

## Chapter 2—Choice, Opportunity Costs, and Specialization

### MULTIPLE CHOICE

1. What do economists mean when they refer to the forgone opportunities or forgone benefits of the next-best alternative?
- The idea that you can watch TV while studying for your economics exam at the same time
  - Quantifiable accounting costs
  - Forgone costs
  - The highest-valued alternative that must be forgone when a choice is made
  - All of these choices

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

2. In economics, the cost of any item or activity always includes
- only the actual amount of money expended.
  - the opportunity cost incurred in purchasing the item or activity.
  - the amount of money expended plus the rate of inflation.
  - the sum total of the actual costs involved in the production of the item or activity.
  - the accounting costs plus the rate of inflation.

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

3. Which of the following is the *best* definition of the concept of a tradeoff, as discussed in the text?
- The tuition you pay to attend college
  - The price of a movie ticket at prime time
  - Not having enough information available to make a rational decision
  - Giving up one good or activity in order to obtain some other good or activity
  - Having your cake and eating it too

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Tradeoffs                      TYP: Factual

4. Which statement concerning opportunity costs is *not* true?
- Opportunity costs can always be expressed in money terms.
  - Every choice involves opportunity costs.
  - Opportunity costs are the highest-valued alternatives that must be forgone when a choice is made.
  - The full cost of an activity includes the opportunity costs.
  - Economists refer to the forgone benefits of the next-best alternative as opportunity costs.

ANS: A                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

5. A production possibilities curve shows that more of one type of good can be produced only by
- increasing the quantity of other types of goods that are produced.
  - increasing the quantity of both types of goods that are produced.
  - decreasing employment.
  - government intervention.
  - decreasing the quantity of other types of goods that are produced.

ANS: E                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

6. According to the textbook's discussion of the production possibilities curve, a nation cannot produce as much of both defense goods and nondefense goods as it wants. Thus, when a nation produces more defense goods, by definition that nation
- must forgo the production of nondefense goods, *ceteris paribus*.
  - does not have to forgo the production of nondefense goods since resources are unlimited.
  - has to tolerate higher unemployment rates.
  - can produce more of both defense and nondefense goods only if it can acquire more money.
  - must produce less of both defense and nondefense goods since any nation's production possibilities curve represents only a Utopian state.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

7. Which economic concept is the closest parallel to the saying "There's no free lunch"?
- Specialization
  - Unlimited wants
  - Underutilization of resources
  - Opportunity costs
  - Overutilization of resources

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Interpretive

8. The city of Austin can buy roads or light rail. If 10 miles of roads cost \$1 million and 2 miles of light rail cost \$10 million, what is the city's opportunity cost of 1000 miles of roads?
- \$100 million
  - 2 miles of light rail
  - 200 miles of light rail
  - \$50 million
  - \$1,000 million.

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

9. Ronnie waits one hour in line to buy a ticket to a rock concert. The opportunity cost of buying the \$28 ticket
- is Ronnie's best alternative use of the \$28.
  - is Ronnie's best alternative use of the one hour it took to wait in line.
  - is the value of the \$28 to the ticket agent.
  - is Ronnie's best alternative use of both the \$28 and the one hour spent in line.
  - cannot be measured because there is no opportunity cost associated with consumption.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

10. Which of the following examples *best* captures the definition of opportunity cost?
- Accepting payment for services rendered
  - Going to the movies instead of studying for your economics exam
  - Answering a question correctly on your economics exam
  - Scoring an eagle on the fifth hole during a golf tournament and winning by one stroke
  - Leaving a 20 percent tip for great service at a fine restaurant

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

11. The opportunity cost of going to the movies is not always the same for everyone because
- wages are relatively equal across unskilled labor pools.
  - wages are different across geographic regions, and therefore some people cannot afford the price of a movie ticket.
  - simply going to a movie involves no opportunity cost.
  - people have different evaluations of alternatives.
  - people seldom have the information they need to understand what an opportunity cost is.

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

12. When constructing a production possibility curve for an economy, we assume which of the following is constant?
- The quantity of resources.
  - The government budget.
  - The quantity of goods produced.
  - The price level.
  - The money supply.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

13. The total cost of attending college
- includes only college-related expenses.
  - is the sum of the costs of tuition, books, and meals.
  - does not include other options that were sacrificed as a consequence of the decision to attend college.
  - does not include the lost opportunity to travel.
  - is the sum of college-related expenses and opportunity cost.

ANS: E                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

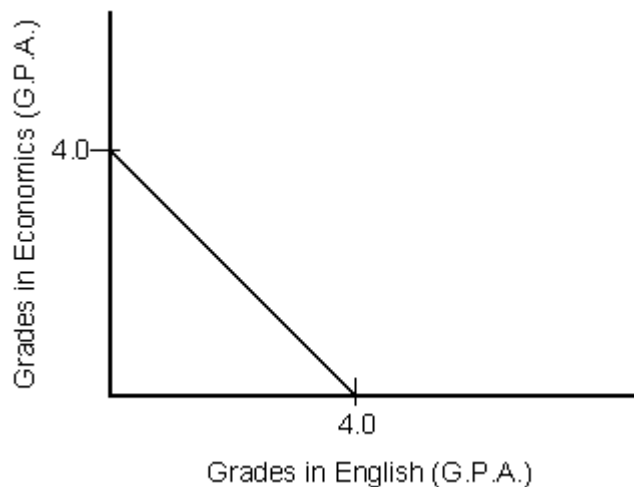
14. Nicky makes \$25,000 a year as a sales clerk. He then decides to quit his job to enter an MBA program full-time (assume Nicky doesn't work in the summer or hold any part-time jobs). His tuition, books, living expenses, and fees total \$15,000 a year. Given this information, the annual total cost of Nicky's MBA studies is
- \$10,000.
  - \$25,000.
  - \$15,000.
  - \$40,000.
  - \$35,000.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

15. Economists say that making choices involves comparing
- just excess costs.
  - only capabilities.
  - society's wants.
  - marginal costs alone.
  - marginal benefits and marginal costs.

