Macroeconomics (Canadian) 1st edition Karlan Test Bank

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

1) The invisible hand refers to:
   A) the coordination that occurs from a government agency finding efficiencies.
   B) the coordination that occurs from everyone working in his or her own self-interest.
   C) the coordination that occurs from a government coordinating economic activity.
   D) the coordination that occurs from everyone working for the overall good of society.

Answer: B

2) The concepts of specialization and gains from trade explain:
   A) international trade.
   B) both international trade and the choices individuals make.
   C) why globalization has expanded recently.
   D) consumer decisions.

Answer: B

3) The concept of the invisible hand was first introduced to economics by:
   A) Adam Smith.
   B) Thomas Malthus.
   C) Milton Friedman.
   D) David Ricardo.

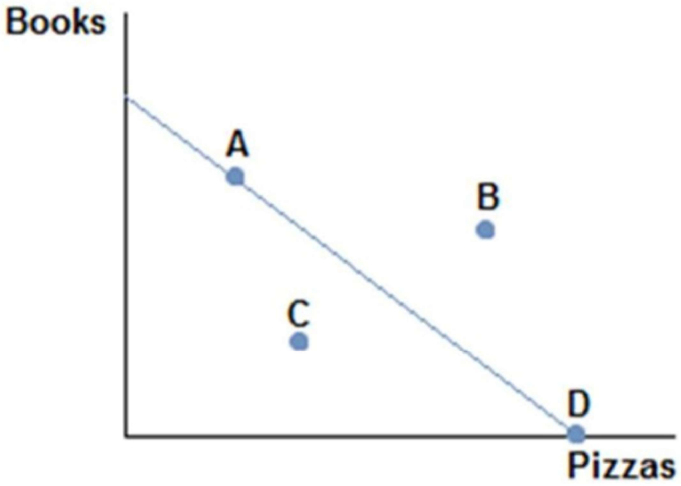
Answer: A

4) A production possibilities frontier is a line or curve that:
   A) shows what can be produced when all available resources are not efficiently used.
   B) shows all the possible combinations of outputs that can be produced using all available resources.
   C) explains why societies make the choices they do.
   D) shows the best combinations of outputs that can be produced using all available resources.

Answer: B

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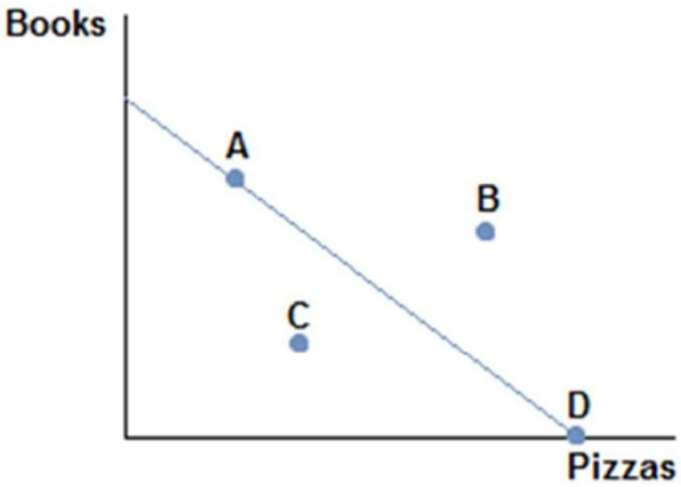
5) Consider the production possibilities frontier displayed in the figure shown. The fact that the line slo downward displays which economic concept?



A) Production possibilities
B) Specialization
C) Trade-offs
D) Efficiency

Answer: C

6) Consider the production possibilities frontier displayed in the figure shown. A society faced with this could choose to produce:

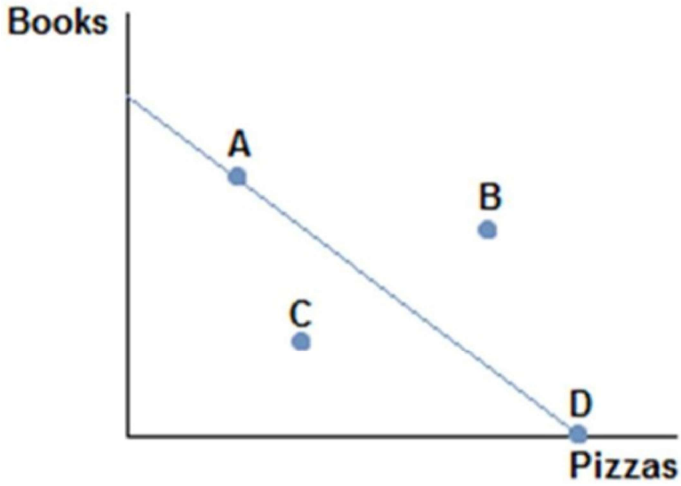


A) A, B, or C.
B) B, C, or D.
C) A, D, or C.
D) A, B, or D.

Answer: C

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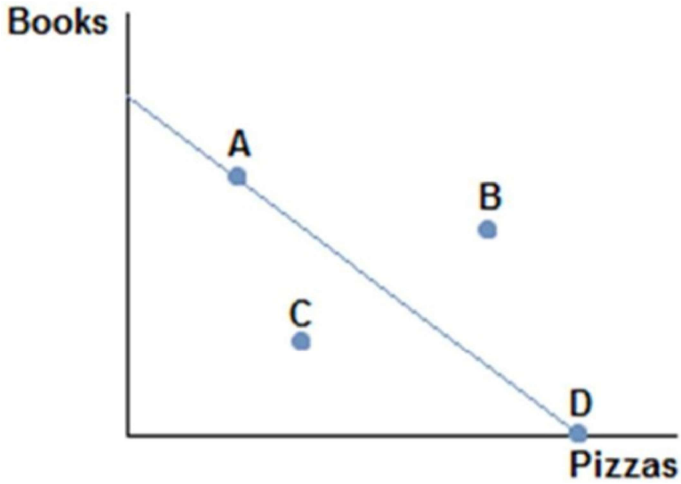
7) Consider the production possibilities frontier displayed in the figure shown. Which points are efficier attainable with existing resources?



A) Points A and D.
B) Only point A.
C) Only point B.
D) Points A, C, and D.

Answer: A

8) Consider the production possibilities frontier displayed in the figure shown. A society faced with this

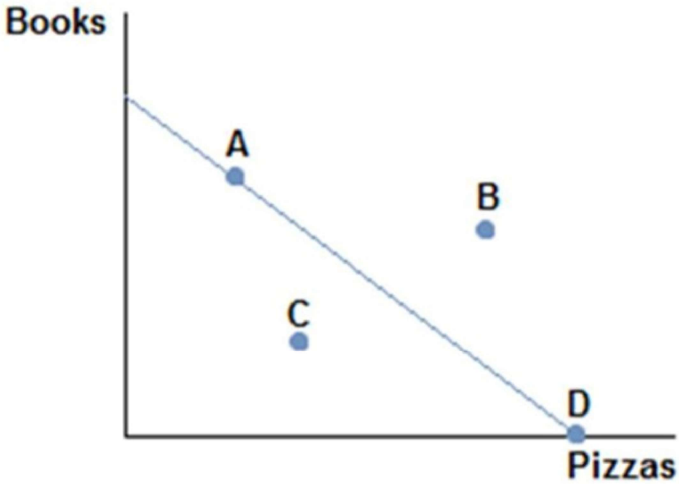


A) can only obtain point D or point A.
B) can only obtain point C.
C) cannot obtain point C.
D) cannot obtain point B.

Answer: D

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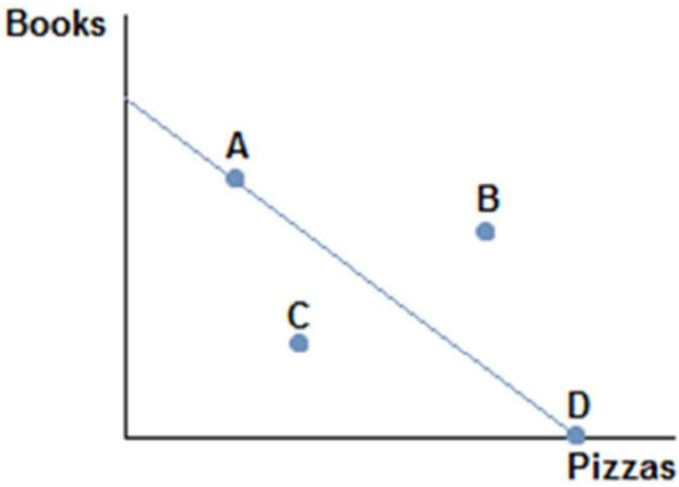
9) Consider the production possibilities frontier displayed in the figure shown. Which of the following s is true?



A) Producing at point B would be inefficient.
B) Producing at point C would be inefficient.
C) Producing at point A would be inefficient.
D) Producing at point D would be inefficient.

Answer: B

10) Consider the production possibilities frontier displayed in the figure shown. Which of the following s is true?



A) Producing at point B is impossible.
B) Producing at point C is the best choice, because it's closest to the middle.
C) Producing at point A is the best choice, because some of both items are made.
D) Producing at point D would be inefficient, since no books would be produced.

Answer: A

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11) The slope of a production possibilities frontier measures:

A) the trade-off inherent in the production of one good versus the other good.

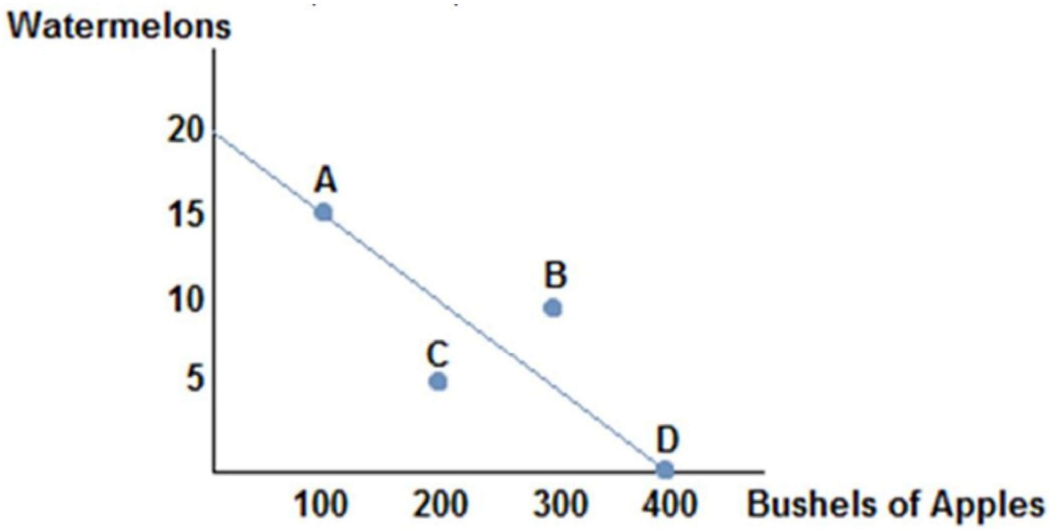
B) how much of one good that must be given up in order to produce one of the other good.

C) the opportunity cost of producing one good in terms of the other good.

D) All of these statements are true.

Answer: D

12) Consider the production possibilities frontier displayed in the figure shown. A society will choose to



A) at point C because it is the safest.

B) at point A because it is always best to produce some of each good.

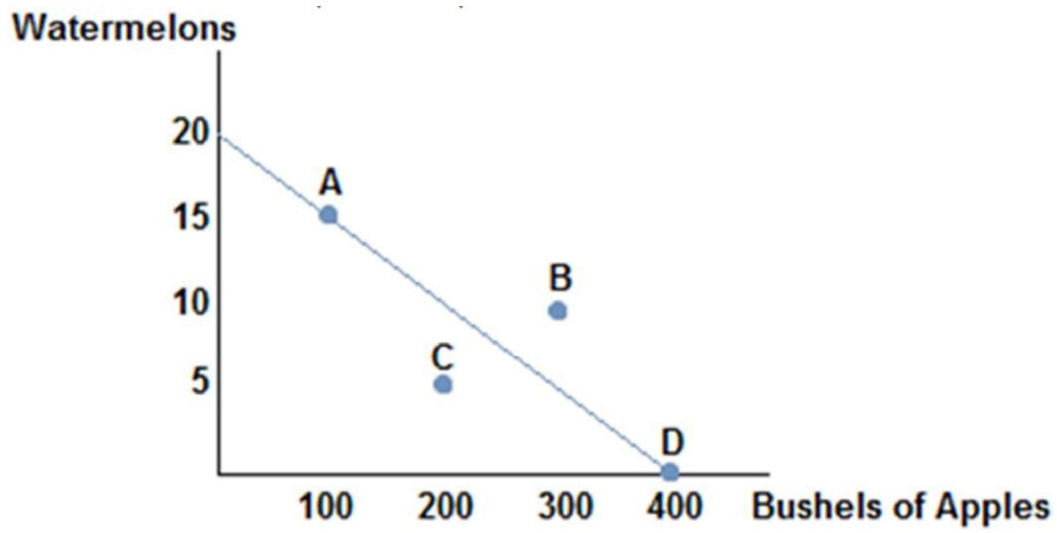
C) at point D because it represents the most apples the society can produce.

D) None of these statements are necessarily true.

