- E) 4 units of  $X$ .

Answer: B

Diff: 2 Type: MC

Topic: Gains from Trade

23) Refer to Table 2.4.1. Each country will gain from trade if

- A) Romulus specializes in both goods.
- B) Vulcan specializes in both goods.
- C) they both continue to produce both goods.
- D) Vulcan specializes in good  $X$  and Romulus specializes in good  $Y$ .
- E) Romulus specializes in good  $X$  and Vulcan specializes in good  $Y$ .

Answer: E

Diff: 3 Type: MC

Topic: Gains from Trade

24) If individuals *A* and *B* can both produce only goods *X* and *Y* and *A* does *not* have a comparative advantage in the production of either *X* or *Y*, then we know

- A) *B* has an absolute advantage in the production of *X* and *Y*.
- B) *A* and *B* have the same opportunity costs for *X* and for *Y*.
- C) *B* has a comparative advantage in the production of both *X* and *Y*.
- D) the gains from trade will be large but only in one direction.
- E) *A* must have lower opportunity costs of production for both goods.

Answer: B

Diff: 3 Type: MC

Topic: Gains from Trade

25) Consider the following household. In 5 hours, Bob can cook 5 meals or clean 6 rooms. In 5 hours, Mary can cook 30 meals or clean 10 rooms. Select the best statement.

- A) Bob has an absolute advantage in the production of both goods.
- B) Since Mary is better at producing both goods, she should produce both.
- C) Bob has a comparative advantage in cooking.
- D) Mary should specialize in cooking.
- E) none of the above

Answer: D

Diff: 3 Type: MC

Topic: Gains from Trade

Use the table below to answer the following questions.

**Table 2.4.2**  
Production for one week by Sheila and Bruce

Sheila		Bruce	
Good X	Good Y	Good X	Good Y
8	0	20	0
6	1	15	2
4	2	10	4
2	3	5	6
0	4	0	8

26) Given the information in Table 2.4.2, can Sheila and Bruce gain by specialization?

- A) Yes, but only if Bruce gets paid more than Sheila.
- B) No, not under the given circumstances.
- C) It depends on the wages each earns.
- D) Only if they are married to each other.
- E) Yes, if each specializes in the good in which he has a comparative advantage.

Answer: E

Diff: 2 Type: MC

Topic: Gains from Trade

27) Given the information in Table 2.4.2, which one of the following is true?

- A) Sheila should specialize in good X.
- B) Bruce should specialize in good X.
- C) The opportunity cost to Bruce of an additional unit of X is 0.4 units of Y.
- D) A and B.
- E) B and C.

Answer: E

Diff: 3 Type: MC

Topic: Gains from Trade

28) Suppose John and Joe each have different production possibility frontiers; John specializes in cloth and Joe specializes in corn. John's island unexpectedly has exceptionally good weather, and suddenly he is twice as productive in the production of *both* corn and cloth. Select the best statement.

- A) This is an example of unemployed resources becoming employed.
- B) As a result, John will have an absolute advantage in both corn and cloth.
- C) As a result, it is possible that John and Joe will switch what they specialize in.
- D) There will be no change in what John and Joe specialize in, because John's comparative advantage has not changed.
- E) There will be a change in what John and Joe specialize in, because John's opportunity cost of production will have risen.

Answer: D

Diff: 3 Type: MC

Topic: Gains from Trade

29) It pays for people to specialize and trade with each other because

- A) otherwise they would not survive.
- B) they can take advantage of the fact they have an absolute advantage in the production of something.
- C) this way they can consume outside their production possibilities frontier.
- D) this way the strong can exploit the weak.
- E) all of the above.

Answer: C

Diff: 2 Type: MC

Topic: Gains from Trade

30) There are two goods, X and Y. If the opportunity cost of producing good X is lower for Pam than for Gino, then

- A) Pam has an absolute advantage in the production of X.
- B) Gino has an absolute advantage in the production of Y.
- C) Pam has a comparative advantage in the production of X.
- D) Gino has a comparative advantage in the production of Y.
- E) C and D.

Answer: E

Diff: 3 Type: MC

Topic: Gains from Trade

31) Mexico and Canada produce both oil and apples using labour only. A barrel of oil is produced with 4 hours of labour in Mexico and 8 hours of labour in Canada. A bushel of apples is produced with 8 hours of labour in Mexico and 12 hours of labour in Canada. Canada has

- A) an absolute advantage in oil production.
- B) an absolute advantage in apple production.
- C) a comparative advantage in oil production.
- D) a comparative advantage in apple production.
- E) none of the above.

Answer: D

Diff: 3 Type: MC

Topic: Gains from Trade

Source: Study Guide

32) In Portugal, the opportunity cost of a bale of wool is 3 bottles of wine. In England, the opportunity cost of 1 bottle of wine is 3 bales of wool. Given this information,

- A) England has an absolute advantage in wine production.
- B) Portugal has an absolute advantage in wool production.
- C) Portugal has a comparative advantage in wine production.
- D) Portugal has a comparative advantage in wool production.
- E) no trade will occur.