ANS: E                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Tradeoffs                      TYP: Factual

**Figure 2-1**



16. The PPC in Figure 2-1 indicates a student who
- is better at economics than English.
  - is better at English than economics.
  - is equally proficient in economics and English.
  - prefers economics to English.
  - prefers English to economics.

ANS: C                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

17. The production possibilities curve illustrates
- tradeoffs facing a society.
  - that more of one product can be produced if only a little more of the other product is produced.
  - the maximum output that can be produced with a limited amount of resources.
  - the opportunity cost of alternative choices.
  - All of these choices.

ANS: E                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

18. A point lying outside a nation's production possibilities curve
- represents the use of more resources than are available.
  - represents the use of less resources than are available.
  - represents a state of high unemployment for that nation.
  - could easily be achieved if people would just work harder.
  - can never be achieved, even if more resources are obtained by the nation.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points outside PPC                      TYP: Factual

19. Under what circumstances would a nation be operating inside its production possibilities curve?
- The nation has just realized a significant improvement in the production process of a strategically important good.
  - The nation is suddenly employing a more highly skilled work force.
  - The nation is not utilizing its existing labor force efficiently.
  - The nation is producing the maximum amount of output that it can produce, given its limited resources.
  - The nation's capital stock doubles.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points inside PPC                      TYP: Factual

**Figure 2-2**

<b>Production Possibilities Schedule</b>		
<b>Choice</b>	<b>Capital (Investment) goods</b>	<b>Consumption Goods</b>
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

20. According to the production possibilities schedule in Figure 2-2, if the economy was initially producing combination B and then moved to combination C,
- the opportunity cost of the additional unit of capital goods is 7 units of consumption goods.
  - the opportunity cost of the additional unit of capital goods is 2 units of consumption goods.
  - the society has managed to produce more of both goods.
  - one unit of capital goods has to be forgone.
  - resources were not being used efficiently at combination C.

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

21. According to the production possibilities schedule in Figure 2-2, a move from choice C to choice D would
- give rise to some unemployment.
  - be preferred by society.
  - create a marginal opportunity cost of 3 units of consumption goods.
  - be unobtainable.
  - not be tolerated by society.

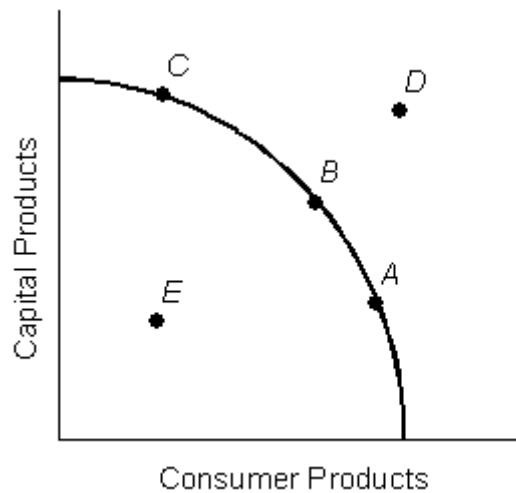
ANS: C                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

22. When an economy is operating on its production possibilities curve, more production of one good means less production of another because
- resources are limited.
  - resources are not perfectly adaptable to alternative uses.
  - wants are limited.
  - wants are unlimited.
  - some resources are not employed

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

23. It is possible for a nation to increase the production of defense goods without sacrificing the production of nondefense goods if and only if
- the nation is producing at a point inside the production possibilities curve.
  - the nation has a large pool of fully employed labor and very low wage rates.
  - the nation has more natural resources available than competing nations.
  - the nation is a democracy and has a stable political environment.
  - the central bank of the nation does not implement sound monetary policy.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

**Figure 2-3**

24. In Figure 2-3, underutilization of resources is represented by point
- A
  - B
  - C
  - D
  - E

ANS: E                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

25. In Figure 2-3, full employment is shown with
- points A, B, and C.
  - point C.
  - point B.
  - point A.
  - None of these

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

26. A point lying outside the production possibilities curve of a certain nation
- angers politicians.
  - causes labor unrest.
  - is not achievable at this time for this nation, given its current resources.
  - is a sign of impending high unemployment.
  - means this nation has developed a new technology.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points outside PPC                      TYP: Factual

27. If a country is at a point inside the PPC, then
- the people must be unhappy.
  - there are no technology advances.
  - not all resources are being used efficiently and/or fully.
  - the country cannot produce more of one good with out giving up some of another good.
  - the population is starving.

ANS: C

PTS: 1

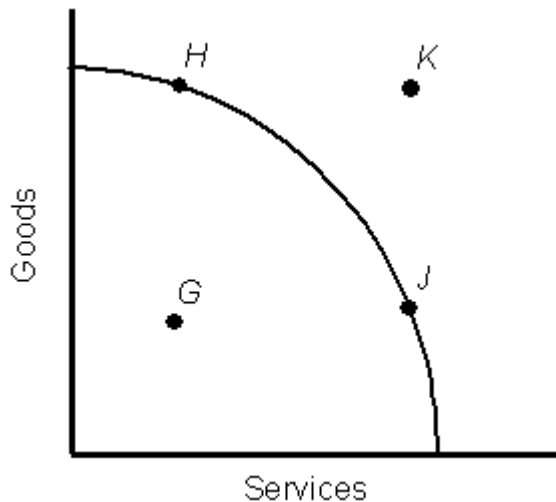
DIF: Easy

REF: Ch 2, 1.b

OBJ: Ch 2, 2

TOP: Points inside PPC

TYP: Factual

**Figure 2-4**

28. The production possibilities curve in Figure 2-4 shows that
- an economy must have idle resources.
  - there are alternative combinations of goods and services that a nation can produce.
  - there are alternative minimum combinations of goods and services that a nation can produce.
  - a nation can produce more of one product without sacrificing some amount of another product.
  - resources are abundant if they are fully and efficiently used.