Answer: D

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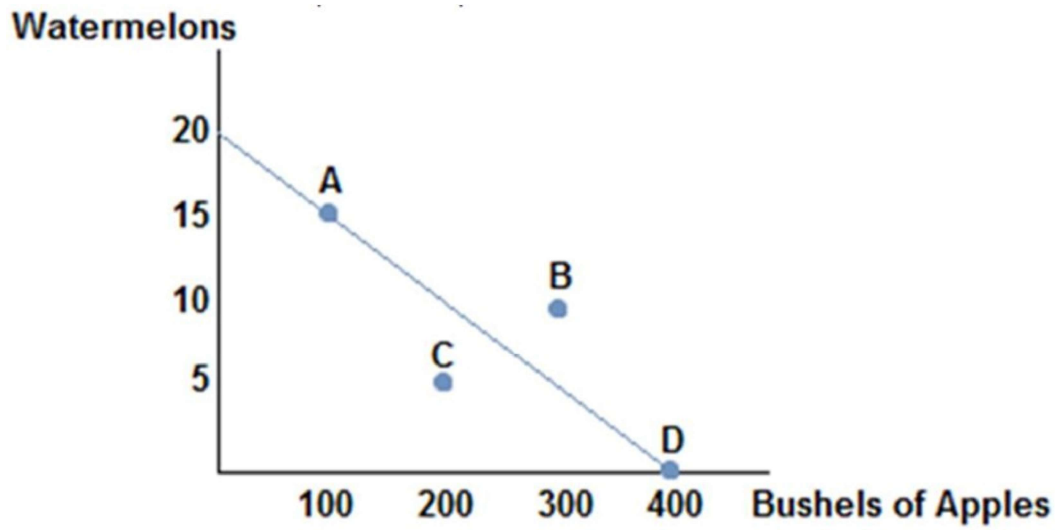
13) Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of a
apples is:



A) 1/30 watermelons.
B) 3/20 watermelons.
C) 1/20 watermelons.
D) 1/40 watermelons.

Answer: C

14) Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of a
watermelon is:

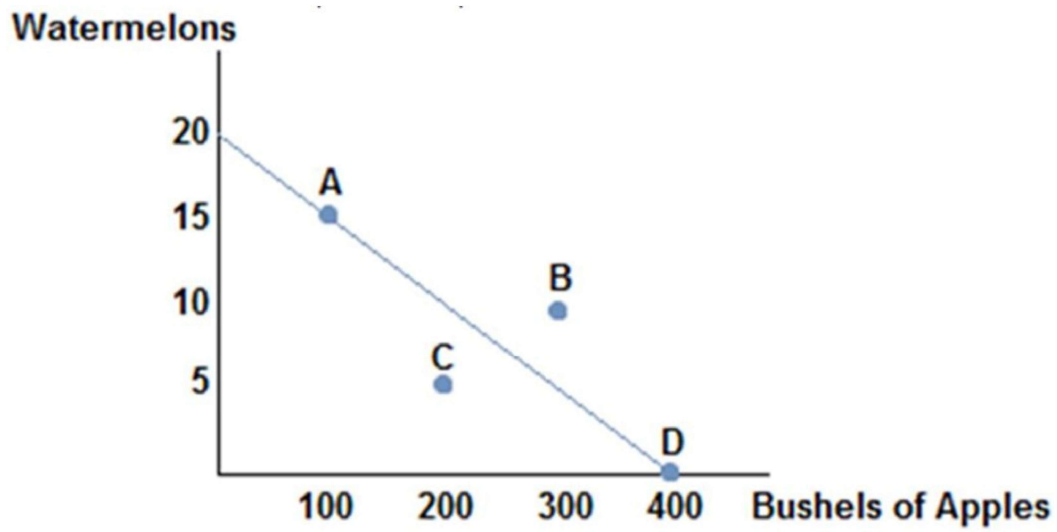


A) 20 bushels of apples.
B) 10 bushels of apples.
C) 40 bushels of apples.
D) 30 bushels of apples.

Answer: A

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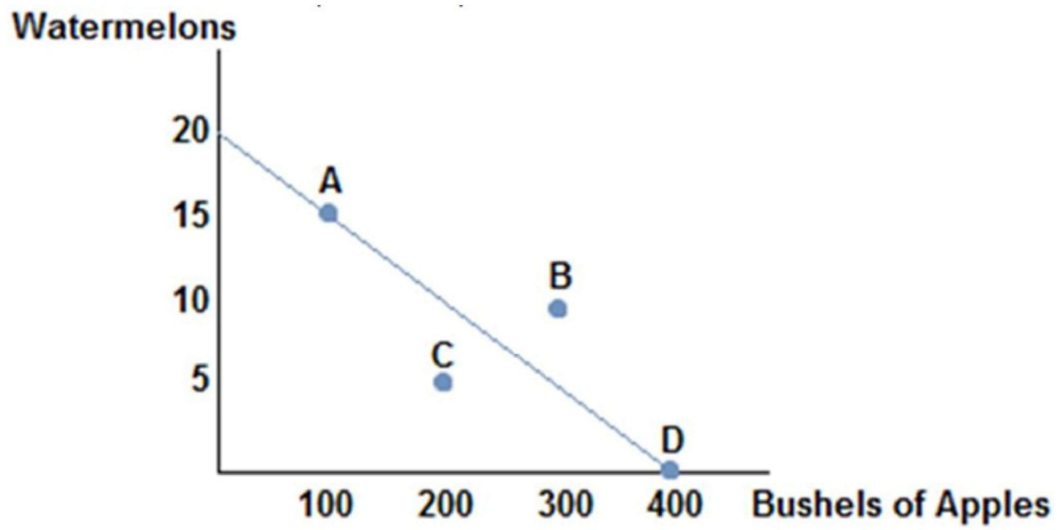
15) Consider the production possibilities frontier displayed in the figure shown. If this society chooses to 200 bushels of apples:



A) it can produce no more than 5 watermelons.
B) it can produce no more than 10 watermelons.
C) it can produce no more than 15 watermelons.
D) it can produce no more than 20 watermelons.

Answer: B

16) Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could be produced?

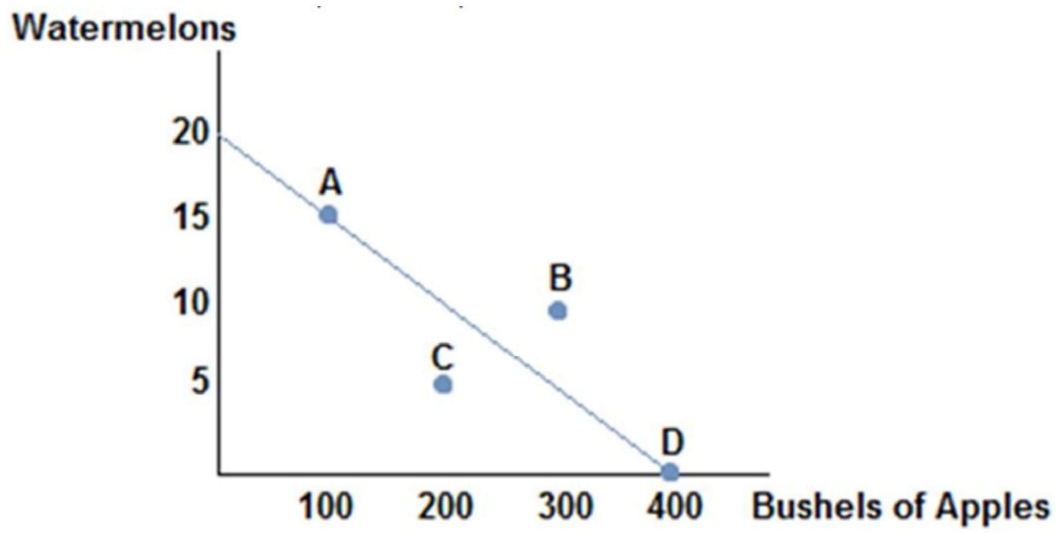


A) (20 watermelons, 400 bushels of apples)
B) (10 watermelons, 400 bushels of apples)
C) (10 watermelons, 300 bushels of apples)
D) (15 watermelons, 100 bushels of apples)

Answer: D

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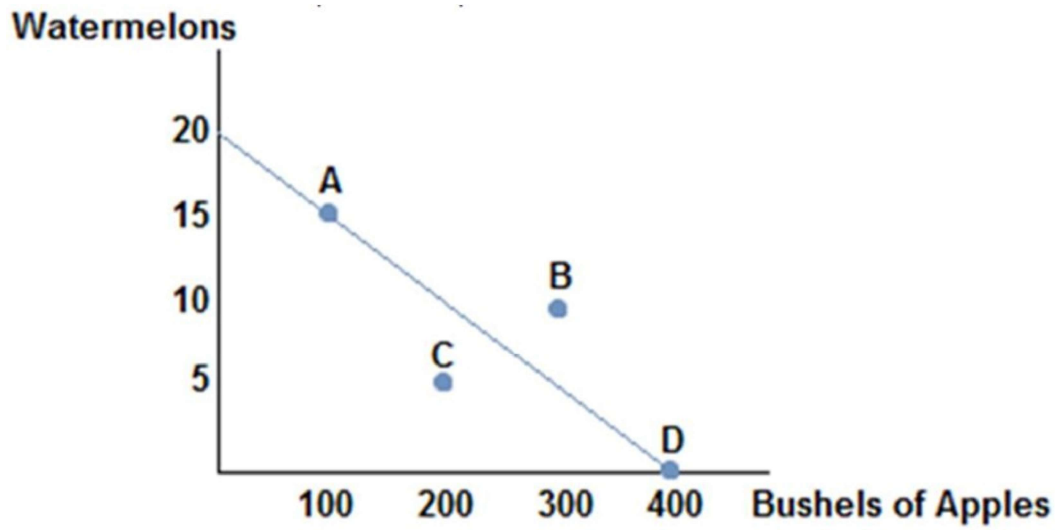
17) Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could **not** be produced?



A) (15 watermelons, 100 bushels of apples)
B) (10 watermelons, 150 bushels of apples)
C) (20 watermelons, 400 bushels of apples)
D) (0 watermelons, 400 bushels of apples)

Answer: C

18) Consider the production possibilities frontier displayed in the figure shown. If this society chooses to 15 watermelons:

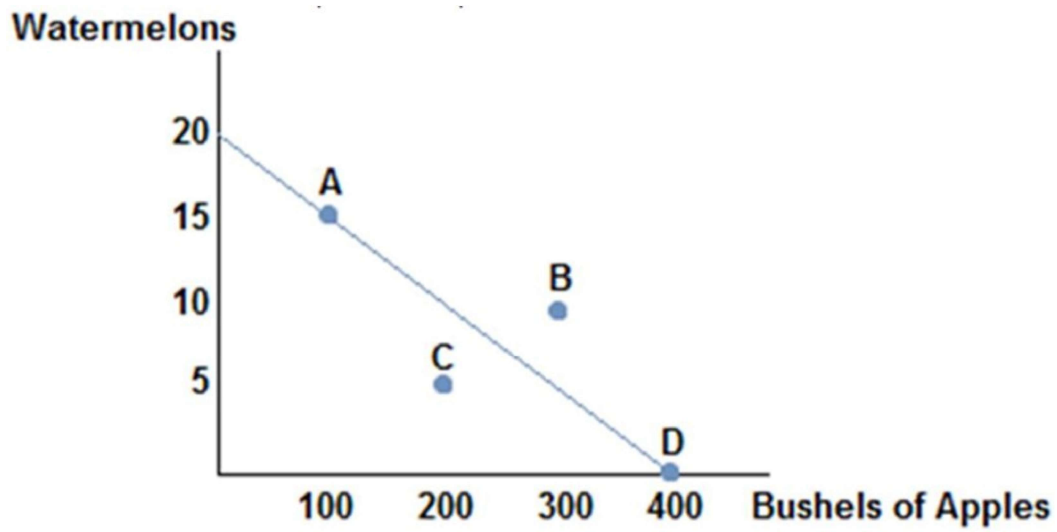


A) it can produce no more than 300 bushels of apples.
B) it can produce no more than 400 bushels of apples.
C) it can produce no more than 200 bushels of apples.
D) it can produce no more than 100 bushels of apples.

Answer: D

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19) Consider the production possibilities frontier displayed in the figure shown. Which of the following s is true?



A) The opportunity cost of one watermelon is constant.
B) The opportunity cost of one watermelon will increase as more watermelons are produced.
C) The opportunity cost of one watermelon will decrease as more watermelons are produced.
D) The opportunity cost of one watermelon is very low at point C.

Answer: A

20) If we consider the reality that each worker has different skills, then the production possibilities frontier:

A) would have a convex shape.
B) would be a straight line.
C) would have a concave shape.
D) would shift outward.

Answer: C

21) If we consider the reality that each worker has different skills, then the production possibilities frontier:

A) would display a constant opportunity cost of a good as more of that good is produced.
B) cannot be drawn, as too many variables would need to be taken into consideration.
C) would display a decreasing opportunity cost of a good as more of that good is produced.
D) would display an increasing opportunity cost of a good as more of that good is produced.

