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Chapter 2 The Economic Problem

2.1 Production Possibilities and Opportunity Cost

1) The production possibilities frontier
A) is the boundary between attainable and unattainable levels of production.
B) is the boundary between what we want to consume and what we want to produce.
C) shows how production increases as prices rise.
D) shows prices at which production is possible and impossible.
E) illustrates why there need not be any scarcity in the world.
Answer: A
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

2) Which one of the following concepts is *not* illustrated by a production possibilities frontier?
A) scarcity
B) monetary exchange
C) opportunity cost
D) attainable and unattainable points
E) the tradeoff between producing one good versus another
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

3) A point inside a production possibilities frontier
A) indicates some unused or misallocated resources.
B) is unattainable.
C) is preferred to a point on the production possibilities frontier.
D) indicates a point of production efficiency.
E) illustrates the idea of opportunity cost.
Answer: A
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

4) Which one of the following concepts is illustrated by a production possibilities frontier?
A) profit
B) consumption
C) investment
D) monetary exchange
E) the tradeoff between producing one good versus another
Answer: E
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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5) If Sam is producing at a point inside his production possibilities frontier, then he
A) can increase production of both goods with zero opportunity cost.
B) is fully using all his resources and allocating his resources to their best use.
C) must be doing the best he can with limited resources.
D) is unaffected by costs and technology.
E) has a high opportunity cost of moving from this point.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

6) If Sam is producing at a point on his production possibilities frontier, then he
A) cannot produce any more of either good.
B) is unaffected by costs and technology.
C) can produce more of both goods.
D) is not subject to scarcity.
E) can increase the production of one good only by decreasing the production of the other.
Answer: E
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

Use the figure below to answer the following questions.

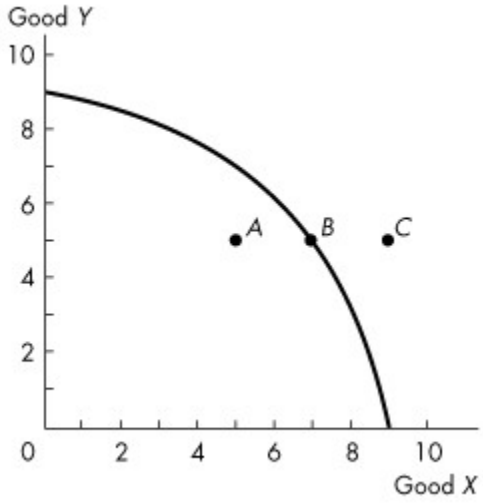


Figure 2.1.1

7) Refer to the production possibilities frontier in Figure 2.1.1. Which one of the following is true about point *A*?
A) It is unattainable.
B) While no more of good *Y* can be produced, more of good *X* can be produced.
C) It is preferred to point *B*.
D) Resources are either unused or misallocated or both.
E) It is attainable only if the amount of capital goods is increased.
Answer: D
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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8) Complete the following sentence. In Figure 2.1.1,
A) movement from *A* to *B* would require a technological advance.
B) point *B* is a point of production efficiency.
C) some resources must be unused at point *C*.
D) the concept of decreasing opportunity cost is illustrated.
E) movement from C to B would require a technological improvement.
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

9) Refer to the production possibilities frontier in Figure 2.1.1. Which one of the following is true about point *C*?
A) It is attainable only if we consume more of good *X*.
B) It is unattainable.
C) It is attainable only if we consume less of good *Y*.
D) It is attainable only if we consume less of good *X*.
E) It is attainable only if we consume more of good *Y*.
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

10) If Harold can increase production of good *X* without decreasing production of any other good, then Harold
A) is producing on his production possibilities frontier.
B) is producing outside his production possibilities frontier.
C) is producing inside his production possibilities frontier.
D) must have a linear production possibilities frontier.
E) must prefer good *X* to any other good.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

11) If Harold must decrease production of some other good to increase production of good *X*, then Harold
A) is producing on his production possibilities frontier.
B) is producing outside his production possibilities frontier.
C) is producing inside his production possibilities frontier.
D) must prefer good X to any other good.
E) has too few capital goods.
Answer: A
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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12) A situation in which resources are either unused or misallocated or both is represented in a production possibilities frontier diagram by
A) any point on either the horizontal or the vertical axis.
B) a point above or to the right of the production possibilities frontier.
C) a point outside the production possibilities frontier.
D) a point inside the production possibilities frontier.
E) a point on or inside the production possibilities frontier.
Answer: D
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

13) A production possibilities frontier is negatively sloped because
A) more goods are purchased as price falls.
B) of opportunity cost.
C) some resources are unused.
D) there is not enough capital in the economy.
E) of increasing consumption.
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

14) Ted chooses to study for his economics exam instead of going to the concert. The concert he will miss is Ted's _____ of studying for the exam.
A) monetary cost
B) absolute cost
C) opportunity cost
D) discretionary cost
E) comparative cost
Answer: C
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

15) Opportunity cost of an action is
A) the best choice that can be made.
B) the highest-valued alternative forgone.
C) the money cost.
D) the comparative cost.
E) the absolute cost.
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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16) The concept of opportunity cost
A) cannot be explained by using a production possibilities frontier.
B) explains that goods are swapped for other goods.
C) implies that when a person is more efficient in the production of one good, he should produce that good and exchange it for some good that he is relatively less efficient at producing.
D) implies that a double coincidence of wants must be present for exchange to take place.
E) implies that because productive resources are scarce, we must give up some of one good to acquire more of another.
Answer: E
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