Answer: C

Diff: 3 Type: MC

Topic: Gains from Trade

Source: Study Guide

33) To gain from comparative advantage, countries must not only trade, they must also

- A) save.
- B) invest.
- C) engage in research and development.
- D) engage in capital accumulation.
- E) specialize.

Answer: E

Diff: 1 Type: MC

Topic: Gains from Trade

Source: Study Guide

34) In one hour, Sue can produce 50 caps or 10 jackets and Tessa can produce 70 caps or 7 jackets. Sue's opportunity cost of producing a cap is \_\_\_\_\_ jackets and Tessa's opportunity cost of producing a cap is \_\_\_\_\_ jackets.

\_\_\_\_\_ has a comparative advantage in producing caps.

If Sue and Tessa each specialize in producing the good in which they have a comparative advantage and trade 1 jacket for 7 caps, \_\_\_\_\_.

- A) 0.2; 0.10; Sue; Tessa gains but Sue loses
- B) 5.0; 10.0; Tessa; Sue loses but Tessa gains
- C) 5.0; 10.0; Sue; both Sue and Tessa gain
- D) 0.2; 0.10; Tessa; both Sue and Tessa gain
- E) 0.2; 0.10; Sue; both Sue and Tessa gain

Answer: D

Type: MC

Topic: Gains from Trade

Source: MyEconLab

35) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. If Tom and Jerry specialize and trade eggs and sandwiches with each other \_\_\_\_\_.

- A) Tom benefits but Jerry does not
- B) Jerry benefits but Tom does not
- C) neither Tom nor Jerry benefit
- D) either Tom or Jerry benefit but we don't have enough information to know which one benefits
- E) both of them benefit

Answer: E

Type: MC

36) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. Both individuals gain if \_\_\_\_\_.

- A) Jerry produces eggs and trades them to Tom for sandwiches
- B) Jerry produces sandwiches and trades them to Tom for eggs
- C) they trade with each other regardless of who produces sandwiches and who produces eggs
- D) the opportunity cost of producing an egg is greater than the opportunity cost of producing a sandwich
- E) the opportunity cost of producing a sandwich is greater than the opportunity cost of producing an egg

Answer: B

Type: MC

## 2.5 Economic Coordination

1) Trade is organized using the social institutions of

- A) firms.
- B) property rights.
- C) money.
- D) markets.
- E) all of the above.

Answer: E

Diff: 3 Type: MC

Topic: Economic Coordination

Source: Study Guide

2) Markets

- I. enable buyers and sellers to get information
- II. are defined by economists as geographical locations where trade occurs.
- III. have evolved because they facilitate trade.

Which of the above statements are correct?

- A) I only
- B) III only
- C) I and III only
- D) II and III only
- E) I, II and III

Answer: C

Type: MC

Topic: Economic Coordination

Source: Study Guide

3) A property right is

- A) any commodity or token that is generally acceptable as a means of payment.
- B) an economic unit that hires factors of production and organizes those factors to produce and sell goods and services.
- C) any arrangement that enables buyers and sellers to get information and to do business with each other.
- D) a social arrangement that governs the ownership, use, and disposal of anything that people value.
- E) a medium of exchange.

Answer: D

Type: MC

Topic: Economic Coordination

Source: MyEconLab

- 4) The flows in the market economy that go from firms to households are \_\_\_\_\_.  
The flows in the market economy that go from households to firms are \_\_\_\_\_.
- A) all flowing through goods markets; all flowing through factor markets
  - B) the real flows of goods and services and the income flows of wages, rent, interest and profits; the real flows of labour, land, capital and entrepreneurship and the flow of expenditure on goods and services
  - C) the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services; the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship
  - D) the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship; the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services
  - E) all flowing through factor markets; all flowing through goods markets

Answer: B

Type: MC

Topic: Economic Coordination

Source: MyEconLab

- 5) The main functions of markets include
- A) promoting the social interest, but not the self-interest.
  - B) selling goods but not factors of production.
  - C) enabling buyers and sellers to get information about each other.
  - D) establishing a physical location for business transactions.
  - E) promoting the self-interest but not the social interest.

Answer: C

Type: MC

Topic: Economic Coordination

Source: MyEconLab

- 6) In an economy lacking property rights, it would be \_\_\_\_\_ to realize the gains from trade and there would be \_\_\_\_\_ specialization compared to an economy with property rights.
- A) more difficult; less
  - B) more difficult; more
  - C) easier; less
  - D) easier; more
  - E) none of the above

Answer: A

Type: MC

- 7) Intellectual property \_\_\_\_\_.
- A) includes land and buildings
  - B) includes stocks and bonds and money in the bank
  - C) is the intangible product of creative effort
  - D) is protected by copyrights and patents
  - E) both C and D are correct

Answer: E

Type: MC