Answer: D

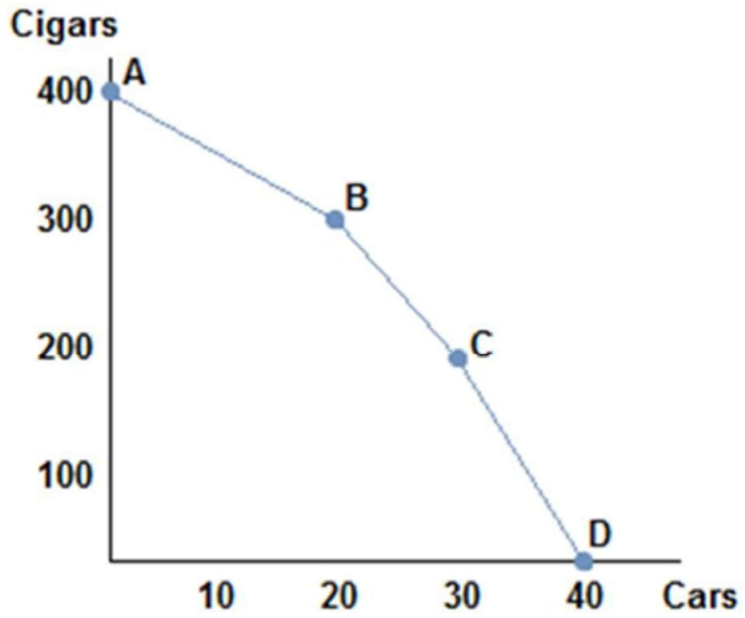
22) A realistic production possibilities curve:

A) is straighter than one assuming constant opportunity costs.
B) is more concave than one assuming increasing opportunity costs.
C) is more concave than one assuming constant opportunity costs.
D) is more convex than one assuming constant opportunity costs.

Answer: B

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23) Consider the production possibilities frontier in the figure shown. As more and more cars are produce

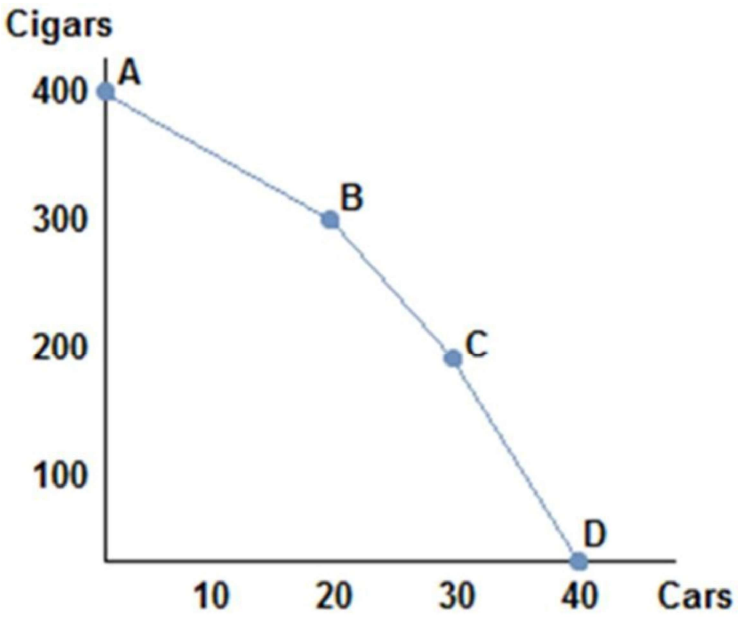


A) the opportunity cost of cars decreases.
B) the opportunity cost of cars stays the same.
C) the opportunity cost of cars decreases then increases.
D) the opportunity cost of cars increases.

Answer: D

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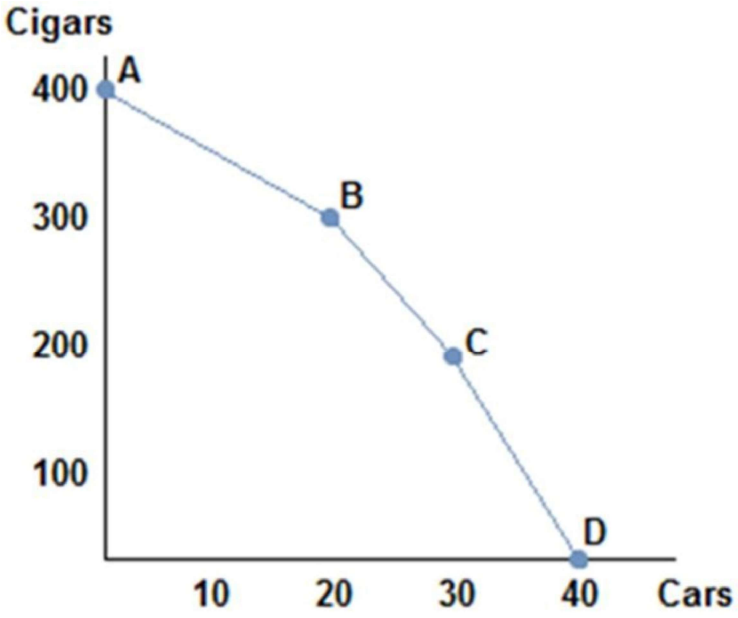
24) Consider the production possibilities frontier in the figure shown. As more and more cigars are produ



A) the opportunity cost of cars decreases then increases.
B) the opportunity cost of cars decreases.
C) the opportunity cost of cars stays the same.
D) the opportunity cost of cars increases.

Answer: B

25) Consider the production possibilities frontier in the figure shown. The opportunity cost of moving frc to point B:

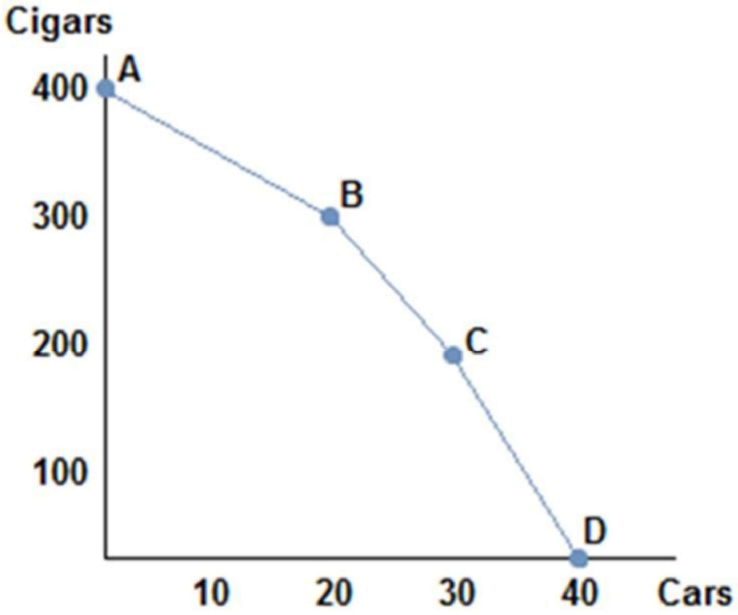


A) is 5 cigars per car.
B) is 10 cigars per car.
C) is 5 cars per cigar.
D) is 10 cars per cigar.

Answer: A

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26) Consider the production possibilities frontier in the figure shown. The opportunity cost of cars when from point B to point C:



A) is greater than the opportunity cost of cars when moving between any other two points.
B) is greater than the opportunity cost of cars when moving from point A to point B.
C) is less than the opportunity cost of cars when moving from point A to point B.
D) None of these statements are true.

Answer: B

27) Choosing to produce at any point within a production possibilities frontier:
A) is unobtainable, meaning the society cannot produce that combination of goods.
B) is efficient, meaning the society would be using all its available resources in their best possible uses.
C) is inefficient, meaning the society would not be using all its available resources in their best possible uses.
D) is efficient, meaning the society would be using all its available resources, though not in their best uses.

Answer: C

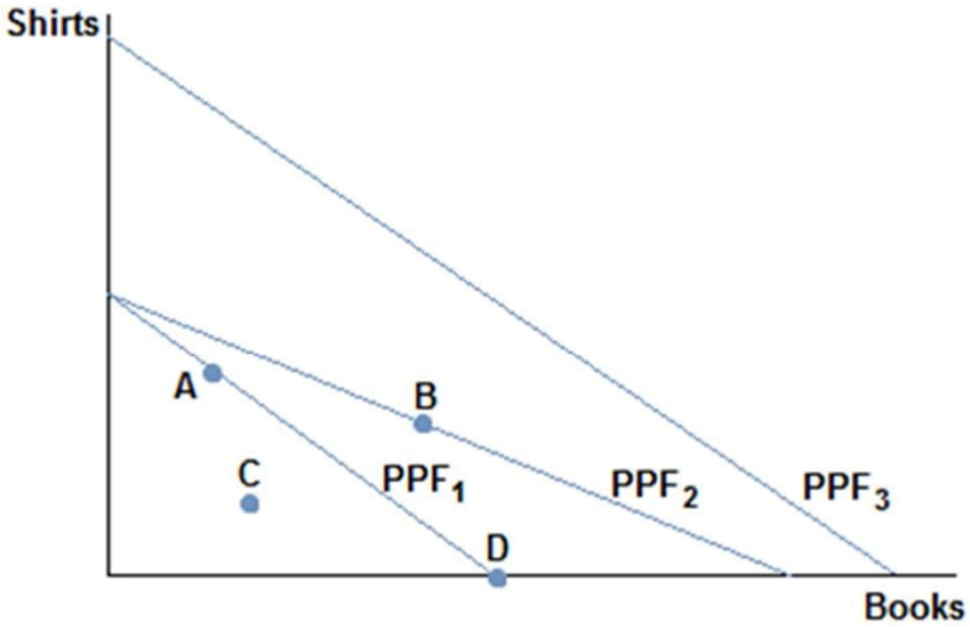
28) The production possibilities frontier:
A) can show us which possible combinations of goods society should choose, but cannot tell us which points will be inefficient.
B) can show all possible combinations of goods and which society should choose.
C) can show all possible combinations of goods but not tell us which combination society should choose.
D) cannot show all possible combinations of goods because society is typically inefficient.

Answer: C

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29) If society were to experience an increase in its available resources:
A) its production possibilities frontier would shift out.
B) its production possibilities frontier would not move, but society could change its production choice.
C) its production possibilities frontier would shift in.
D) its production possibilities frontier would become convex.
Answer: A

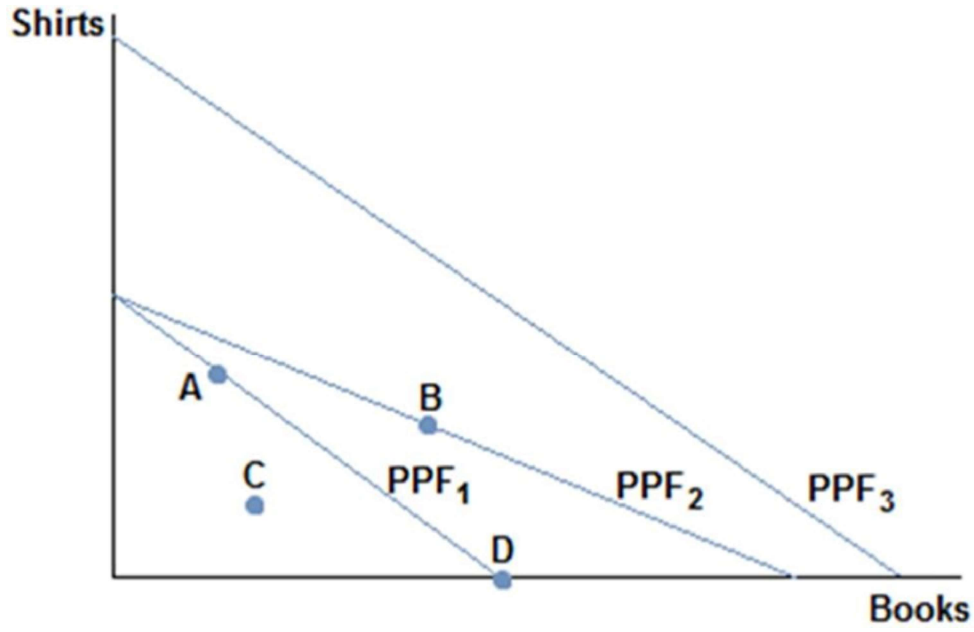
30) Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_2?



A) More workers
B) A desire to read more books
C) Better sewing technology
D) Better printing press technology
Answer: D

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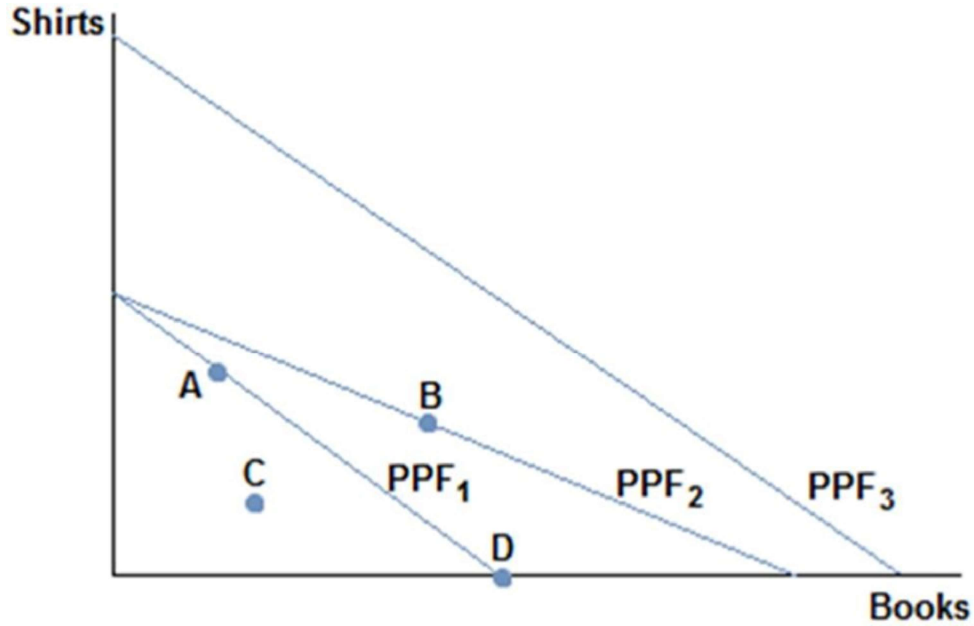
31) Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_3?