17) On a graph of a production possibilities frontier, opportunity cost is represented by
A) a point on the horizontal axis.
B) a point on the vertical axis.
C) a ray through the origin.
D) the slope of the production possibilities frontier.
E) the *x*-axis intercept.
Answer: D
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

18) Production efficiency is achieved when
A) the production possibilities frontier shifts outward at an even pace.
B) there are no more tradeoffs.
C) all resources are equally productive in all activities.
D) resources are not equally productive in all activities.
E) we produce goods and services at the lowest possible cost.
Answer: E
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

19) A tradeoff exists when
A) we move from a point within the production possibilities frontier (*PPF*) to a point on the *PPF*.
B) we move from a point on the *PPF* to a point within the *PPF*.
C) the *PPF* shifts outward.
D) we move along the *PPF*.
E) the *PPF* shifts towards the origin.
Answer: D
Diff: 2 Type: MC
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20) Which of the following quotations best illustrates a tradeoff?
A) "If the firm reorganized its production process, it could produce more widgets *and* more gadgets."
B) "The firm should sell more gadgets, even if it means less widget sales."
C) "The more and more gadgets the firm produces, the bigger the fall in widget production."
D) "If the firm invests more in capital equipment, it can expand sales next year."
E) "The firm has been able to lower costs due to its extensive experience in building widgets."
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

21) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The production possibilities frontier of this firm would show
A) increasing opportunity cost.
B) decreasing opportunity cost.
C) constant opportunity cost.
D) zero opportunity cost.
E) infinite opportunity cost.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

22) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. The opportunity cost of one more unit of medical services is
A) 2 units of secretarial services.
B) 5 units of secretarial services.
C) 0.4 units of secretarial services.
D) 2.5 units of secretarial services.
E) dependent on the level of services.
Answer: D
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

23) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 10 units of medical services and 30 units of secretarial services. This output level is
A) efficient.
B) unattainable.
C) inefficient.
D) costless.
E) attainable if the firm reduces the number of its workers.
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

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24) A medical clinic has 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of secretarial services a day. One day, the firm decides it would like to produce 16 units of medical services and 5 units of secretarial services. This output level is
A) efficient.
B) unattainable.
C) inefficient.
D) costless.
E) attainable and efficient.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

25) The bowed-out (concave) shape of a production possibilities frontier
A) is due to the equal usefulness of resources in all activities.
B) is due to capital accumulation.
C) is due to technological change.
D) reflects the existence of increasing opportunity cost.
E) reflects the existence of decreasing opportunity cost.
Answer: D
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

26) If opportunity costs are increasing, then the production possibilities frontier
A) will be bowed out and have a positive slope.
B) will be positively sloped.
C) will be linear and have a negative slope.
D) will be bowed out and have a negative slope.
E) reflects the fact that available resources are equally useful in all production activities.
Answer: D
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

27) The fact that resources are *not* equally productive in all activities
A) implies that a production possibilities frontier will be bowed outward.
B) implies that gains from specialization and trade are unlikely.
C) follows from the law of demand.
D) implies a linear production possibilities frontier.
E) implies that an economy should not produce certain goods.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

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28) If additional units of any good could be produced at a *constant* opportunity cost, the production possibilities frontier would be
A) bowed inward.
B) bowed outward.
C) positively sloped.
D) horizontal.
E) linear and negatively sloped.
Answer: E
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

29) The existence of *increasing* opportunity cost
A) explains why specialization is frequently useful.
B) explains why resources are scarce.
C) explains the bowed-out shape of the production possibilities frontier.
D) follows from the existence of property rights.
E) explains why some societies produce inside their production possibilities frontier.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

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Use the figure below to answer the following questions.

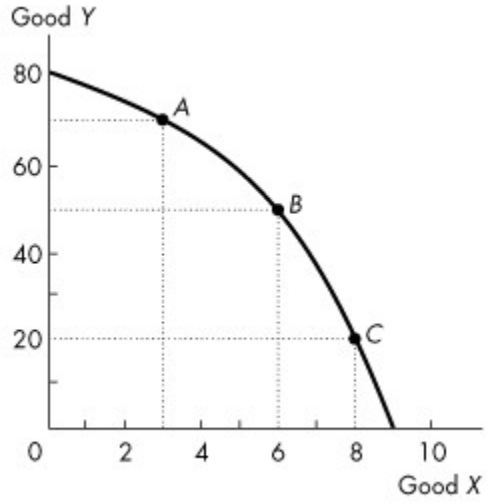


Figure 2.1.2

30) Refer to the production possibilities frontier in Figure 2.1.2. If 6 units of *X* are currently being produced, then
A) 40 units of *Y* cannot be produced unless production of *X* is decreased.
B) 40 units of *Y* cannot be produced unless production of *X* is increased.
C) 60 units of *Y* can be produced with some resources *not* fully used.
D) 50 units of *Y* must be produced, regardless of resource utilization.
E) 50 units of *Y* can be produced if all resources are used and assigned to the task for which they are the best match.
Answer: E
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