ANS: B

PTS: 1

DIF: Medium

REF: Ch 2, 1.b

OBJ: Ch 2, 2

TOP: PPC

TYP: Applied

29. In Figure 2-4, movement from point *H* to point *J* along the PPC suggests that
- goods production will increase and services production will decline.
  - services production will increase and goods production will decline.
  - goods production and services production will both decline.
  - goods production and services production will both increase.
  - the economy is experiencing unemployment.

ANS: B

PTS: 1

DIF: Easy

REF: Ch 2, 1.b

OBJ: Ch 2, 2

TOP: PPC

TYP: Applied



30. Consider the PPC in Figure 2-4. Point *K* indicates
- that the production of goods has expanded.
  - that the production of services has expanded.
  - that the production of goods has contracted.
  - that the production of services has contracted.
  - a point that is currently unattainable for this economy.

ANS: E                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

31. Refer to Figure 2-4. The economy described by the production possibilities curve should operate at a combination represented by point
- G*.
  - H*.
  - J*.
  - K*.
  - Cannot be determined from the information given.

ANS: E                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

32. Consider the PPC in Figure 2-4. Point *K* is likely obtainable
- if more workers unemployed.
  - if more money is available in the economy.
  - if economy chooses to consume more.
  - workers have better education.
  - if economy imports more goods.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

33. Which of the following is held constant when a PPC is constructed for the economy?
- The combination of goods produced
  - The price level
  - The marginal opportunity cost
  - The amount of resources
  - The amount of goods produced

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

34. A point lying inside the PPC
- illustrates resources being used to their fullest potential.
  - indicates that resources are not being fully or efficiently used.
  - is not an attainable combination.
  - represents an increase in resources.
  - requires more resources than are presently available.

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points inside PPC                      TYP: Factual

35. Inefficient use of a nation's technological know-how would
- shift a PPC outward.
  - be depicted as a point on a PPC.
  - be depicted as a point outside or above a PPC.
  - be depicted as a point inside or below a PPC.
  - cause the economy's PPC to bow in.

ANS: D

PTS: 1

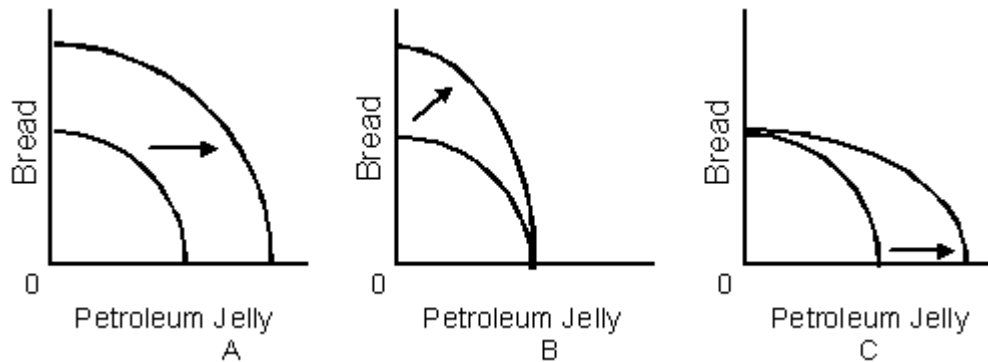
DIF: Easy

REF: Ch 2, 1.b

OBJ: Ch 2, 2

TOP: Points inside PPC

TYP: Applied

**Figure 2-5**

36. An economy that produces only bread and petroleum jelly, operating on a bowed-out PPC, now discovers a new source of oil. Assume oil is an input only in the production of petroleum jelly. Which of the graphs in Figure 2-5 depicts the resulting shift of the PPC?
- Figure A only
  - Figure B only
  - Figure C only
  - Figures B and C are both possible
  - None of these

ANS: C

PTS: 1

DIF: Medium

REF: Ch 2, 1.b

OBJ: Ch 2, 2

TOP: PPC

TYP: Applied

37. If a nation is producing at a point below its PPC, then
- it is operating at less than maximum efficiency.
  - it may not have enough resources.
  - it may not have enough technological know-how to produce on the PPC.
  - it cannot increase the production of one product without sacrificing another product.
  - it is not realizing its opportunity costs.

ANS: A

PTS: 1

DIF: Medium

REF: Ch 2, 1.b

OBJ: Ch 2, 2

TOP: Points inside PPC

TYP: Factual

38. A point outside or above the PPC of a nation
- will shift the PPC outward.
  - implies that this nation is not using all of its technological know-how.
  - is not attainable for this nation at the current time.
  - implies that there are unemployed resources in this nation.
  - implies that this nation is using its resources efficiently.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points outside PPC                      TYP: Factual

39. If a new labor-saving technology is discovered,
- points that were previously unattainable to society may now be attainable.
  - the PPC remains unchanged.
  - the PPC shifts inward.
  - there is movement along the PPC.
  - society does not face a new set of tradeoffs.

ANS: A                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points outside PPC                      TYP: Applied

40. An increase in technology will cause the production possibilities curve to
- shift to the left, or inward.
  - bow in.
  - shift to the right, or outward.
  - become a straight line.
  - not change.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Factual

41. If a nation obtains more resources, points that were outside the production possibilities curve prior to its gaining more resources become
- obsolete.
  - irrelevant.
  - attainable.
  - extraneous.
  - harmful.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

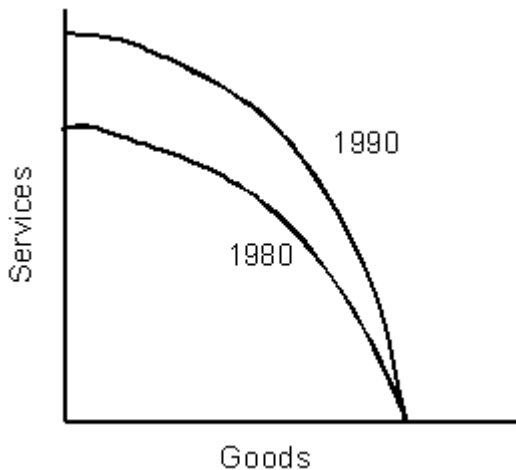
42. Which of the following will *not* cause a rightward shift in a nation's production possibilities curve?
- An increase in the quantity of the nation's resources
  - Advances in technology
  - An increase in the general level of education
  - An increase in the labor force
  - A reduction in unemployment

ANS: E                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

43. At any point along a production possibilities curve, we assume that
- the economy's resources are fully and efficiently employed.
  - specialization occurs.
  - the economy's available resources steadily increase.
  - the economy's technological level steadily increases.
  - None of these occur.