A) A desire to read more books
B) More workers
C) Better sewing technology
D) Better printing press technology

Answer: B

32) Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_3 to PPF_1?



A) Better sewing technology
B) A desire to read more books
C) A tornado
D) More workers

Answer: C

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33) An increase in productivity as a result of a new technology would cause the production possibilities frontier to:
A) become more meaningful in policy decisions.
B) shift out.
C) shift in.
D) not move until society chooses to move it.
Answer: B

34) Hurricane Katrina destroyed much of New Orleans and other parts of the South. Which of the following statements is true?
A) The hurricane caused New Orleans' production possibilities to increase, since it created a lot of work to rebuild the city and surrounding areas.
B) The hurricane caused New Orleans' production possibilities to shift inwards.
C) The hurricane caused New Orleans' production possibilities frontier to shift outwards.
D) None of these statements are true.
Answer: B

35) Trade:
A) decreases total production across nations but increases it for some.
B) increases total production, which benefits only the more wealthy nation.
C) decreases total production across nations but benefits everyone because they are individually more productive.
D) increases total production, which can benefit everyone involved.
Answer: D

36) Trade:
A) only benefits the weaker nation.
B) only benefits the stronger nation.
C) can benefit everyone involved.
D) can only benefit one party of the trade, but we cannot say which without more information.
Answer: C

37) Trade:
A) involves a winner and a loser.
B) can benefit both parties.
C) is a zero sum proposition.
D) often hurts both parties in the long run.
Answer: B

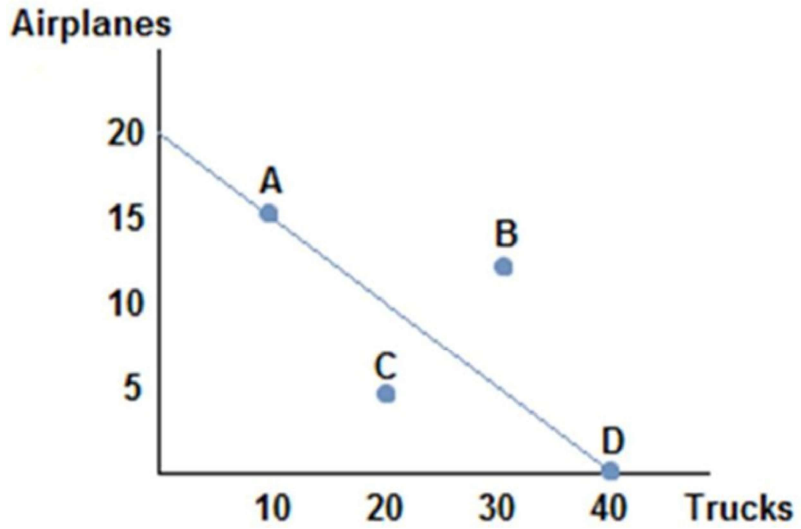
38) If a wealthy nation such as Canada trades with a poorer, less developed nation like Cambodia, then it is likely true that:
A) Cambodia is pressured to enter trade and not benefiting at all.
B) both Canada and Cambodia can benefit from trading.
C) Canada is taking advantage of Cambodia and is the only beneficiary to the trade.
D) Canada is being charitable and not benefiting from the trade at all.
Answer: B

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39) When a producer is acting efficiently:
A) it is producing only one good.
B) it is producing at a point on or under its production possibilities frontier.
C) it is producing the good in which it has an absolute advantage.
D) it is producing at a point on its production possibilities frontier.
Answer: D

40) When a country is acting efficiently:
A) it has unemployed workers.
B) it is producing at a point on or below its production possibilities frontier.
C) it is getting the most output by using all its available resources.
D) it is able to reach a point beyond its production possibilities frontier.
Answer: C

41) Suppose the figure shown represents the production possibilities frontier for Country A. Which of the following combinations of goods could Country A consume in the absence of trade?



A) (10 airplanes, 25 trucks)
B) (5 airplanes, 30 trucks)
C) (10 airplanes, 30 trucks)
D) (15 airplanes, 15 trucks)
Answer: B

42) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A) (500 iPods, 500 tablets).
B) (500 iPods, 250 tablets).
C) (1,000 iPods, 500 tablets).
D) (750 iPods, 150 tablets).
Answer: B

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43) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A) (500 iPods, 300 tablets). B) (500 iPods, 400 tablets).
C) (500 iPods, 500 tablets). D) (500 iPods, 200 tablets).
Answer: D

44) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could **not** make would be:
A) (500 iPods, 200 tablets). B) (500 iPods, 250 tablets).
C) (500 iPods, 300 tablets). D) (500 iPods, 150 tablets).
Answer: C

45) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A would be working efficiently if it produced:
A) (500 iPods, 150 tablets). B) (500 iPods, 200 tablets).
C) (500 iPods, 100 tablets). D) (500 iPods, 250 tablets).
Answer: D

46) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A) (200 iPods, 1,500 tablets). B) (400 iPods, 2,000 tablets).
C) (300 iPods, 500 tablets). D) (100 iPods, 2,000 tablets).
Answer: C

47) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A) (300 iPods, 450 tablets). B) (400 iPods, 2,000 tablets).
C) (400 iPods, 1 tablet). D) (200 iPods, 1,500 tablets).
Answer: A

48) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could **not** make would be:
A) (200 iPods, 750 tablets). B) (300 iPods, 500 tablets).
C) (400 iPods, 250 tablets). D) (100 iPods, 1,000 tablets).
Answer: C

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49) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B would be working efficiently if they were producing:

A) (200 iPods, 1,000 tablets).
B) (200 iPods, 1,750 tablets).
C) (200 iPods, 750 tablets).
D) (200 iPods, 1,500 tablets).

Answer: A

50) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. Which of the following statements is now true?

A) Country B's production possibilities are now more limited because of crowding.
B) Country B's production possibilities curve has rotated out from the x-axis.
C) Country B's production possibilities curve has shifted straight in.
D) Country B's production possibilities curve has shifted straight out.

Answer: D

51) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country A could produce are:

A) (2,500 bananas, 500 tomatoes) and (1,250 bananas, 800 tomatoes)
B) (5,000 bananas, 1,000 tomatoes) and (1,000 bananas, 5,000 tomatoes)
C) (2,500 bananas, 750 tomatoes) and (1,250 bananas, 750 tomatoes)
D) (5,000 bananas, 0 tomatoes) and (2,500 bananas, 500 tomatoes)

Answer: D

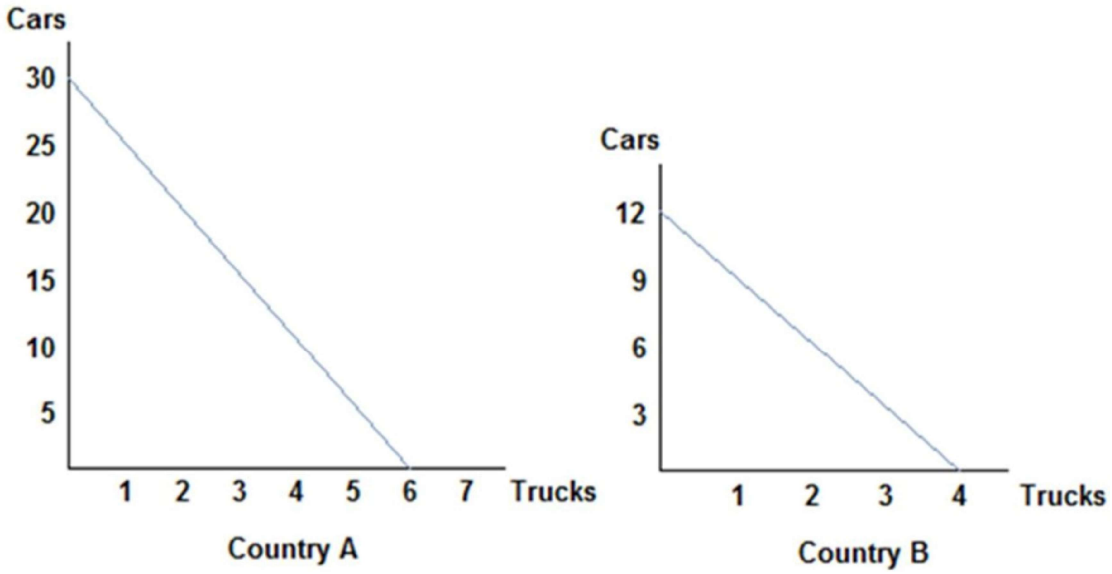
52) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country B could produce are:

A) (7,200 bananas, 0 tomatoes) and (4,000 bananas, 1,200 tomatoes)
B) (3,600 bananas, 1,200 tomatoes) and (1,800 bananas, 1,600 tomatoes)
C) (1,800 bananas, 1,800 tomatoes) and (900 bananas, 2,200 tomatoes)
D) (7,200 bananas, 2,400 tomatoes) and (3,600 bananas, 1,200 tomatoes)

Answer: B

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53) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and of the following statements is true?

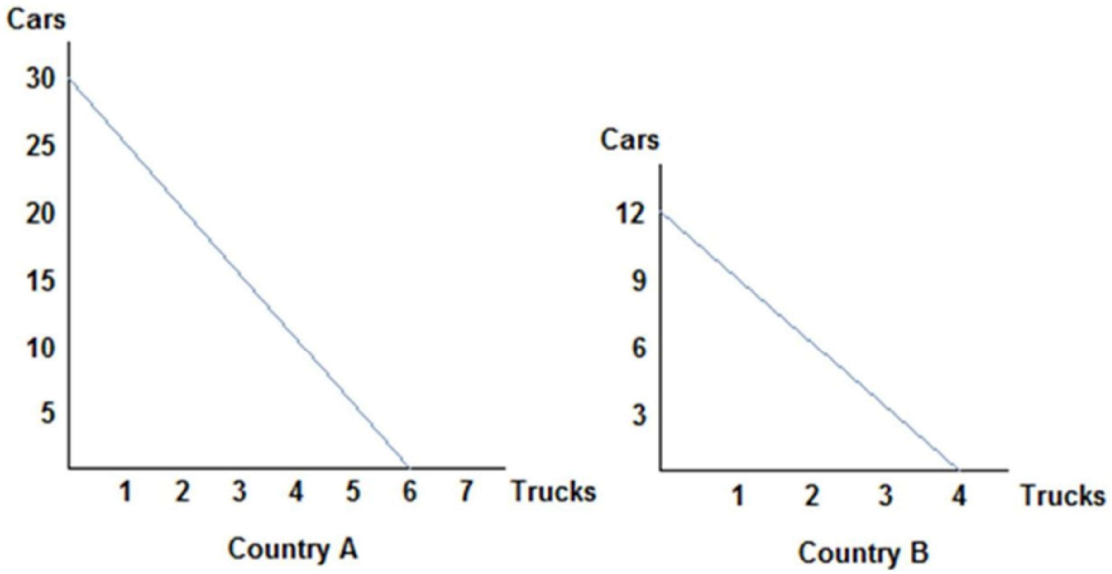


A) The opportunity cost of a truck in Country A is 6 trucks.
B) The opportunity cost of a truck in Country A is 30 cars.
C) The opportunity cost of a truck in Country A is 3 cars.
D) The opportunity cost of a truck in Country A is 5 cars.

Answer: D

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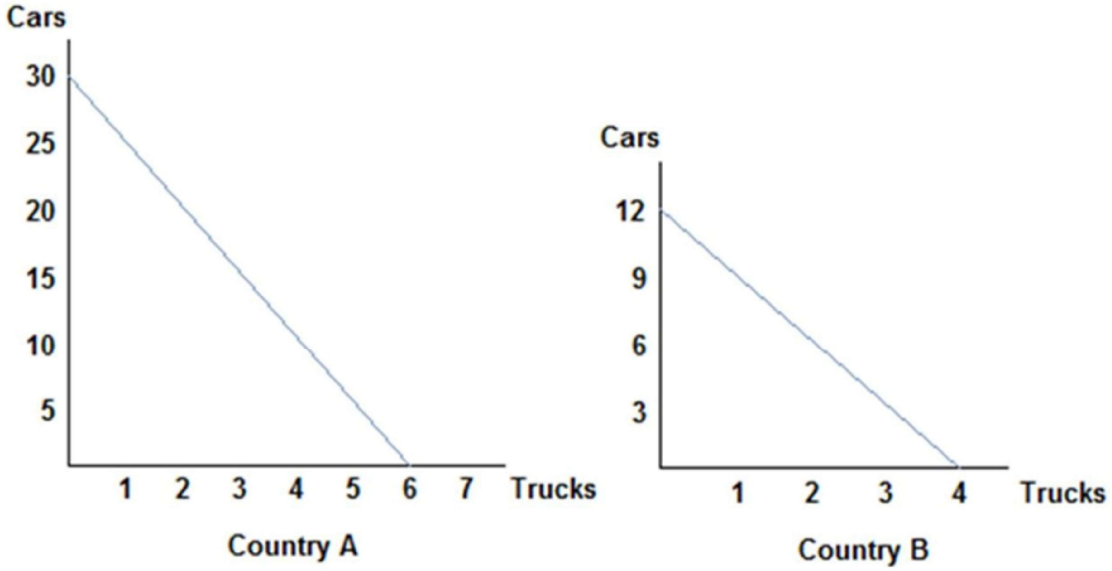
54) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and of the following statements is true?