31) Refer to the production possibilities frontier in Figure 2.1.2. Suppose that 50 units of *Y* are currently being produced. Then
A) 7 units of *X* are being produced.
B) 6 units of *X* can be produced if all resources are used and assigned to the task for which they are the best match.
C) 9 units of *X* can be produced if all resources are used and assigned to the task for which they are the best match.
D) resources are not being fully utilized.
E) 6 units of *X* are being produced.
Answer: B
Diff: 1 Type: MC
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32) Refer to the production possibilities frontier in Figure 2.1.2. At point *A*, the opportunity cost of producing 3 more units of *X*
A) is 30 units of *Y*.
B) is 3 units of *X*.
C) is 20 units of *Y*.
D) is 10 units of *Y*.
E) cannot be determined from the diagram.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

33) Refer to the production possibilities frontier in Figure 2.1.2. At point *A*, the opportunity cost of increasing production of *Y* to 80 units is
A) 10 units of *Y*.
B) 80 units of *Y*.
C) 2 units of *X*.
D) 3 units of *X*.
E) 1 unit of *X*.
Answer: D
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

34) Refer to the production possibilities frontier in Figure 2.1.2. At point *C*, the opportunity cost of producing one more unit of *X* is
A) 1 unit of *Y*.
B) 1 unit of *X*.
C) 8 units of *X*.
D) 20 units of *X*.
E) 20 units of *Y*.
Answer: E
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

35) Refer to the production possibilities frontier in Figure 2.1.2. At point *C*, what is the opportunity cost of increasing the production of *Y* from 20 to 50 units?
A) 6 units of *X*
B) 2 units of *X*
C) 8 units of *X*
D) 20 units of *Y*
E) 30 units of *Y*
Answer: B
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36) Consider the production possibilities frontier in Figure 2.1.2. Which of the following statements is *false*?
A) Resources are not equally useful in all activities.
B) Points inside the production possibilities frontier indicate unused or misallocated resources.
C) Starting at point *A*, an increase in the production of *Y* will shift the production possibilities frontier outward.
D) The opportunity cost of producing *Y* increases as production of *Y* increases.
E) The opportunity cost of producing *X* increases as production of *X* increases.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

37) As we increase the production of *X*, we find we must give up larger and larger amounts of *Y* per unit of *X*. Select the best statement.
A) This illustrates increasing opportunity cost.
B) As a result, we should not specialize in the production of *X*.
C) The production possibilities frontier for *X* and *Y* is a straight line.
D) Good *Y* will be more highly regarded by consumers than good *X*.
E) We must be producing inside the production possibilities frontier.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

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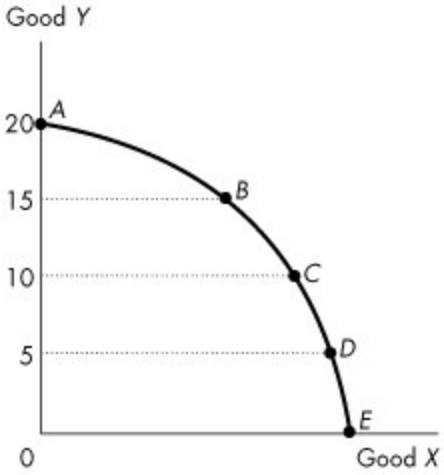


Figure 2.1.3

38) Figure 2.1.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *B* to point *C*,
A) it will be necessary to improve technology.
B) it will be necessary to increase the accumulation of capital.
C) it will be necessary to give up some of good *X* to obtain more of good *Y*.
D) it will be necessary to give up some of good *Y* to obtain more of good *X*.
E) she can accomplish this without any opportunity cost.
Answer: D
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

39) Figure 2.1.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *D* to point *C*,
A) it will be necessary to improve technology.
B) it will be necessary to increase the accumulation of capital.
C) it will be necessary to give up some of good *X* to obtain more of good *Y*.
D) it will be necessary to give up some of good *Y* to obtain more of good *X*.
E) she can accomplish this without any opportunity cost.
Answer: C
Diff: 1 Type: MC
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40) Refer to the production possibilities frontier in Figure 2.1.3. The opportunity cost of moving from *C* to *B* will be
A) greater than moving from *D* to *C* but less than moving from *B* to *A*.
B) less than moving from *D* to *C* but greater than moving from *B* to *A*.
C) the same as moving from *D* to *C* or moving from *B* to *A*.
D) greater than moving either from *D* to *C* or from *B* to *A*.
E) less than moving from E to D.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

41) Refer to the production possibilities frontier in Figure 2.1.3. The fact that less of *X* must be given up when moving from *D* to *C* than when moving from *B* to *A* indicates
A) decreasing opportunity cost.
B) increasing opportunity cost.
C) comparative advantage in the production of *X*.
D) the consequences of technological improvement.
E) unemployed resources at *D*.
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

Use the table below to answer the following questions.

Table 2.1.1
The following table gives points on the production possibilities frontier for goods *X* and *Y*.