ANS: A                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

**Figure 2-6**



44. Consider the economy described by the production possibilities curves in Figure 2-6. Between 1980 and 1990, the economy most likely experienced
- a decrease in resources associated with producing goods.
  - a decrease in resources associated with producing services.
  - an increase in resources associated with producing goods.
  - an increase in resources associated with producing services.
  - an increase in resources associated with producing both goods and services.

ANS: D                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

45. Consider the economy described by the production possibilities curves in Figure 2-6. Which of the following statements is true?
- The economy produced more goods in 1990 than in 1980.
  - The economy produced more services in 1990 than in 1980.
  - The economy is capable of producing more services in 1990 than in 1980.
  - If the economy produces only goods, it is capable of producing more goods in 1990 than in 1980.
  - The economy is probably worse off in 1990 than it was in 1980.

ANS: C                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

46. An economy with unemployed resources can be represented by
- a point on a PPC.
  - a point inside a PPC.
  - a point outside a PPC.
  - the PPC's vertical intercept.
  - the PPC's horizontal intercept.

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Points inside PPC                      TYP: Applied

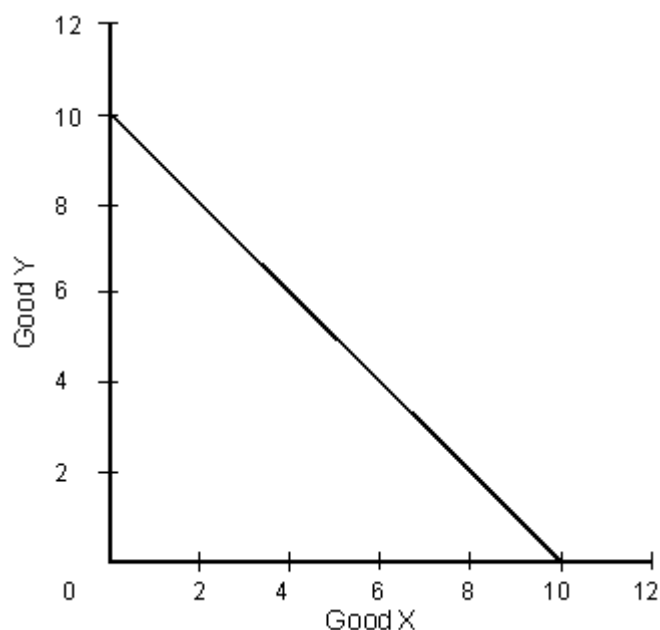
47. Economic growth can be illustrated
- by a downward movement along the production possibilities curve.
  - by an upward movement along the production possibilities curve.
  - by an inward shift of the production possibilities curve.
  - by an outward shift of the production possibilities curve
  - by a movement toward the production possibilities curve.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

48. Everything else held constant, which of the following will shift a production possibilities curve inward?
- A decrease in the employment of resources
  - An increase in the working-age population
  - An increase in unemployment
  - An increase in the availability of natural resources
  - A decrease in the amount of capital available

ANS: E                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

**Figure 2-7**



49. Consider the PPC in Figure 2-7, describing a firm that can produce good X and good Y. This figure indicates
- that both types of products are equally important to society.
  - that resources are perfectly adaptable to alternative uses.
  - that resources are less efficiently utilized when more of one type of product is produced.
  - that greater production of one type means that smaller and smaller amounts of other products must be forgone.
  - None of these

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Straight-line PPC                      TYP: Applied

50. Consider Figure 2-7, which describes a firm that can produce good X and good Y. Which of the following is true?
- The firm must produce inside the boundary.
  - The firm must produce outside the boundary.
  - The firm should produce 10 units of X and 10 units of Y.
  - The firm is able to produce 10 units of X or 10 units of Y.
  - The firm will produce 10 units of X or 10 units of Y.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

51. Consider the PPC in Figure 2-7, which describes a firm that can produce both good X and good Y. Which of the following is true?
- The opportunity cost of one unit of good X is 10 units of good Y.
  - The opportunity cost of the first unit of good X is 1 unit of good Y.
  - The opportunity cost of the ninth unit of good X is 9 units of good Y.
  - The opportunity cost of the tenth unit of good X cannot be determined from the information given.
  - The opportunity cost of the first unit of good X is 2 units of good Y.

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Straight-line PPC                      TYP: Applied

52. As an economy moves along a bowed-out production possibilities curve,
- the marginal opportunity costs of producing one good increase with each successive increase of the other good.
  - the marginal opportunity costs of producing one good decrease with each successive increase of the other good.
  - the marginal opportunity costs of producing one good stay the same with each successive increase of the other good.
  - the marginal opportunity costs of producing one good become irrelevant with each successive increase of the other good.
  - there is no such thing as a bowed-out production possibilities curve.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Marginal opportunity cost                      TYP: Applied

53. A bowed-out PPC implies that producing more and more of one good will bring about
- increasingly larger declines in the production of the other good.
  - increasingly smaller declines in the production of the other good.
  - a proportionate decrease in the production of the other good.
  - economic growth.
  - technological improvement.

ANS: A                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Bowed-out PPC                      TYP: Interpretive

**Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

54. If the nation depicted in Figure 2-8 is producing at combination E, the opportunity cost of the tenth unit of consumer goods was
- 10 units of capital goods.
  - 6 units of capital goods.
  - 1 unit of capital goods.
  - 4 units of capital goods.
  - no units of capital goods.