A) The opportunity cost of a truck in Country B is 4 trucks.
B) The opportunity cost of a truck in Country B is 3 cars.
C) The opportunity cost of a truck in Country B is 12 cars.
D) The opportunity cost of a truck in Country B is 1.5 cars

Answer: B

55) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and Country A were to divide its resources equally, it could produce:

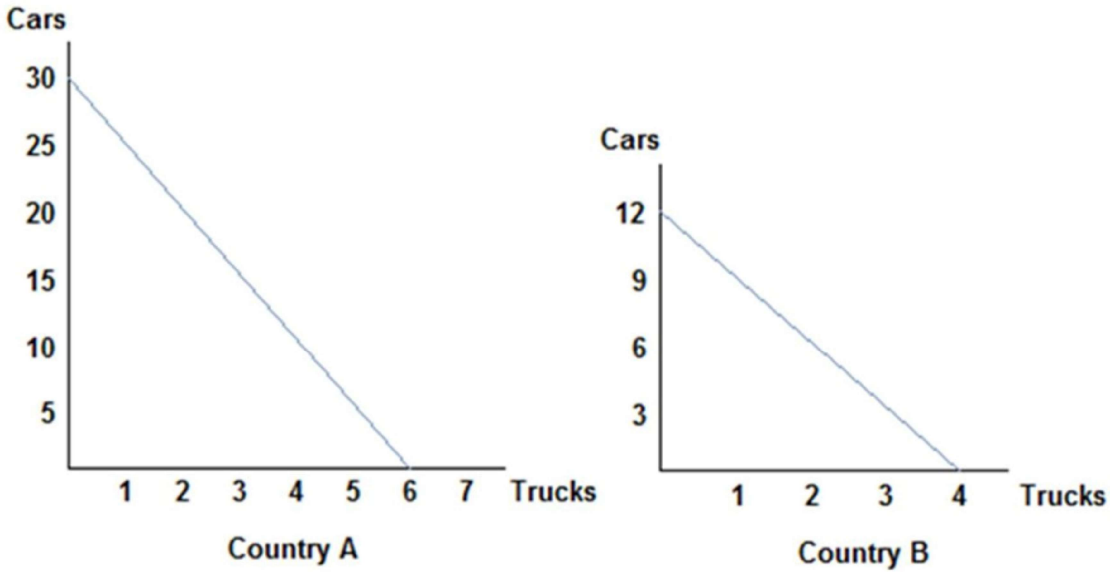


A) 25 cars and 5 trucks.
B) 10 cars and 4 trucks.
C) 15 cars and 3 trucks.
D) 30 cars and 6 trucks.

Answer: C

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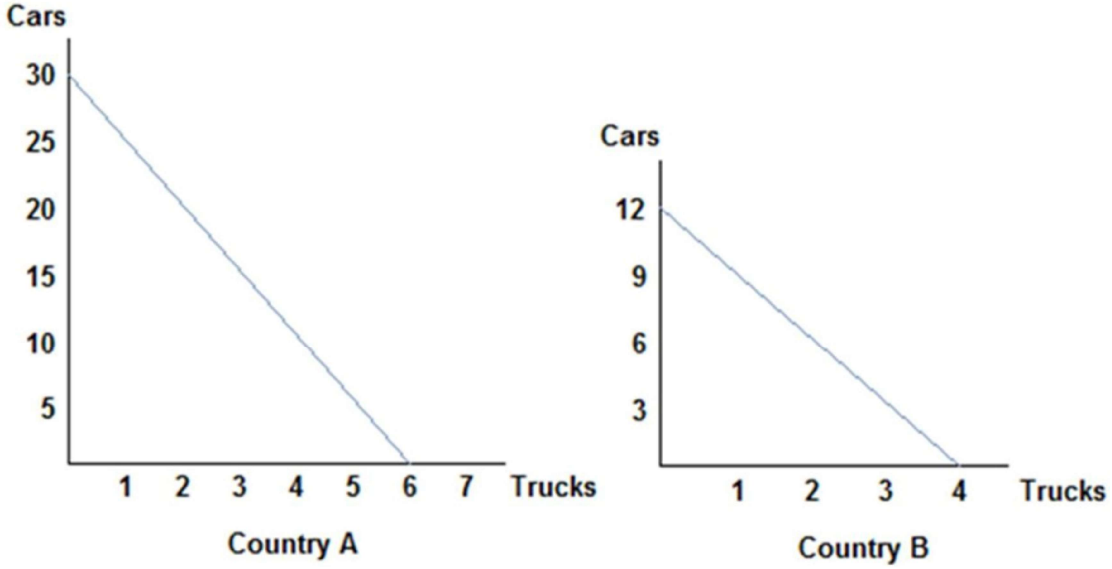
56) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and slope of Country A's production possibilities frontier:



A) is constant because the opportunity cost remains constant.
B) measures the opportunity cost of trucks in terms of cars.
C) measures the trade-off that workers in Country A face when deciding how to allocate resources.
D) All of these statements are true.

Answer: D

57) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and slope of Country A's production possibilities frontier is _____, and Country B's is _____.

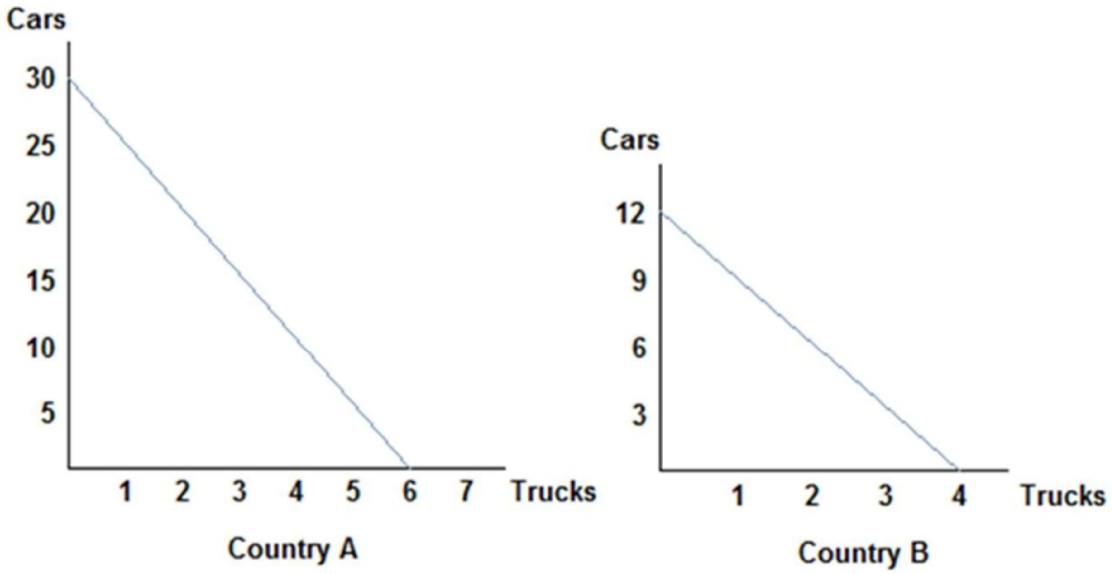


A) 1/5; 1/3 B) -1/5; -1/3 C) -5; -3 D) -30; -3

Answer: C

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58) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and the reasons why Country A and Country B are not realistic representations of actual countries is:



A) the production possibilities curves are straight lines; realistic ones would be concave.
B) they do not account for political pressures.
C) they only represent the production of two goods.
D) All of these statements are true.

Answer: D

59) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. At the end of the day, Tom could have:

A) either 12 traps and 3 bombs, or 8 traps and 3 bombs.
B) either 8 traps and 2 bombs, or 4 traps and 6 bombs.
C) either 8 traps and 2 bombs, or 4 traps and 3 bombs.
D) either 16 traps and 4 bombs, or 8 traps and 2 bombs.

Answer: C

60) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. At the end of the day, Jerry could have produced:

A) 6 traps and 4 bombs.
B) 12 traps and 6 bombs.
C) 10 traps and 5 bombs.
D) 14 traps and 7 bombs.

Answer: A

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61) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. At the end of the day, if Jerry was efficient with his resources, he could have produced:

A) 12 traps and 0 bombs.
B) 8 traps and 2 bombs.
C) 6 traps and 2 bombs.
D) 10 traps and 2 bombs.

Answer: D

62) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. For Tom, the opportunity cost of building a bomb is _____ traps set.

A) 12
B) 16
C) 8
D) 4

Answer: D

63) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. For Jerry, the opportunity cost of building a bomb is _____ traps set.

A) 7
B) 2
C) 4
D) 14

Answer: B

64) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. If Tom divides his time evenly between activities and acts efficiently, he will produce:

A) 4 traps and 3 bombs.
B) 8 traps and 2 bombs.
C) 16 traps and 4 bombs.
D) 12 traps and 3 bombs.

Answer: B

65) Suppose that, given the same number of workers, Canada can produce five times as many computers or 10 times as many airplanes as Mexico. Which of the following statements is true?

A) Canada has an absolute advantage in the production of computers, and Mexico has an absolute advantage in the production of airplanes.
B) Canada has an absolute advantage in the production of both airplanes and computers.
C) Mexico has an absolute advantage in the production of both airplanes and computers.
D) Canada has an absolute advantage in the production of airplanes, and Mexico has an absolute advantage in the production of computers.

Answer: B

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66) Suppose that, given the same number of workers, Canada can produce two times as many TVs or 20 times as many potatoes as Chile. Which of the following statements is true?
A) Canada can benefit from trading TVs but not potatoes with Chile.
B) Chile should trade with Canada for potatoes because Canada has an absolute advantage in the production of potatoes.
C) Chile should trade with Canada for TVs because Canada has an absolute advantage in the production of potatoes.
D) None of these statements is necessarily true.
Answer: D

67) If a country possesses the absolute advantage in the production of one good:
A) it can produce more of that good given the same resources.
B) then it must also possess the comparative advantage in the production of the other good.
C) then it must also possess the absolute advantage in the production of the other good.
D) then it must also possess the comparative advantage in the production of that good.
Answer: A

68) Suppose that only two goods are produced in an economy. If a country possesses the comparative advantage in the production of one good:
A) then it cannot also possess the absolute advantage in the production of that good.
B) then it must also possess the comparative advantage in the production of the other good.
C) then it must also possess the absolute advantage in the production of that good.
D) then it cannot also possess the comparative advantage in the production of the other good.
Answer: D

69) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?
A) Canada has the absolute advantage in the production of shoes and the U.S. has the absolute advantage in the production of apples.
B) The U.S. has the absolute advantage in the production of shoes and Canada has the absolute advantage in the production of apples.
C) Canada has the absolute advantage in the production of both shoes and apples.
D) The U.S. has the absolute advantage in the production of both shoes and apples.
Answer: C

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70) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?

A) Canada has an absolute advantage in the production of both goods and a comparative advantage in the production of both goods.
B) Canada has an absolute advantage and a comparative advantage in the production of apples.
C) Canada has an absolute advantage and a comparative advantage in the production of shoes.
D) Canada has an absolute advantage in the production of both goods and a comparative advantage in the production of neither good.

Answer: B

71) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?

A) Canada has a comparative advantage in the production of shoes.
B) Comparative advantage doesn't exist in this scenario.
C) Both countries have a comparative advantage in the production of shoes.
D) The U.S. has a comparative advantage in the production of shoes.

Answer: D

72) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Canada should:

A) produce only shoes, since they have a comparative advantage in the production of shoes, and not trade.
B) produce apples, since they have a comparative advantage in the production of apples, and not trade.
C) produce apples, since they have a comparative advantage in the production of apples, and trade for shoes.
D) produce both goods, since they have an absolute advantage in both goods, and not trade.

Answer: C

73) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of one pair of shoes for Canada is _____, while the opportunity cost of one pair of shoes for the U.S. is _____.

A) 1/5 apple; ½ apple
B) 100 apples; 20 apples
C) 2,000 apples; 200 apples
D) 5 apples; 2 apples

Answer: D

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74) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for Canada is:

A) 5 apples for each pair of shoes.
B) 5 pairs of shoes for each apple.
C) 1 pair of shoes for every 2 apples.
D) $1/5$ apple for each pair of shoes.

Answer: A

75) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for the U.S. is:

A) ½ pair of shoes for every 2 apples.
B) 2 apples for each pair of shoes.
C) 2 pairs of shoes for each apple.
D) ½ apple for each pair of shoes.

Answer: B

76) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of a pair of shoes is _____ for Canada than the U.S., so the U.S. has the _____ advantage in shoe production.

A) higher; comparative
B) lower; absolute
C) higher; absolute
D) lower; comparative

Answer: A

77) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The U.S. has the _____ opportunity cost of a pair of shoes than Canada, so: _____.

A) lower; the U.S. should specialize in shoe production
B) lower; the U.S. should specialize in apple production
C) higher; the U.S. should specialize in apple production
D) higher; the U.S. should specialize in shoe production

Answer: A

78) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. The opportunity cost of one pair of gloves is:

A) 60 radishes for Canada and 20 radishes for Bangladesh.
B) 6,000 radishes for Canada and 2,000 radishes for Bangladesh.
C) 1/6 radishes for Canada and ½ radishes for Bangladesh.
D) 6 radishes for Canada and 2 radishes for Bangladesh.