Point	Production of *X*	Production of *Y*
A	0	40
B	4	36
C	8	28
D	12	16
E	16	0

42) Refer to Table 2.1.1. What does point *C* mean?
A) If 8 units of *X* are produced, then at least 28 units of *Y* can be produced.
B) If 8 units of *X* are produced, then at most 28 units of *Y* can be produced.
C) If 28 units of *Y* are produced, then more than 8 units of *X* can be produced.
D) If 8 units of *X* are produced, then only 36 units of *Y* can be produced.
E) There is unemployment at this point.
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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43) Refer to Table 2.1.1. The opportunity cost of increasing the production of *X* from 8 to 12 units is
A) 4 units of *X*.
B) 4 units of *Y*.
C) 8 units of *Y*.
D) 12 units of *Y*.
E) 16 units of *Y*.
Answer: D
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

44) Refer to Table 2.1.1. The opportunity cost of increasing the production of *Y* from 16 to 36 units is
A) 4 units of *X*.
B) 8 units of *X*.
C) 12 units of *X*.
D) 16 units of *X*.
E) 20 units of *Y*.
Answer: B
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

45) The economy illustrated by the data in Table 2.1.1 exhibits
A) decreasing opportunity cost.
B) constant opportunity cost in the production of *X*.
C) constant opportunity cost in the production of *Y*.
D) increasing opportunity cost.
E) initially increasing, then decreasing opportunity cost.
Answer: D
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

46) From the data in Table 2.1.1, the production of 7 units of *X* and 28 units of *Y* is
A) unattainable.
B) attainable but leaves some resources unused or misallocated or both.
C) on the *PPF* between points *C* and *D*.
D) on the *PPF* between points *B* and *C*.
E) outside the PPF.
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

47) Refer to Table 2.1.1. As we increase the production of *X*,
A) the amount of *Y* that is given up for each additional unit of *X* decreases.
B) the output of *Y* increases.
C) the opportunity cost of each additional unit of *X* increases.
D) unemployment increases.
E) the amount of *X* increases at an increasing rate.
Answer: C
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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48) From the data in Table 2.1.1 we can infer that
A) the economy illustrated has a comparative advantage in the production of *Y*.
B) the economy illustrated has a comparative advantage in the production of *X*.
C) the opportunity cost of producing an additional unit of *Y* increases as the production of *Y* increases.
D) the opportunity cost of producing an additional unit of *Y* decreases as the production of *Y* increases.
E) none of the above.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

49) The diagram of the production possibilities frontier corresponding to the data in Table 2.1.1 would be
A) negatively sloped and linear.
B) negatively sloped and bowed inward.
C) negatively sloped and bowed outward.
D) positively sloped for *X* and negatively sloped for *Y*.
E) a horizontal line.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

50) From the data in Table 2.1.1, the production of 10 units of *X* and 28 units of *Y* is
A) unattainable.
B) attainable but leaves some resources misallocated.
C) on the production possibilities frontier between points *C* and *D*.
D) inside the *PPF*.
E) possible if we reduce the amount of capital goods.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

Use the table below to answer the following questions.

Table 2.1.2
Production Possibilities

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

51) Refer to Table 2.1.2. In moving from combination *B* to combination *C*, the opportunity cost of producing *one* additional unit of guns is
A) 2 kilograms of butter.
B) 1/2 kilogram of butter.
C) 6 kilograms of butter.
D) 1/6 kilogram of butter.
E) 3 kilograms of butter.
Answer: E
Diff: 3 Type: MC
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52) Refer to Table 2.1.2. According to this production possibilities frontier,
A) a combination of 6 kilograms of butter and 1 gun leaves some resources unused.
B) a combination of 0 butter and 4 guns is attainable.
C) resources are equally useful in all activities.
D) the opportunity cost of producing guns increases as more guns are produced.
E) the opportunity cost of producing guns decreases as more guns are produced.
Answer: D
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

Use the table below to answer the following question.

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

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

53) Refer to Table 2.1.3. In moving from combination *C* to combination *B*, the opportunity cost of producing *one* additional hockey stick is
A) 2 maple leaves.
B) 1/2 maple leaves.
C) 6 maple leaves.
D) 1/6 maple leaves.
E) 3 maple leaves.
Answer: E
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

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Use the table below to answer the following question.

Table 2.1.4
Consider the following production possibilities for a student for the typical week:

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

54) Refer to Table 2.1.4. Complete the following sentence. The production possibilities frontier in the table shows
A) increasing opportunity cost.
B) learning-by-doing.
C) constant opportunity cost.
D) under-utilization of resources.
E) decreasing opportunity cost.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

55) The slope of the production possibilities frontier curve indicates
A) opportunity cost.
B) comparative advantage.
C) absolute advantage.
D) marginal benefit.
E) preferences.
Answer: A
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

56) As we move down the bowed-out production possibilities frontier, opportunity cost
A) increases.
B) decreases.
C) remains constant.
D) initially decreases, then increases.
E) decreases but at an increasing rate.
Answer: A
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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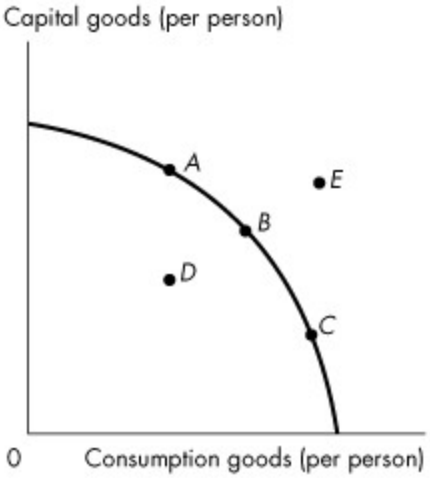


Figure 2.1.4

57) Refer to the production possibilities frontier in Figure 2.1.4. Which point is unattainable?
A) *A*
B) *B*
C) *C*
D) *D*
E) *E*
Answer: E
Diff: 1 Type: MC
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Use the figure below to answer the following question.