ANS: C                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

55. If the nation depicted in Figure 2-8 produced 4 units of consumer goods and 2 units of capital goods, then it
- would be using all its resources.
  - would be using all its technological know-how.
  - would have unemployed resources.
  - would be producing at maximum efficiency.
  - None of these; this nation is not currently able to produce this combination.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

56. In Figure 2-8, a combination of 9 units of consumer goods and 5 units of capital goods is
- attainable if unemployed resources return to work.
  - attainable if inefficient use of technological know-how is decreased.
  - unattainable and beyond the production possibilities of this nation.
  - unwanted because resources would become unemployed.
  - attainable without any new resources.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

57. Consider Figure 2-8. The PPC representing this schedule would be
- bowed in.
  - bowed out.
  - a negatively sloped straight line.
  - a positively sloped straight line.
  - bowed in if consumer goods are plotted on the horizontal axis and bowed out if capital goods are plotted on the horizontal axis.

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

58. An economy's PPC illustrates
- the difference between enterprise and entrepreneurship.
  - the difference between innovation and invention.
  - the concepts of scarcity and opportunity cost.
  - the fact that real-world economies have no choices in terms of production.
  - the extent to which an economy consumes what it produces.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Interpretive

59. During Cultural Revolution in the late 1960s and early 1970s,
- China's PCC did not shift.
  - China's production moved along the PCC.
  - China's PCC shifted outward.
  - China's PCC shifted inward.
  - China's economy operated at a point above PCC.

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Interpretive

60. What accounts for specialization?
- People specialize where opportunity costs are at a maximum.
  - People specialize where their opportunity costs are lowest.
  - People do not specialize.
  - People specialize in the activity that pays the highest wage.
  - People specialize in the activity that they enjoy the most, no matter what the salary is.

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3                      TOP: Specialization                      TYP: Factual

61. Few of us are jacks-of-all-trades. According to the discussion in the textbook, how do we decide where to devote our energies?
- We decide to specialize in those activities that require us to give up the smallest amount of other things.
  - We decide to specialize in those activities that require us to give up the greatest amount of other things.
  - Only a true jack-of-all-trades can ever expect to be successful.
  - We decide to specialize in those activities that require us to give up absolutely nothing.
  - We must all strive to become jacks-of-all-trades.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Specialization and trade                      TYP: Factual



62. By specializing in activities in which opportunity costs are lowest and then trading, a country or individual will end up with
- a huge deficit.
  - disgruntled workers.
  - high inflation.
  - more than if each tried to produce everything.
  - politicians who could never get reelected because of resentful constituents.

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4              TOP: Specialization and trade              TYP: Factual

63. The amount of one good or service that must be forgone to obtain an additional unit of another good is known as the
- marginal benefit.
  - marginal opportunity cost.
  - comparative advantage.
  - marginal expansion condition.
  - tradeoff quotient.

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 2              TOP: Marginal opportunity cost              TYP: Factual

64. The most realistic shape of a production possibilities curve is
- a bowed-out curve.
  - a straight line.
  - a bowed-in curve.
  - a bent line.
  - a combination of bowed-out and straight curves.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 2              TOP: Marginal opportunity cost              TYP: Factual

65. Given the differences in opportunity costs within individual countries, it makes sense for countries
- to insist on protection against foreign competition through legislation.
  - to force protectionism of the most important domestic industries, using tariffs and quotas.
  - to devalue their currencies at least once a year.
  - to specialize in activities in which opportunity costs are lowest and then trade.
  - to specialize in activities in which opportunity costs are highest and then avoid trade in order to manage trade deficit.

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3              TOP: Specialization and opportunity costs              TYP: Applied

66. The choice of which area or activity to specialize in is made on the basis of
- average wages in a selected vocation.
  - opportunity cost.
  - money spent out of pocket.
  - absolute cost.
  - whether or not a person is risk averse.

ANS: B                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3              TOP: Specialization and opportunity costs              TYP: Applied

**Figure 2-9**

Production Possibilities Schedule				
Choice	Country X		Country Y	
	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

67. In Figure 2-9, if trade were to occur, which of the following is true?
- Country X should export coffee to country Y, but the two countries should not exchange sugar.
  - Country X should export coffee to country Y, and country Y should export sugar to country X.
  - Country X should export sugar to country Y, and country Y should export coffee to country X.
  - Country X should export sugar and coffee to country Y.
  - Country Y should export sugar and coffee to country X.

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

68. In Figure 2-9, if trade were to occur, what is the *most* that country X would be willing to pay for 1 unit of sugar?
- 1 unit of coffee
  - $\frac{3}{2}$  units of coffee
  - $\frac{2}{3}$  unit of coffee
  - 200 units of coffee
  - $\frac{1}{2}$  unit of coffee

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

69. In Figure 2-9, if trade were to occur, what is the *least* that country Y would be willing to accept for 1 unit of sugar?
- 1 unit of coffee
  - $\frac{3}{2}$  units of coffee
  - $\frac{2}{3}$  unit of coffee
  - 200 units of coffee
  - $\frac{1}{2}$  unit of coffee

ANS: C                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

70. In Figure 2-9, assume that before specialization and trade, both countries were producing at production possibility C. Now if each country specializes according to comparative advantage, what will be the gains from trade?
- 20 units of sugar and 10 units of coffee
  - 20 units of coffee and 10 units of sugar
  - 20 units of coffee
  - 10 units of sugar
  - 80 units of coffee and 90 units of sugar

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

**Figure 2-10**

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

71. In Figure 2-10, Maine has an absolute advantage in producing
- both grape juice and apple juice.
  - only grape juice.
  - only apple juice.
  - neither good.
  - There is not enough information to say.

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

72. The opportunity cost of producing 1 gallon of grape juice in Maine, according to Figure 2-10, is
- 5 gallons of apple juice.
  - 1/5 gallon of apple juice.
  - 5 gallons of grape jelly.
  - 6 gallons of apple juice.
  - 1/8 gallon of apple juice.