Answer: D

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79) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concept of absolute advantage, which of the following statements is true?
A) Canada does not have the absolute advantage in the production of either gloves or radishes.
B) Canada has the absolute advantage in the production of radishes, but not gloves.
C) Canada has the absolute advantage in the production of both gloves and radishes.
D) Canada has the absolute advantage in the production of gloves, but not radishes.
Answer: B

80) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of absolute and comparative advantage, we can say that:
A) Canada has the comparative advantage in the production of both gloves and radishes.
B) Canada has the comparative advantage in the production of gloves only.
C) Canada has the comparative advantage in neither the production of gloves nor radishes.
D) Canada has the comparative advantage in the production of radishes only.
Answer: D

81) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of advantage and trade, we can say that:
A) the opportunity cost of one pair of gloves is the same for both Canada and Bangladesh, therefore no comparative advantage exists.
B) the opportunity cost of one pair of gloves is lower for Canada than Bangladesh, therefore Canada has a comparative advantage in glove production.
C) the opportunity cost of one pair of gloves is higher for Canada than Bangladesh, therefore Canada has a comparative advantage in radish production.
D) the opportunity cost of one pair of gloves is the same for both Canada and Bangladesh, therefore they both have the comparative advantage in glove production.
Answer: C

82) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Which of the following statements is true?
A) Bangladesh should specialize in glove production since it possesses the comparative advantage in glove production.
B) Bangladesh should only produce radishes since it has the absolute advantage in radish production.
C) Bangladesh should only produce gloves since it has the absolute advantage in glove production.
D) Bangladesh should specialize in radish production since it possesses the comparative advantage in radish production.
Answer: A

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83) Suppose a Canadian worker can make 100 chairs or catch 1,000 fish per day. A Chilean worker, on the other hand, can produce 40 chairs or catch 400 fish per day. Which of the following statements is true?
A) Both Canada and Chile have a comparative advantage in chair production.
B) Chile has the comparative advantage in chair production.
C) Canada has the comparative advantage in chair production.
D) Neither Canada nor Chile has a comparative advantage in chair production.
Answer: D

84) Suppose a Canadian worker can make 100 chairs or catch 1000 fish per day. A Chilean worker, on the other hand, can produce 40 chairs or catch 400 fish per day. Canada possesses a(n) _____ advantage in chair production, but **not** a(n) _____ advantage in fish production.
A) absolute; comparative
B) absolute; absolute
C) comparative; absolute
D) comparative; comparative
Answer: A

85) Suppose a Canadian worker can make 100 chairs or catch 900 fish per day. A Chilean worker, on the other hand, can make 40 chairs or catch 400 fish per day. Canada has an absolute advantage in the production of both fish and chairs. This means that:
A) Canada should take advantage of Chile by trading with them.
B) Canada can produce more fish and chairs than Chile given the same amount of workers.
C) Canada should produce only fish and trade with Chile to get chairs.
D) Canada should produce both goods and not trade with Chile.
Answer: B

86) When a producer has the ability to produce a good or service at a lower opportunity cost than others, economists say the producer:
A) has no reason to trade with others.
B) has a comparative advantage at producing that good.
C) has an absolute advantage at producing that good.
D) is efficient.
Answer: B

87) When a producer has a comparative advantage in producing a good, it means the producer:
A) has no reason to trade with others.
B) has the ability to produce the good at a lower opportunity cost than others.
C) is efficient.
D) can produce more of that good than others with the same number of workers.
Answer: B

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88) When a producer has an absolute advantage at producing a good, it means the producer:
A) can produce more of that good than others with the same number of workers.
B) is less efficient than other producers.
C) has no reason to trade with others.
D) has the ability to produce a good or service at a lower opportunity cost than others.
Answer: A

89) Canada and the U.S. trade hockey skates and apple pie. If Canada has an absolute and a comparative advantage in the production of apple pie, then:
A) Canada must have the comparative advantage in the production of skates, too.
B) The U.S. must have the absolute advantage in the production of skates.
C) The U.S. must have the comparative advantage in the production of skates.
D) The U.S. must have the absolute and comparative advantage in the production of skates.
Answer: C

90) Which of the following statements about absolute and comparative advantage is true?
A) A country may have an absolute advantage but not a comparative advantage in the production of a good
B) A country may have the absolute advantage in the production of all goods.
C) A country may have a comparative advantage but not an absolute advantage in the production of a good.
D) All of these statements are true.
Answer: D

91) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the comparative advantage in the production of:
A) both iPods and tablets.
B) tablets only.
C) iPods only.
D) neither iPods or tablets.
Answer: B

92) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A has the absolute advantage in the production of:
A) neither iPods or tablets.
B) tablets only.
C) iPods only.
D) both iPods and tablets.
Answer: C

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93) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. We can say:
A) Country B now possesses the absolute advantage in tablets only.
B) Country B now possesses the absolute advantage in the production of both goods.
C) Country B now has the comparative advantage in iPod production.
D) Country B has no need to trade now.
Answer: B

94) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato in Country A is:
A) 20 bananas. B) 100 bananas. C) 5 bananas. D) 4 bananas.
Answer: C

95) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato in Country B is:
A) 6 bananas. B) 108 bananas. C) 18 bananas. D) 3 bananas.
Answer: D

96) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato is:
A) impossible to calculate without more information.
B) higher in Country A than Country B.
C) the same in both countries.
D) lower in Country A than Country B.
Answer: B

97) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Suppose that a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has:
A) an absolute advantage in the production of bananas, but not tomatoes.
B) an absolute advantage in neither good.
C) an absolute advantage in the production of both bananas and tomatoes.
D) an absolute advantage in the production of tomatoes, but not bananas.
Answer: D

98) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country B, the trade-off to making one tomato is:
A) 4 bananas. B) 5 bananas. C) 2 bananas. D) 3 bananas.
Answer: D

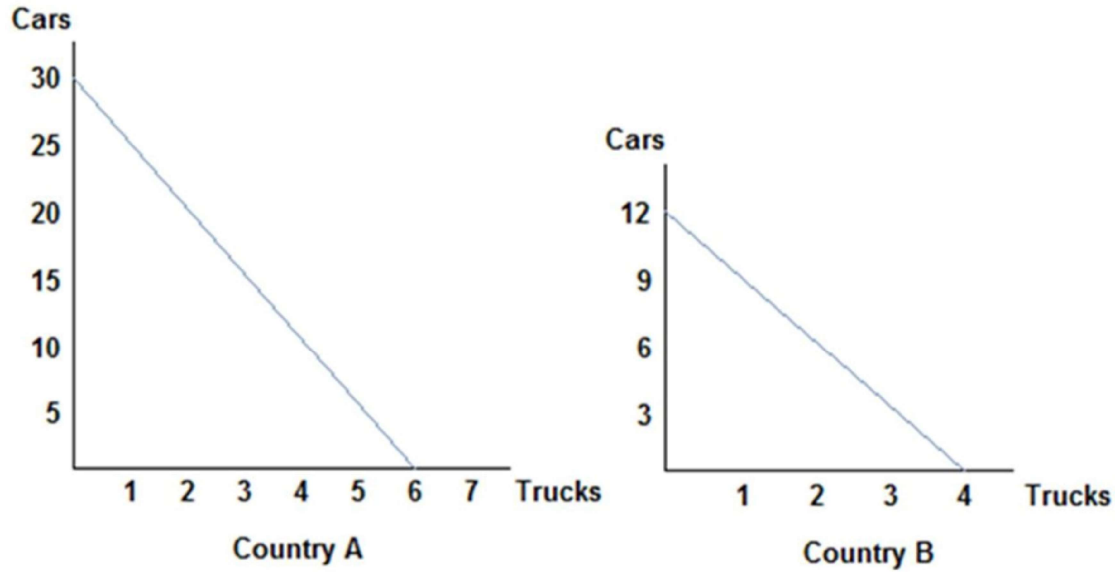
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99) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country A, the trade-off of making one tomato is:

A) 4 bananas. B) 2 bananas. C) 3 bananas. D) 5 bananas.

Answer: D

100) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and of the following statements can be said of Country A?



A) Country A does not possess the comparative advantage in either good.

B) Country A has the comparative advantage in car and truck production.

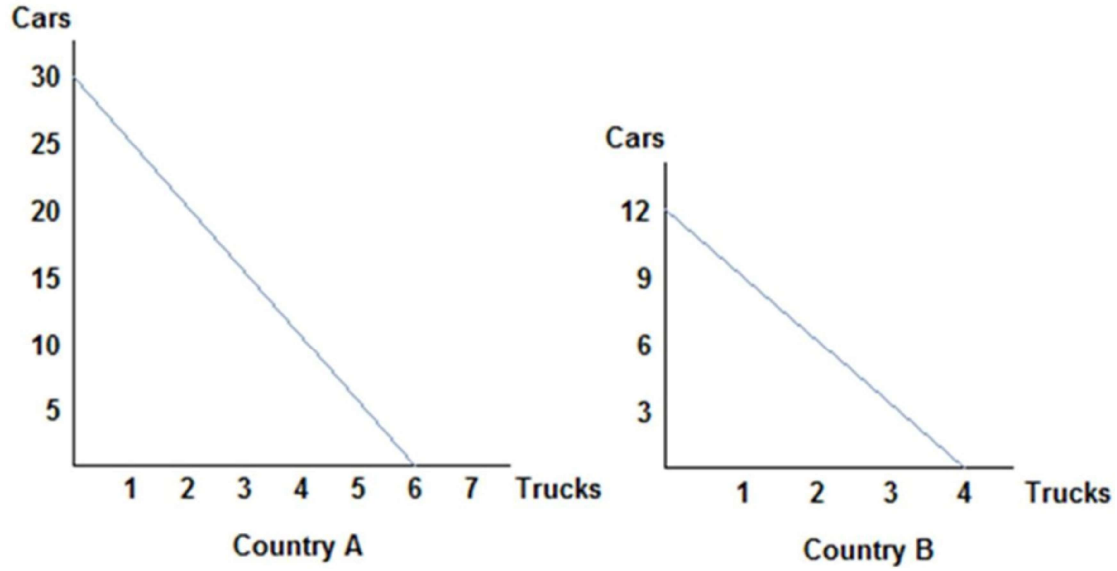
C) Country A has the comparative advantage in car production only.

D) Country A has the comparative advantage in truck production only.

Answer: C

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101) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and Assuming both countries have the same amount of resources available to them, which of the followin statements is true?

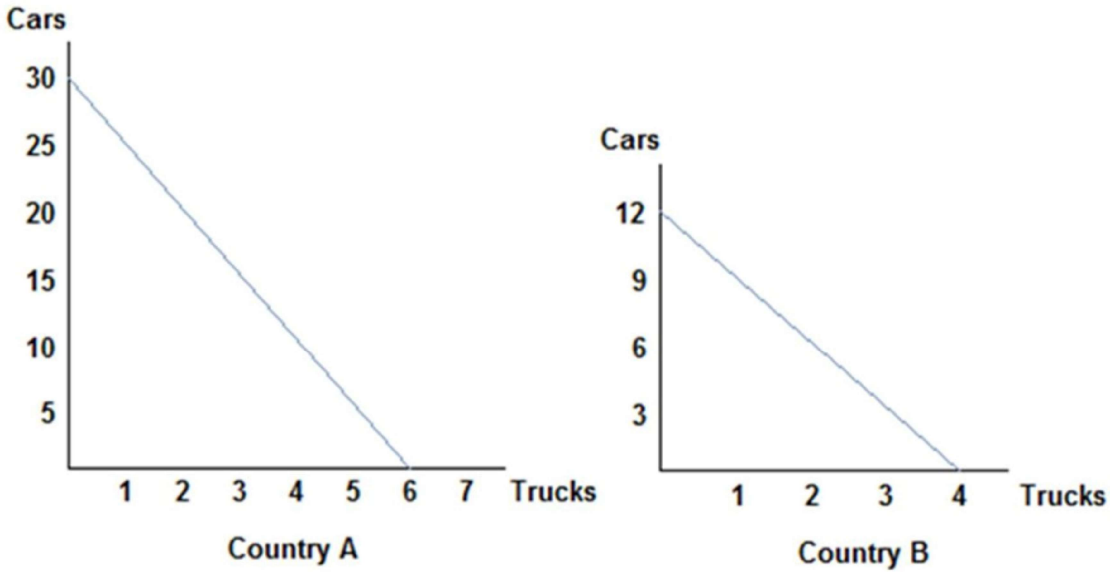


A) Country A has the absolute advantage in the production of both cars and trucks.
B) Country A has an absolute advantage in the production of cars, and Country B has the absolute advantage in the production of trucks.
C) Country A has an absolute advantage in the production of trucks, and Country B has the absolute advantage in the production of cars.
D) Country A has the absolute advantage in neither the production of cars nor trucks.

Answer: A

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102) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and Country A has the comparative advantage in:



A) cars and trucks.
B) cars and Country B has the comparative advantage in trucks.
C) trucks and Country B has the comparative advantage in cars.
D) neither cars nor trucks.

Answer: B

103) If the opportunity cost of producing corn is lower for Alberta than for Saskatchewan, then:
A) Saskatchewan has the comparative advantage in corn production.
B) Saskatchewan should export corn to Ohio.
C) Saskatchewan should specialize in corn production.
D) Alberta has the comparative advantage in corn production.