Figure 2.1.5

58) The graph in Figure 2.1.5 shows Sunland's *PPF* for food and sunscreen. Sunland faces _____ opportunity cost of food and _____ opportunity of sunscreen.
A) an increasing; a decreasing
B) a constant; a constant
C) a decreasing; an increasing
D) an increasing; an increasing
E) a decreasing; a decreasing
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost
Source: MyEconLab

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Use the figure below to answer the following questions.

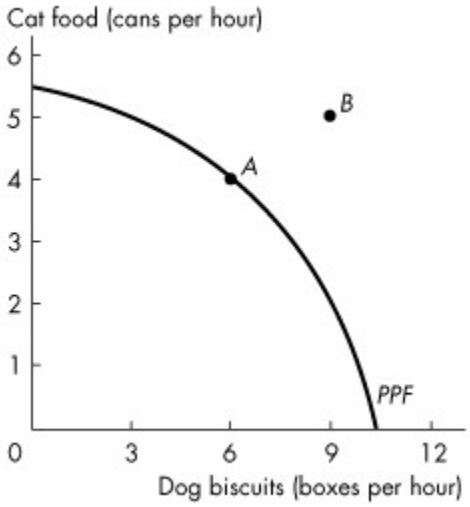


Figure 2.1.6

59) Figure 2.1.6 shows the production possibilities frontier for a firm that produces pet food. Point *A* is _____ and point *B* is _____.
A) unattainable; attainable.
B) attainable; unattainable.
C) unattainable; unattainable.
D) attainable; attainable.
E) inefficient; efficient
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost
Source: MyEconLab

60) Figure 2.1.6 shows the production possibilities frontier for a firm that produces pet food. This PPF _____ illustrate scarcity because _____.
A) does; the firm cannot produce points outside the frontier, and as the firm moves along the PPF, it cannot produce more dog biscuits without producing less cat food
B) does not; the firm can produce any quantity it wants if it is willing to pay a high enough price
C) does not; the PPF is downward sloping
D) does; as more is produced, consumer must pay a higher price
E) does not; scarcity does not occur in the market for pet food
Answer: A
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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61) When producing at a point of production efficiency,
A) our choice of goods to produce can be either on or inside the production possibilities frontier.
B) we can satisfy all our wants.
C) the opportunity cost of producing goods other than those measured on the axes of the production possibilities frontier is zero.
D) we face a tradeoff and incur an opportunity cost.
E) resources are either unused or misallocated.
Answer: D
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

62) Jane produces only corn and cloth. If her preferences for corn and cloth change, then
A) her *PPF* becomes steeper.
B) her *PPF* becomes flatter.
C) her *PPF* becomes straighter.
D) the world *PPF* shifts outward.
E) her *PPF* does not change.
Answer: E
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

63) The production possibilities frontier is
A) upward sloping and illustrates a tradeoff in production of the good measured on the *x*-axis and the good measured on the *y*-axis.
B) downward sloping and illustrates a tradeoff in production of the good measured on the *x*-axis and the good measured on the *y*-axis.
C) upward sloping and a movement along the *PPF* illustrates a free lunch.
D) downward sloping and a movement along the *PPF* illustrates a free lunch.
E) downward sloping and illustrates the marginal benefit from increasing production of the good measured on the *x*-axis.
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

64) The production possibilities frontier shows
A) the maximum possible rate of growth of output in an economy.
B) the maximum quantity of resources available at any given time.
C) the maximum level of production that can be attained.
D) combinations of goods and services that do not fully use available resources.
E) the effect of advancing technology on production possibilities.
Answer: C
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost

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65) The Government of Canada promises to produce more defence goods without any decrease in the production of other goods. This promise is valid
A) if Canada is producing at a point outside its *PPF*.
B) if Canada is producing at a point on its *PPF*.
C) if Canada is producing at a point inside its *PPF*.
D) only if the *PPF* shifts rightward.
E) only if technology advances or capital increases.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

66) Consider a *PPF* that measures the production of quilts on the *y*-axis and the production of pillows on the *x*-axis. As the firm moves along this *PPF,* the quantities of
A) all goods other than pillows and quilts are decreasing.
B) all goods other than pillows and quilts remain constant.
C) all goods other than pillows and quilts are increasing.
D) pillows and quilts produced increase together.
E) pillows and quilts produced decrease together.
Answer: B
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost
Source: MyEconLab

67) Microsoft's marginal cost of the 100th copy of Microsoft Windows 8 is
A) the maximum amount that someone is willing to pay for the 100th copy of Windows 8.
B) equal to the marginal benefit of the 100th copy of Windows 8.
C) the opportunity cost of producing the 100th copy of Windows 8.
D) the maximum amount that someone is willing to pay Microsoft to obtain the code that supports Windows 8.
E) greater than the marginal benefit from the 100th copy of Windows 8.
Answer: C
Diff: 2 Type: MC
Topic: Production Possibilities and Opportunity Cost