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

73. In Figure 2-10, New Hampshire has a comparative advantage in producing
- neither good.
  - grape juice.
  - both apple and grape juice.
  - apple juice.
  - There is not enough information to say.

ANS: D                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

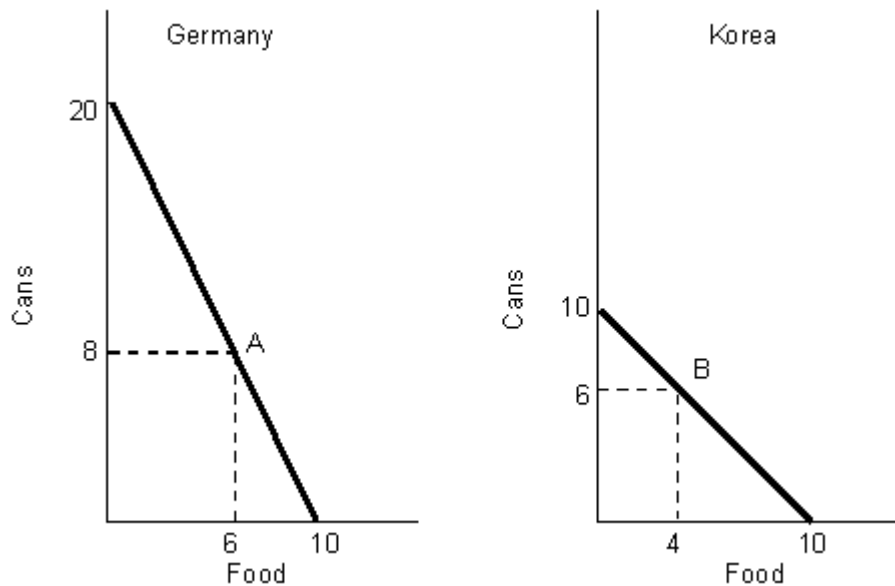
74. Refer to Figure 2-10. If the terms of trade were \_\_\_\_ gallon(s) of grape juice for 1 gallon of apple juice, both New Hampshire and Maine would gain from trade.
- 6
  - 3
  - 0.5
  - 0.25
  - 10

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Terms of trade                      TYP: Applied

75. According to Figure 2-10, the opportunity cost of producing 1 gallon of grape juice in New Hampshire is \_\_\_\_ gallon(s) of apple juice.
- 1.33
  - 5/6
  - 1.5
  - 6
  - 2/3

ANS: C                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

**Figure 2-11**



76. Suppose that in Figure 2-11, points *A* and *B* represent pre-trade positions. If each country specializes according to comparative advantage, what are the potential gains to trade?
- 6 cans
  - 6 cans and 6 units of food
  - 6 units of food
  - 4 units of food
  - 12 cans

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

77. In Figure 2-11, if trade occurs, what is the *most* that Germany would be willing to pay for 1 unit of food?
- 1 can
  - 2 cans
  - 1/2 can
  - 20 cans
  - 10 cans

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

78. In Figure 2-11, if trade occurs, what is the *least* Korea is willing to accept for 1 unit of food?
- 1 can
  - 2 cans
  - 1/2 can
  - 20 cans
  - 10 cans

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Trade                      TYP: Applied

79. Which of the following is the *best* definition of comparative advantage?
- The ability to produce a good or service at a higher opportunity cost than someone else
  - The ability to sell more goods or services than anyone else, regardless of the price
  - The ability to produce all goods and services better than anyone else
  - The ability to produce a good or service at a lower opportunity cost than someone else
  - The inability to produce a good or service better than anyone else

ANS: D                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                      TOP: Comparative advantage                      TYP: Factual

80. Should a world-class athlete such as golfer Tiger Woods mow his own lawn?
- Yes, because he can obviously do it faster than any gardener he could hire.
  - Yes, because he can obviously do it cheaper than any gardener he could hire.
  - Yes, because the gardener would be intimidated by the presence of Tiger Woods.
  - No, because the gardener has a comparative advantage in playing golf.
  - No, because Tiger Woods has a comparative advantage in playing golf.

ANS: E                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                      TOP: Comparative advantage                      TYP: Factual

81. Specialization and trade ensure that
- we are better off than we would be if we did everything ourselves.
  - we are worse off than we would be if we did everything ourselves.
  - unemployment rates will be higher.
  - resources will be used inefficiently.
  - an isolationist backlash will follow.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 4                      TOP: Specialization and trade                      TYP: Factual

82. Which of the following *best* expresses the rule of specialization?
- The individual, firm, or nation will specialize in production of the good or service that has the lowest rate of taxation.
  - The individual, firm, or nation will never specialize in production of the good or service that has the lowest opportunity cost.
  - The individual, firm, or nation will specialize in production of the good or service that has the lowest opportunity cost.
  - The individual, firm, or nation will specialize in production of the good or service that has the highest opportunity cost.
  - The individual, firm, or nation will not specialize in any good or service, regardless of opportunity costs, to avoid becoming dependent on other nations and preserve its self-sufficiency.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                TOP: Specialization                      TYP: Factual

83. Comparative advantage is
- the ability to produce a good or service at a lower opportunity cost than another incurs in producing it.
  - a person's willingness to work hard and be successful.
  - determined by a person's formal education level.
  - measured by a person's relative financial security.
  - always expressed in terms of dollars spent on one good versus dollars spent on an alternative good.

ANS: A                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                TOP: Comparative advantage                      TYP: Factual

### Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

84. According to Scenario 2-1, the opportunity cost for Brian to produce 1 softball is
- 4 baseballs.
  - less than the opportunity cost for Alan to produce 1 softball.
  - $\frac{1}{4}$  baseball.
  - $2\frac{1}{2}$  baseballs.
  - $\frac{2}{5}$  baseball.