Answer: D

104) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. After looking at the production possibilities for both Tom and Jerry, we can surmise that:
A) Tom has the absolute advantage in the production of both traps and bombs.
B) Tom has the absolute advantage in the production of traps and Jerry has the absolute advantage in bomb production.
C) Tom has the absolute advantage in the production of bombs and Jerry has the absolute advantage in trap production.
D) Jerry has the absolute advantage in the production of both traps and bombs.

Answer: B

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105) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. After looking at the production possibilities for both Tom and Jerry, we can conclude that:
A) No comparative advantage exists.
B) Tom has the comparative advantage in trap production.
C) Jerry has the comparative advantage in trap production.
D) Tom has the comparative advantage in bomb production.
Answer: B

106) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Because Tom has a _____ opportunity cost for one bomb compared to Jerry, we know Tom has _____.
A) higher; the comparative advantage in trap production
B) higher; the comparative advantage in bomb production
C) lower; the comparative advantage in bomb production
D) similar; no advantage in production of either good
Answer: A

107) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Jerry has a comparative advantage in:
A) trap production because he has the higher opportunity cost of a trap.
B) bomb production because he has the lower opportunity cost of a bomb.
C) bomb production because he has the higher opportunity cost of a bomb.
D) trap production because he has the lower opportunity cost of a trap.
Answer: B

108) A country that specializes:
A) spends all of its resources producing those goods it has an absolute advantage in producing.
B) spends all of its resources producing what it can make more of than anyone else.
C) spends all of its resources producing only what other countries need.
D) spends all of its resources producing a particular good.
Answer: D

109) When two countries specialize and trade with one another:
A) total production increases, but only if comparative advantage exists.
B) total production may increase, depending on trade relations.
C) total production remains unchanged but consumption rises.
D) total production and consumption remain unchanged.
Answer: A

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110) People choose to specialize because:
A) it allows people to acquire goods at a lower opportunity cost.
B) it can lead to consumption beyond the production possibilities frontier.
C) it can lead to more consumption than being self-sufficient.
D) All of these statements are true.
Answer: D

111) The improvement in outcomes that occurs when specialized producers exchange goods and services is called:
A) absolute advantage.
B) comparative advantage.
C) the gains from trade.
D) specialization.
Answer: C

112) People will choose to specialize and trade if:
A) they can acquire the goods they want at a lower cost than it would cost them to make the goods themselves.
B) they can acquire the goods they want at a higher cost than it would cost them to make the goods themselves.
C) they can acquire the goods they want from a capitalistic system of exchange.
D) they can acquire the goods they want from someone who is willing to trade with them.
Answer: A

113) People often choose to specialize and trade because:
A) it allows them to get to a point beyond their own production possibilities frontier.
B) they can consume a bundle of goods beyond their own production possibilities.
C) it allows them to enjoy more goods than they can create on their own.
D) All of these statements are true.
Answer: D

114) Two countries will choose to specialize and trade only if:
A) the opportunity costs are the same for the two nations.
B) one country possesses the absolute advantage in both goods, but the comparative advantage in only one good.
C) the opportunity costs are astronomically high for producing the goods on their own.
D) the terms of trade fall between their opportunity costs for producing the goods on their own.
Answer: D

115) When a country loses its comparative advantage in the production of a good:
A) it will gain the comparative advantage in the production of another good.
B) it will become a loser in trade in the long run.
C) it will still have the absolute advantage in the production of the good.
D) it should stop trading and become self-sufficient.
Answer: A

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116) If France is capable of producing either cheese or wine or some combination of those two products, then:
A) France should remain self-sufficient if it has the absolute advantage in the production of both.
B) France should produce the one it is more efficient at producing.
C) France should produce the one for which it has a comparative advantage.
D) France should produce the one for which it has a higher opportunity cost.
Answer: C

117) If Spain is capable of producing either tapas or soccer balls or some combination of those two products, then:
A) Spain should remain self-sufficient if it can produce both efficiently.
B) Spain should produce the good it has a comparative advantage in producing.
C) Spain should produce the good it has an absolute advantage in producing.
D) Spain should trade only if it possesses the absolute advantage in the production of both goods.
Answer: B

118) Assume that the opportunity cost for Germany to produce a jet is 50 cars. Some possible combinations of output for Germany could be:
A) (2,500 jets, 2,000 cars) and (2,300 jets, 20,000 cars).
B) (1,000 jets, 5,000 cars) and (900 jets, 15,000 cars).
C) (1,000 jets, 5,000 cars) and (900 jets, 10,000 cars).
D) (2,500 jets, 2,000 cars) and (2,300 jets, 3,000 cars).
Answer: C

119) Suppose England has a comparative advantage over Canada in producing tea. If this is true, then:
A) England should produce more tea than it wants and sell the rest to Canada.
B) Canada has nothing to gain from buying tea from England.
C) England should not produce tea, and should instead buy it all from Canada.
D) England should produce a small amount of tea and buy the rest of the tea it wants from Canada.
Answer: A

120) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the _____ advantage in the production of tablets, which means they should specialize in _____.
A) absolute; iPods
B) comparative; iPods
C) absolute; tablets
D) comparative; tablets
Answer: D

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121) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true?

A) The opportunity cost of 1 tablet in Country A is 2 iPods.
B) The opportunity cost of 1 iPod in Country B is 2 tablets.
C) The opportunity cost of tablets is lower in Country A than Country B.
D) The opportunity cost of 1 iPod in Country A is 2 tablets.

Answer: A

122) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country A should specialize in _____ because they possess the _____ in the production of that good.

A) bananas; absolute advantage
B) tomatoes; absolute advantage
C) bananas; comparative advantage
D) tomatoes; comparative advantage

Answer: C

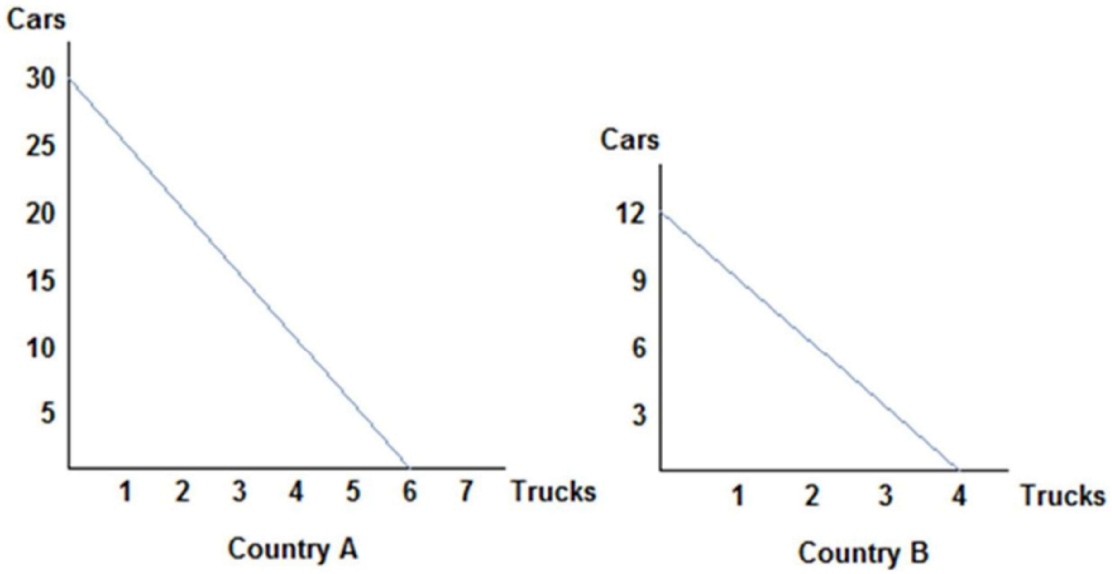
123) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country B will benefit from trade if they:

A) specialize in bananas because they have an absolute advantage in banana production.
B) specialize in tomatoes because their opportunity cost of tomatoes is lower than Country A's.
C) specialize in tomatoes because their opportunity cost of tomatoes is higher than Country A's.
D) specialize in bananas because they have a comparative advantage in banana production.

Answer: B

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124) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and comparing each country's production possibilities curve, it is clear that:



A) Country A should specialize in trucks and Country B should specialize in cars, and both will benefit from trade.
B) Country A will not benefit from trade.
C) Country B will lose by trading with Country A.
D) Country A should specialize in cars and Country B should specialize in trucks, and both will benefit from trade.

Answer: D

125) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. The opportunity cost of one bomb is _____ for Tom and _____ for Jerry. Therefore Tom should specialize in _____.

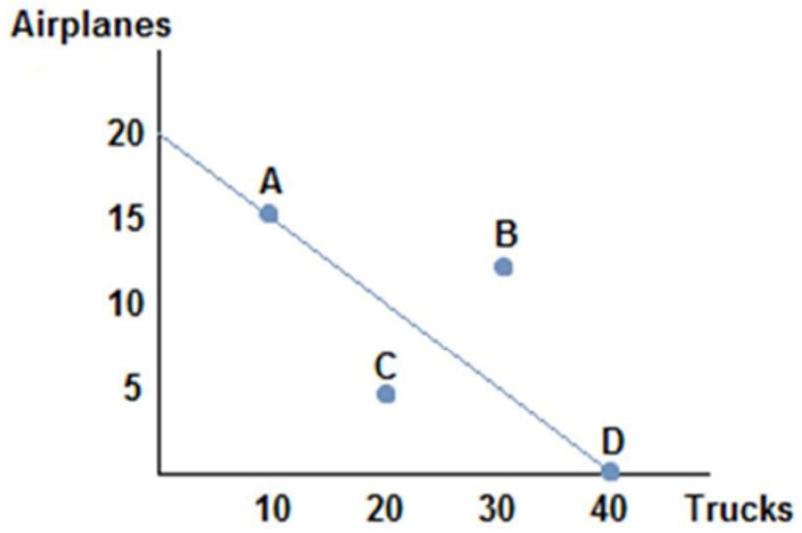
A) 4 traps; 2 traps; bombs
B) 4 traps; 2 traps; traps
C) 16 traps; 14 traps; traps
D) 16 traps; 14 traps; bombs

Answer: B

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126) Barbie and Ken are married. Barbie stays home and cares for the children, while Ken spends his day at work earning money to support the household. Economists would likely conclude:
A) Barbie has the comparative advantage in caring for the children, and so the family benefits by Barbie staying home and Ken earning money at work.
B) Ken has the comparative advantage in caring for the children, while Barbie has it in earning money.
C) Ken has a lower opportunity cost of caring for the children compared to Barbie, and therefore chooses to let Barbie specialize in childcare while he works.
D) Barbie has a higher opportunity cost of caring for the children compared to Ken, and therefore chooses to specialize in childcare.
Answer: A

127) Suppose the figure shown represents the production possibilities frontier for Country A. Country B o trade four trucks for every airplane. Assuming Country A specializes in airplane production, which o following combinations of goods could Country A consume?



A) (5 airplanes, 20 trucks)
B) (10 airplanes, 20 trucks)
C) (15 airplanes, 20 trucks)
D) (10 airplanes, 30 trucks)
Answer: C

128) A country's newest ruler has decided the country will become self-sufficient and ceases trade with the rest of the world. The likely outcome of this action will be that the country's citizens will be:
A) better off than before only if they have the comparative advantage in the goods they consume.
B) better off than before only if they have the absolute advantage in the production of most goods they consume.
C) forced to consume less than before if they possessed a comparative advantage in the production of a good.
D) better off than before if they possess an absolute advantage in the production of a good.
Answer: C

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129) Economic theory states that losing comparative advantage in one good means creating a comparative advantage in another. This suggests that:
A) outsourcing can be good overall for a society.
B) those who experience the transition may find it difficult in the short run.
C) it can be seen as a success in the long run.
D) All of these statements are true.
Answer: D

130) Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true?
A) Country B should produce tablets and Country A should produce iPods, and they could benefit from trade.
B) Because Country B has the absolute advantage in producing tablets, they should specialize in the production of tablets.
C) Country B should produce iPods and Country A should produce tablets, and they could benefit from trade.
D) Neither country can benefit from trade since no comparative advantage exists.
Answer: A

131) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country B decides to specialize in tomatoes, and Country A specializes in bananas. What terms of trade would both countries agree to?
A) One tomato for four bananas
B) One tomato for six bananas
C) One tomato for one banana
D) One tomato for two bananas
Answer: A

132) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country A would find acceptable are:
A) Country A will give no more than 1 tomato for every 5 bananas.
B) Country A will give no less than 5 bananas for each tomato.
C) Country A will give no more than 5 bananas for each tomato.
D) Country A will give no less than 1 tomato for every 5 bananas.
Answer: C

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133) Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country B would find acceptable are:

A) Country B will accept no more than 1 tomato for every 3 bananas.
B) Country B will accept no less than 1 tomato for every 3 bananas.
C) Country B will accept no less than 3 bananas for each tomato.
D) Country B will accept no more than 3 bananas for each tomato.