68) Choose the correct statements.
1. Opportunity cost of a good is the increase in the quantity produced of one good divided by the decrease in the quantity produced of another good as we move along the *PPF*.
2. The opportunity cost of an action is the highest-valued alternative forgone.
3. Opportunity cost is a ratio.
4. There is no relationship between the opportunity cost of producing an additional good measured on the *x*-axis and the opportunity cost of producing an additional good measured on the *y*-axis.
A) Statements 1 and 3 are correct.
B) Statements 1 and 2 are correct.
C) Statements 2 and 3 are correct.
D) Statements 2 and 4 are correct.
E) Statements 3 and 4 are correct.
Answer: C
Diff: 1 Type: MC
Topic: Production Possibilities and Opportunity Cost
Source: MyEconLab

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2.2 Using Resources Efficiently

1) Complete the following sentence. Marginal cost
A) is the opportunity cost of producing one more unit of a good or service.
B) is unrelated to the production possibilities frontier.
C) always equals marginal benefit.
D) remains constant.
E) is always greater then marginal benefit.
Answer: A
Diff: 1 Type: MC
Topic: Using Resources Efficiently

2) The quantity of shoes produced is measured along the *x*-axis of a bowed-outward production possibilities frontier and the quantity of shirts produced is measured along the *y*-axis. As you move down towards the right along the production possibilities frontier, the marginal cost of
A) a pair of shoes decreases.
B) a pair of shoes increases.
C) a shirt remains constant.
D) a shirt increases or decreases but we don't know for sure.
E) a pair of shoes and a shirt is equal at the midpoint between the *x*-axis and the *y*-axis.
Answer: B
Diff: 2 Type: MC
Topic: Using Resources Efficiently

3) Which of the following is true regarding marginal benefit?
I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.
II. Marginal benefit increases as more and more of a good is consumed.
III. Marginal benefit is the maximum amount a person is willing to pay to obtain one more unit of a good.
A) I only
B) I and II
C) I and III
D) III only
E) I, II, and III
Answer: D
Diff: 3 Type: MC
Topic: Using Resources Efficiently

4) To describe preferences, economists use the concept of
A) opportunity cost.
B) scarcity.
C) marginal benefit.
D) marginal cost.
E) price.
Answer: C
Diff: 1 Type: MC
Topic: Using Resources Efficiently

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5) Complete the following sentence. As you consume more and more of a good,
A) marginal benefit increases.
B) marginal benefit decreases.
C) marginal benefit always equals marginal cost.
D) marginal benefit increases or decreases depending on where you are on the production possibilities frontier.
E) the price of the good falls.
Answer: B
Diff: 1 Type: MC
Topic: Using Resources Efficiently

6) The marginal benefit curve from a good
A) shows the benefit a firm receives from producing one more unit of that good.
B) shows the most a consumer is willing to pay for one more unit of that good.
C) is upward-sloping.
D) is bowed outward.
E) is vertical.
Answer: B
Diff: 1 Type: MC
Topic: Using Resources Efficiently

Use the figure below to answer the following questions.

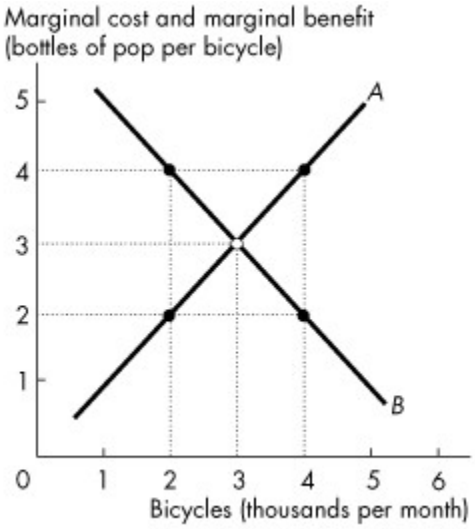


Figure 2.2.1

7) In Figure 2.2.1, the curve labeled *B* shows
A) the bottles of pop that people are *willing* to forgo to get another bicycle.
B) the bicycles that people are *willing* to forgo to get another bottle of pop.
C) the bottles of pop that people *must* forgo to get another bicycle.
D) that the benefits from producing more bicycles is greater than the benefits from producing more pop.
E) that the benefits from producing more pop is greater than the benefits from producing more bicycles.
Answer: A
Diff: 1 Type: MC
Topic: Using Resources Efficiently

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8) In Figure 2.2.1, when 2,000 bicycles are produced each month,
A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
B) more bicycles must be produced to reach the efficient level of output.
C) fewer bicycles must be produced to reach the efficient level of output.
D) the economy is efficient at this level of production of bicycles.
E) both A and B.
Answer: E
Diff: 2 Type: MC
Topic: Using Resources Efficiently

9) In Figure 2.2.1, the curve labelled *A* is the _____ curve and the curve labelled *B* is the _____ curve.
A) marginal cost; marginal benefit
B) marginal cost; trade
C) marginal benefit; trade
D) production possibilities; trade
E) marginal benefit; marginal cost
Answer: A
Diff: 1 Type: MC
Topic: Using Resources Efficiently

10) In Figure 2.2.1, when 4,000 bicycles are produced each month,
A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
B) more bicycles must be produced to reach the efficient level of output.
C) fewer bicycles must be produced to reach the efficient level of output.
D) the economy is efficient at this level of production of bicycles.
E) both A and B.
Answer: C
Diff: 2 Type: MC
Topic: Using Resources Efficiently