ANS: A                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                TOP: Opportunity cost                      TYP: Applied

85. According to Scenario 2-1, the opportunity cost for Alan to produce 1 baseball is
- $\frac{1}{4}$  softball.
  - $\frac{2}{5}$  softball.
  - less than the opportunity cost for Brian to produce 1 baseball.
  - $2\frac{1}{2}$  softballs.
  - 4 softballs.

ANS: B                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                TOP: Opportunity cost                      TYP: Applied

86. According to Scenario 2-1, Brian has a comparative advantage over Alan in the production of
- softballs.
  - both softballs and baseballs.
  - neither softballs nor baseballs.
  - baseballs.
  - softballs if he makes no more than 2 an hour

ANS: D

PTS: 1

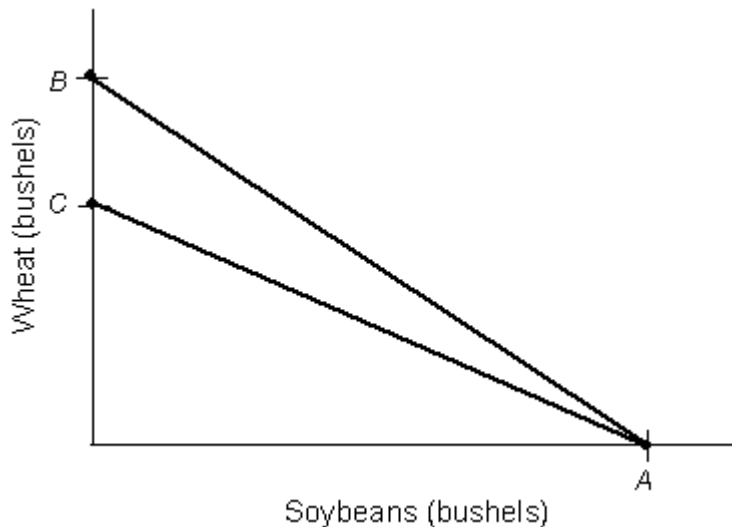
DIF: Difficult

REF: Ch 2, 2.c

OBJ: Ch 2, 3

TOP: Comparative advantage

TYP: Applied

**Figure 2-12**

87. Use Figure 2-12 to answer the next question. Farmer X's production possibilities curve is line *AB*, and Farmer Y's production possibilities curve is *AC*. Given this information, which of the following is true?
- Farmer X is better at producing soybeans than Farmer Y.
  - Farmer X has a comparative advantage in producing soybeans.
  - Farmer X has a comparative advantage in producing wheat.
  - Farmer Y can produce soybeans better than Farmer Y.
  - Farmer X faces increasing opportunity costs when he produces more and more soybeans.

ANS: C

PTS: 1

DIF: Difficult

REF: Ch 2, 2.c

OBJ: Ch 2, 3

TOP: Comparative advantage

TYP: Applied

**Figure 2-13**

Labor Cost per Unit (in hours)		
	Shoes	Bread
Country A	150	200
Country B	300	250

88. Consider economies A and B in Figure 2-13. One can correctly conclude that
- neither country has a comparative advantage in producing bread.
  - country A has a comparative advantage in producing both shoes and bread.
  - country B has a comparative advantage in producing both shoes and bread.
  - country A has a comparative advantage in producing shoes, and country B has a comparative advantage in producing bread.
  - country A has a comparative advantage in producing bread, and country B has a comparative advantage in producing shoes.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                      TOP: Comparative advantage                      TYP: Applied

89. Consider economies A and B in Figure 2-13. Given their respective comparative advantages in production, we should expect
- country A to produce both shoes and bread and country B to produce neither.
  - country A to buy both shoes and bread from country B.
  - country A to specialize in producing shoes and to buy bread from country B.
  - country A to specialize in the production of bread and to buy shoes from country B.
  - each country to produce only for itself.

ANS: D                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                      TOP: Comparative advantage and specialization  
 TYP: Applied

90. A market economy can develop because
- government intervenes.
  - the public property rights exist.
  - the private property rights exist.
  - everyone can have everything.
  - scarcity no longer exists.

ANS: C                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.d  
 OBJ: Ch 2, 2                      TOP: Private property right                      TYP: Applied

91. According to the article in the text, if Venezuela's Chavez succeeds in effecting land reform, Venezuela's PPC will
- not change.
  - shift inward.
  - shift outward.
  - not exist.
  - None of the above

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.d  
 OBJ: Ch 2, 3                      TOP: Applied PPC                      TYP: Interpretive



92. Private property right means
- government gives property to its citizens.
  - ownership of the property.
  - government does not own property.
  - citizens have right to use property but not own it.
  - All of these choices.

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.d  
 OBJ: Ch 2, 3                      TOP: Private property right                      TYP: Interpretive

93. Which of the following is the most important element in the market economy?
- Private property right.
  - Government has no role in the economy.
  - Government is the biggest sector in the economy.
  - Religious freedom.
  - Freedom of speech and press.

ANS: B                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.d  
 OBJ: Ch 2, 3                      TOP: Private property right                      TYP: Interpretive

### TRUE/FALSE

1. According to economic analysis, in making a decision, individuals compare the benefits expected from one option with the benefits expected from other options.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

2. You work for your parent's business without pay, so your labor is free.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Interpretive

3. The production possibility curve for an economy indicates all possible combinations of three goods produced, given a constant amount of resources.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Interpretive

### Story 2-1

Bob went to the movies with his friend James rather than studying or going bowling with his sister. Bob had a test in math the next day.

4. According to Story 2-1, the opportunity cost of going bowling with his sister is the fun of going to the movies with James.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
 OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

5. The opportunity cost of going to the movies is always the same for everyone.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Factual

6. If you have a choice of consuming two apples, three oranges, or one candy bar, the opportunity cost of the two apples is the candy bar plus the three oranges.