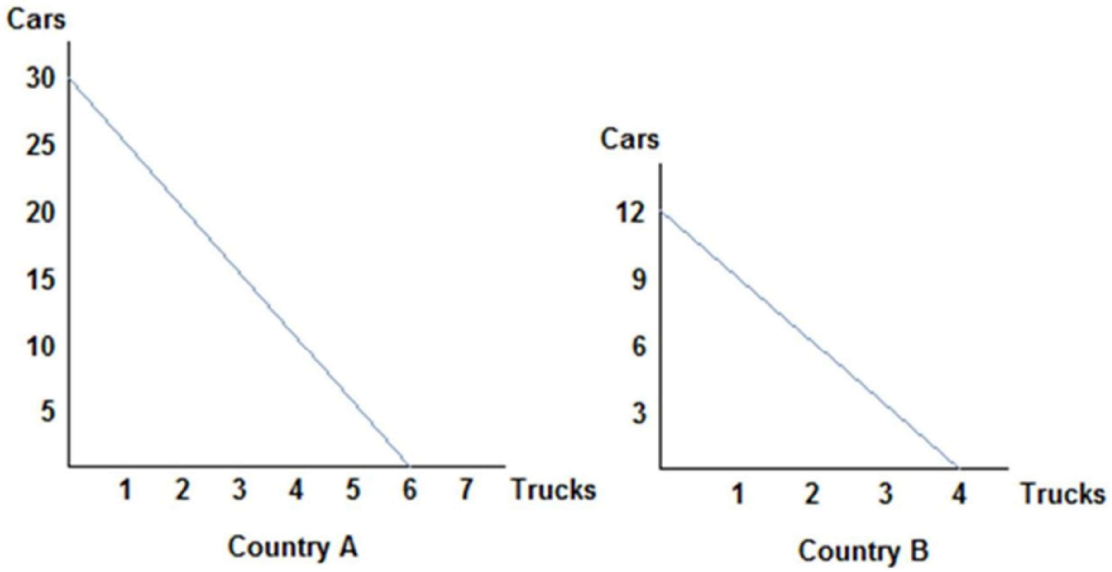
Answer: C

134) What determines a country's limits to acceptable terms of trade?

A) Their opportunity costs
B) Whether they possess the absolute advantage in the production of a good
C) Both of these statements are true.
D) Neither of these statements is true.

Answer: A

135) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and examining each country's production possibilities curve, it is clear that:

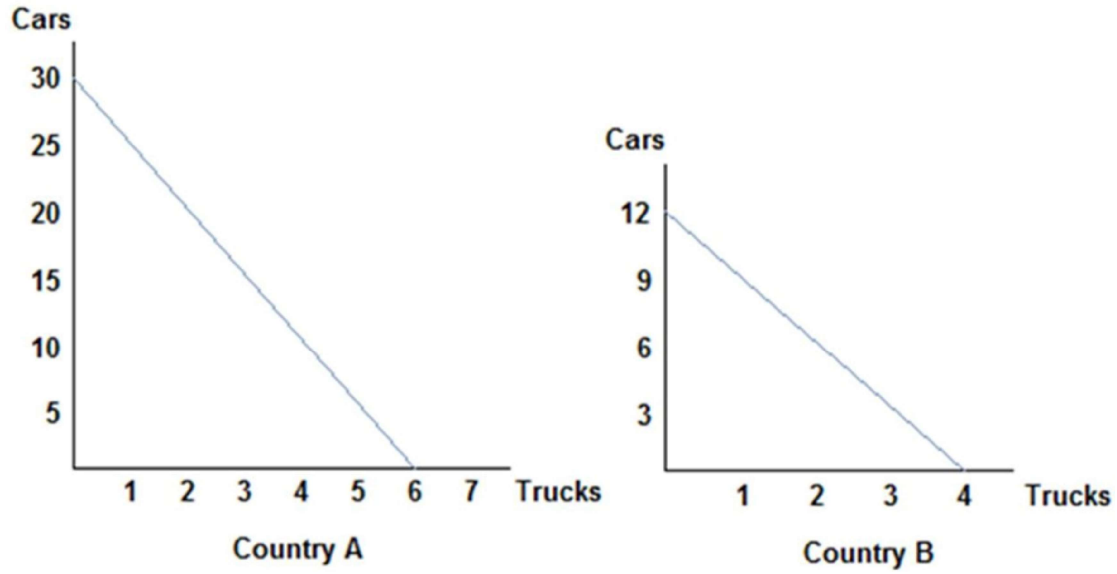


A) only Country A will benefit from trade.
B) both countries can benefit from trade because absolute advantage exists.
C) both countries can benefit from trade because comparative advantage exists.
D) neither country will benefit from trade.

Answer: C

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136) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and examining the production possibilities of each country, we can surmise that:

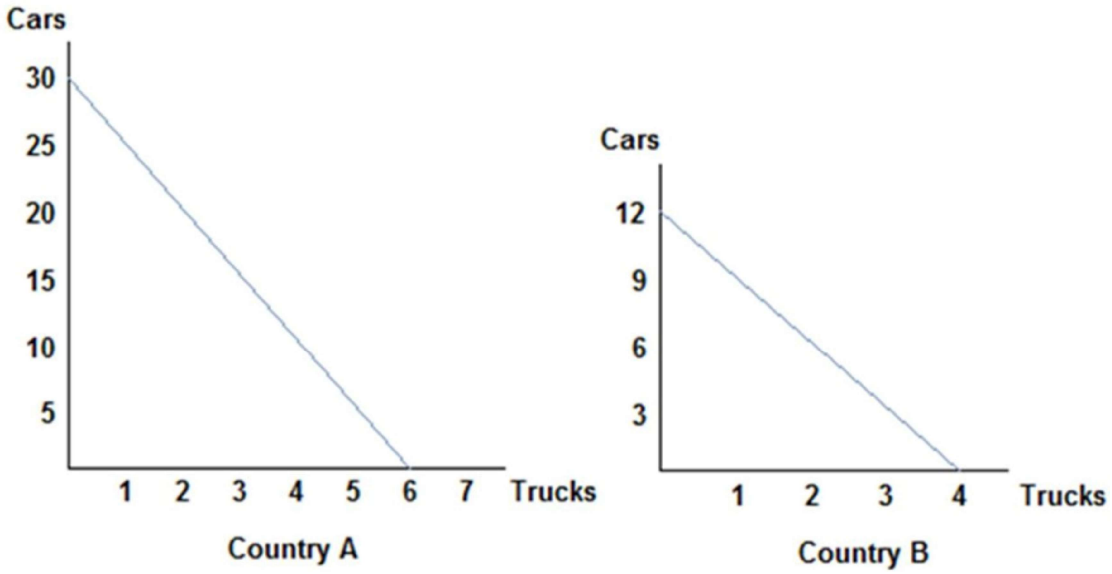


A) Country A's opportunity cost of a car is the same as that of Country B, and so they will not benefit from trade.
B) Country A's opportunity cost of a car is lower than that of Country B, and so they should specialize in cars and trade.
C) Country A's opportunity cost of a car does not determine a country's decision to trade; it is absolute advantage that drives that decision.
D) Country A's opportunity cost of a car is higher than that of Country B, and so they should specialize in cars and trade.

Answer: B

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137) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and Considering both country's production possibilities frontiers, we know that:

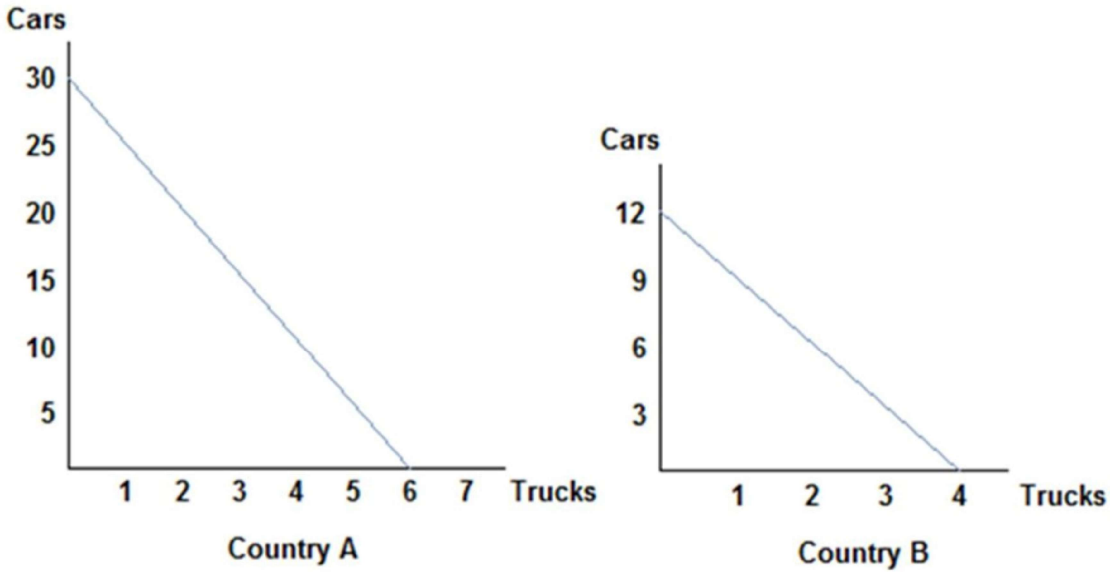


A) they would both agree to terms of trade of one truck to eight cars.
B) they would both agree to terms of trade of one truck to four cars.
C) they would both agree to terms of trade of one truck to two cars.
D) they would both agree to terms of trade of one truck to six cars.

Answer: B

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138) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and Considering both country's production possibilities frontiers, we can infer that:

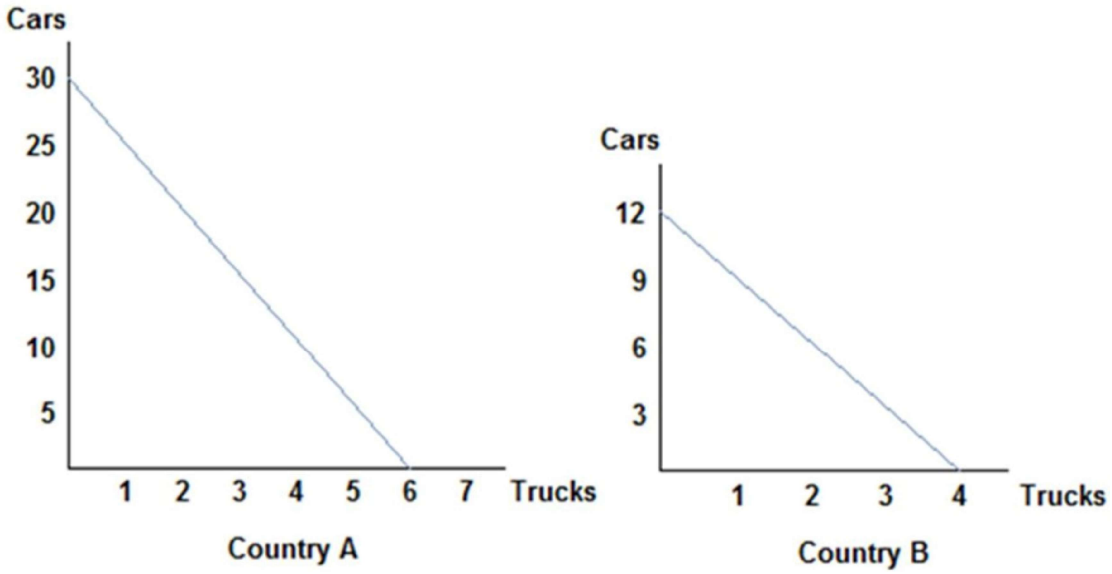


A) Country A will specialize in trucks, and be willing to accept no more than 5 cars for each truck.
B) Country A will specialize in cars, and be willing to give no less than 5 cars for each truck.
C) Country A will specialize in trucks, and be willing to accept no less than 5 cars for each truck.
D) Country A will specialize in cars, and be willing to give no more than 5 cars for each truck.

Answer: D

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139) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and Considering both country's production possibilities frontiers, we can conclude that:



A) Country B will specialize in cars, and be willing to give no fewer than 3 cars for each truck.
B) Country B will specialize in cars, and be willing to give no more than 3 cars for each truck.
C) Country B will specialize in trucks, and be willing to accept no more than 3 cars for each truck.
D) Country B will specialize in trucks, and be willing to accept no fewer than 3 cars for each truck.

Answer: D

140) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Based on their production possibilities frontiers, Tom and Jerry:
A) will not decide to trade because no comparative advantage exists.
B) can both benefit from trade because absolute advantage exists.
C) can both benefit from trade because comparative advantage exists.
D) cannot benefit from trade because Tom has the absolute advantage in both goods.

Answer: C

141) Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. If Jerry decides to specialize in building bombs, what are the limits to his terms of trade?
A) Jerry will accept no less than 2 traps for each bomb.
B) Jerry will accept no less than 7 traps for each bomb.
C) Jerry will accept no less than 2 bombs for each trap.
D) Jerry will accept no less than 7 bombs for each trap.

Answer: A

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142) The concepts of comparative advantage, specialization, and trade form a compelling argument in favor of:

A) protectionism.
B) self-sufficiency.
C) free trade.
D) only exporting, never importing goods.

Answer: C

143) The concepts of comparative advantage, specialization, and trade:

A) can be useful in explaining why countries import and export certain goods.
B) can be useful in explaining why we allow ourselves to be interdependent on others.
C) can be useful in explaining why individuals typically work at one job, and buy the other goods and services they need.
D) All of the statements are true.

Answer: D

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

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

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101) A
102) B
103) D
104) B
105) B
106) A
107) B
108) D
109) A
110) D
111) C
112) A
113) D
114) D
115) A
116) C
117) B
118) C
119) A
120) D
121) A
122) C
123) B
124) D
125) B
126) A
127) C
128) C
129) D
130) A
131) A
132) C
133) C
134) A
135) C
136) B
137) B
138) D
139) D
140) C
141) A
142) C
143) D

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