11) A marginal benefit curve measures
A) comparative advantage.
B) willingness to pay.
C) absolute advantage.
D) opportunity cost.
E) expenditure.
Answer: B
Diff: 1 Type: MC
Topic: Using Resources Efficiently

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12) Allocative efficiency refers to a situation where
A) opportunity costs are equal.
B) we cannot produce more of any one good without giving up some other good.
C) goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit.
D) opportunity cost is zero.
E) marginal benefit is maximized.
Answer: C
Diff: 1 Type: MC
Topic: Using Resources Efficiently

13) As production of food increases, marginal benefit from food
A) increases and marginal cost increases.
B) increases and marginal cost decreases.
C) decreases and marginal cost increases.
D) decreases and marginal cost decreases.
E) decreases and marginal cost is zero.
Answer: C
Diff: 1 Type: MC
Topic: Using Resources Efficiently

14) Suppose the production possibilities frontier for skirts and pants is a straight line. As the production of skirts increases, the marginal benefit from skirts
A) increases and marginal cost is constant.
B) is constant and marginal cost decreases.
C) decreases and marginal cost increases.
D) decreases and marginal cost decreases.
E) decreases and marginal cost is constant.
Answer: E
Diff: 1 Type: MC
Topic: Using Resources Efficiently

15) When the market achieves allocative efficiency,
A) marginal benefit equals marginal cost.
B) marginal benefit is at its maximum.
C) marginal benefit exceeds marginal cost by as much as possible.
D) marginal cost exceeds marginal benefit by as much as possible.
E) marginal cost is at its minimum.
Answer: A
Diff: 1 Type: MC
Topic: Using Resources Efficiently

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16) Marginal benefit from a good or service is the benefit received from consuming _____. It is measured by the most that people are willing to pay for _____.
A) goods that you prefer; an additional unit of it
B) goods that you prefer; more of it
C) one more unit of it; an additional unit of it
D) one more unit of it; more of it
E) as much as is available; the total amount consumed
Answer: C
Diff: 1 Type: MC
Topic: Using Resources Efficiently
Source: MyEconLab

Use the table below to answer the following question.

Table 2.2.1

Ethanol (barrels per day)		**Food crops** (tonnes per day)
70	**and**	**0**
64	**and**	**1**
54	**and**	**2**
40	**and**	**3**
22	**and**	**4**
0	**and**	**5**

17) Refer to Table 2.2.1. Marginal benefit from food crops
A) equals the marginal cost of food crops.
B) remains constant as the quantity of food crops increases from 1 tonne a day to 2 tonnes a day.
C) cannot be calculated from the table.
D) increases as the quantity of food crops increases from 1 tonne a day to 2 tonnes a day.
E) equals 70 barrels of ethanol.
Answer: C
Diff: 2 Type: MC
Topic: Using Resources Efficiently
Source: MyEconLab

18) The principle of decreasing marginal benefit implies that the
A) additional benefit from obtaining one more unit of a good or service decreases as more of that good or service is consumed.
B) additional benefit from obtaining one more unit of a good or service increases as more of that good or service is consumed.
C) total benefit from obtaining more of a good or service decreases as more is consumed.
D) total benefit from obtaining more of a good or service remains the same as more is consumed.
E) additional benefit from producing one more unit of a good or service decreases as more of that good or service is produced.
Answer: A
Diff: 1 Type: MC
Topic: Using Resources Efficiently

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19) The most anyone is willing to pay for another purse is $30. Currently the price of a purse is $40, and the cost of producing another purse is $50. The marginal benefit from a purse is
A) $40.
B) $50.
C) $10.
D) $20.
E) $30.
Answer: E
Diff: 2 Type: MC
Topic: Using Resources Efficiently

20) Choose the correct statement.
A) A marginal cost curve that is a horizontal line is derived from a *PPF* that has a bowed-out shape.
B) A marginal cost curve that is upward sloping is derived from a *PPF* that has a constant slope.
C) A marginal cost curve that is vertical is derived from a *PPF* that has a bowed-out shape.
D) A marginal benefit curve that is downward sloping is derived from a *PPF* that has a bowed-out shape.
E) A marginal cost curve that is a horizontal line is derived from a *PPF* that has a constant slope.
Answer: E
Diff: 2 Type: MC
Topic: Using Resources Efficiently

21) All points on the *PPF* are points of _____ efficiency. When we produce at the point on the *PPF* that we prefer above all other points we achieve _____ efficiency.
A) production; allocative
B) allocative; allocative
C) allocative; production
D) unattainable; attainable
E) productive; prominent
Answer: A
Diff: 1 Type: MC
Topic: Using Resources Efficiently
Source: MyEconLab

2.3 Economic Growth

1) A technological improvement is represented by
A) an outward shift of the production possibilities frontier.
B) a movement along the production possibilities frontier.
C) a point inside the production possibilities frontier.
D) a point outside the production possibilities frontier.
E) a movement from a point inside the production possibilities frontier to a point on the production possibilities frontier.
Answer: A
Diff: 1 Type: MC
Topic: Economic Growth

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

3) The principal reason that production possibilities have grown more rapidly in Hong Kong than in Canada over the last 50 years is because
A) of cheap Hong Kong labour.
B) of foreign aid to Hong Kong.
C) Hong Kong has fewer workers.
D) Hong Kong has more natural resources.
E) Hong Kong has devoted a larger proportion of its resources to capital accumulation.
Answer: E
Diff: 2 Type: MC
Topic: Economic Growth