ANS: F                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

7. An example of opportunity cost is the time you forgo to eat a "free lunch."

ANS: T                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

8. The total cost of attending college is the sum of the cost of tuition, books, and meals.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

9. There is no cost of using your own savings in your business.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Opportunity cost                      TYP: Applied

10. Since we cannot tolerate waste so we must eliminate it.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.a  
OBJ: Ch 2, 1                      TOP: Tradeoffs                      TYP: Applied

11. Given a production possibilities curve for defense goods and nondefense goods, if a nation is producing at a point inside the PPC, then it is possible to increase production of defense goods without sacrificing production of nondefense goods.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
OBJ: Ch 2, 2                      TOP: Points inside PPC                      TYP: Applied

12. If a new labor-saving technology is discovered, the PPC shifts inward.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
OBJ: Ch 2, 2                      TOP: Points outside PPC                      TYP: Applied

13. A rightward shift of the PPC might be caused by an increase in the general level of education.

ANS: T                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 1.b  
OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

14. The construction of a PPC does not require that the economy's resources be fully and efficiently employed.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Factual

15. The construction of a PPC does not require that the amount of money in the economy remain constant.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

16. Economically, it's possible to move a point on the PPC to another point.

ANS: T                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Interpretive

17. An economy's PPC illustrates the extent to which the economy consumes what it produces.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Interpretive

18. If the minimum working age is raised from 16 to 18, the PPC will shift inward.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

19. If there is a technological advance that makes the production of automobiles more efficient, a producer of automobiles and other goods will move from a point on its PPC to a point outside its PPC, but a shift of the PPC will not occur.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: Shifts of PPC                      TYP: Applied

20. Economic growth is represented by shifting PCC outward.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

21. The concepts of scarcity and law of increasing cost can not be derived from PCC.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

22. The PPC does not indicate while producing more of one good it's not necessary to produce less of another good.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 1.b  
 OBJ: Ch 2, 2                      TOP: PPC                      TYP: Applied

23. A specialist is a person who is capable of doing only one thing.

ANS: F                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3                      TOP: Specialization                      TYP: Interpretive

24. Trade occurs because countries may produce more than they need.

ANS: F                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 4                      TOP: Specialization                      TYP: Interpretive

25. A bowed-out PPC indicates increasing marginal opportunity costs between the goods or services produced.

ANS: T                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 2                      TOP: Marginal opportunity cost                      TYP: Factual

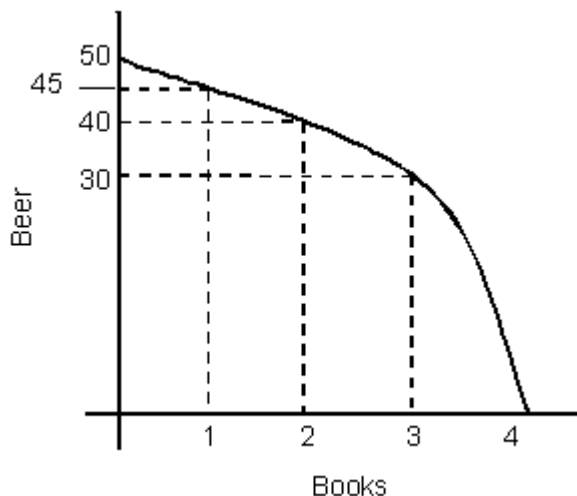
26. When specialized resources that are productive in the production of one good are shifted to the production of another good in which they are relatively less productive, the resulting production possibilities curve of the goods tends to bow in.

ANS: F                      PTS: 1                      DIF: Difficult                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 2                      TOP: Marginal opportunity cost                      TYP: Interpretive

27. When a nation is operating on a bowed-out PPC, the production of more of one product will bring about the production of less of another product because resources are scarce.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 2                      TOP: Bowed-out PPC                      TYP: Interpretive

**Figure 2-14**



28. Refer to Figure 2-14. If beer becomes cheaper, the maximum amount of beers that Fred can obtain will increase.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 3                      TOP: PPC                      TYP: Applied

29. Refer to Figure 2-14. If Fred gets 2 books and 30 beers, he is not using all of his resources

ANS: T                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 3                      TOP: PPC                      TYP: Applied

30. Refer to Figure 2-14. If Fred has 1 book and 45 beers, the marginal opportunity cost of one more book is 40 beers.

ANS: F                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 3                      TOP: Marginal opportunity cost                      TYP: Applied

31. Refer to Figure 2-14. Fred could have either 40 beers and 2 books or 48 beers and 1 book.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.a  
 OBJ: Ch 2, 3                      TOP: PPC                      TYP: Applied

32. In order to get the most from their productive capabilities, nations and individuals specialize in activities in which their opportunity costs are lowest.

ANS: T                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3                      TOP: Specialization                      TYP: Factual

33. International trade is a kind of zero-sum game.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3                      TOP: Trade                      TYP: Factual

34. Since it is cheaper to produce goods in Mexico, US will not be able to export goods to Mexico.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.b  
 OBJ: Ch 2, 3                      TOP: Trade                      TYP: Factual

35. The comparative advantage theory is based on using opportunity cost to determine which country should produce what good for trade.

ANS: T                      PTS: 1                      DIF: Medium                      REF: Ch 2, 2.c  
 OBJ: Ch 2, 3                      TOP: Comparative advantage                      TYP: Factual

36. Populations of ocean fish have declined sharply because of the existence of private property rights.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.d  
 OBJ: Ch 2, 3                      TOP: Private property right                      TYP: Factual

37. A resource-rich country can develop its economy rapidly without giving its citizens private property right.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.d  
OBJ: Ch 2, 3                TOP: Private property right                TYP: Factual

38. George W. Bush has been classified as a president who strives to maintain a budget surplus.

ANS: F                      PTS: 1                      DIF: Easy                      REF: Ch 2, 1.b  
OBJ: Ch 2, 2                TOP: Applied PPC                      TYP: Factual

39. In Argentina, the citizens having legal title to the land have higher income and living standard compared to those without legal title to the land.

ANS: T                      PTS: 1                      DIF: Easy                      REF: Ch 2, 2.d  
OBJ: Ch 2, 2                TOP: Private property right                TYP: Factual