4) Which one of the following would cause a production possibilities frontier to shift *outward*?
A) an increase in the stock of capital
B) an increase in the production of consumption goods
C) bad weather
D) a decision to fully utilize unemployed resources
E) a decrease in the population
Answer: A
Diff: 1 Type: MC
Topic: Economic Growth

5) The development of new goods and better ways of producing goods and services is
A) capital accumulation.
B) technological change.
C) the big tradeoff.
D) allocative efficiency.
E) production efficiency.
Answer: B
Diff: 1 Type: MC
Topic: Economic Growth

6) The growth of capital resources, including human capital is
A) technological change.
B) capital accumulation.
C) depreciation.
D) opportunity cost.
E) shown by a movement along the *PPF*.
Answer: B
Diff: 1 Type: MC
Topic: Economic Growth

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7) Which one of the following would likely shift a production possibilities frontier *inward*?
A) technological change
B) a drought
C) a decrease in the price of natural resources
D) an increase in human capital
E) None of the above, because production possibilities frontiers do not shift inward.
Answer: B
Diff: 2 Type: MC
Topic: Economic Growth

Use the figure below to answer the following question.

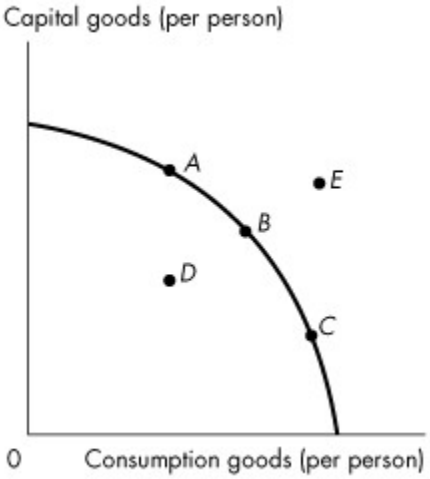


Figure 2.3.1

8) Refer to the production possibilities frontier in Figure 2.3.1. The production possibilities frontier will shift rightward most rapidly if current production is at
A) *A*.
B) *B*.
C) *C*.
D) *D*.
E) *E*.
Answer: A
Diff: 2 Type: MC
Topic: Economic Growth

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9) A production possibilities frontier will shift outward FOR ALL OF THE FOLLOWING REASONS *EXCEPT*
A) a technological improvement.
B) an increase in the stock of capital.
C) an increase in the labour force.
D) an increase in opportunity cost.
E) an increase in human capital.
Answer: D
Diff: 1 Type: MC
Topic: Economic Growth

10) A movement *along* the production possibilities frontier will result from
A) technological change.
B) a change in the stock of capital.
C) a change in the labour force.
D) a change in human capital
E) none of the above.
Answer: E
Diff: 1 Type: MC
Topic: Economic Growth

11) The opportunity cost of pushing the production possibilities frontier outward is
A) capital accumulation.
B) technological change.
C) reduced current consumption.
D) the gain in future consumption.
E) all of the above
Answer: C
Diff: 2 Type: MC
Topic: Economic Growth

12) In general, the higher the proportion of resources devoted to technological research in an economy, the
A) greater will be current consumption.
B) faster the production possibilities frontier will shift outward.
C) faster the production possibilities frontier will shift inward.
D) closer it will come to having a comparative advantage in the production of all goods.
E) more bowed out will be the shape of the production possibilities frontier.
Answer: B
Diff: 2 Type: MC
Topic: Economic Growth

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13) Consider a country that has two industries. In the north, they grow wild rice, which requires a lot of rainfall. In the south, they grow wheat, which requires just a moderate amount of rainfall (too much rainfall is bad for wheat production). One year, there is a record rainfall. This will result in
A) a parallel shift inward of the production possibilities frontier.
B) a parallel shift outward of the production possibilities frontier.
C) the production possibilities frontier rotating, with the wild rice intercept increasing, and the wheat intercept decreasing.
D) the production possibilities frontier rotating, with the wild rice intercept decreasing, and the wheat intercept increasing.
E) the production possibilities frontier becoming linear.
Answer: C
Diff: 3 Type: MC
Topic: Economic Growth

14) Suppose a hurricane causes extensive devastation, destroying houses, roads, schools and factories. What would be the effect of this hurricane on a production possibilities frontier consisting of consumption goods and capital goods?
A) It would shift outward at all points.
B) It would shift inward at all points.
C) There would be a movement along the existing production possibilities frontier towards a less capital-intensive point.
D) There would be a movement along the existing production possibilities frontier towards a more capital-intensive point.
E) There would be a movement from the existing production possibilities frontier inwards towards a point with unused or misallocated resources.
Answer: B
Diff: 2 Type: MC
Topic: Economic Growth

15) The depletion of fish stocks in Eastern Canada, with its accompanying unemployment, will lead to a
A) movement from the existing production possibilities frontier to a point inside the production possibilities frontier.
B) shift inward of the existing production possibilities frontier and production at a point on the new *PPF*.
C) shift outward of the existing production possibilities frontier.
D) movement along the existing production possibilities frontier to a point of less fish production.
E) shift inward of the existing production possibilities frontier plus a movement to a point inside the new production possibilities frontier.
Answer: E
Diff: 3 Type: MC
Topic: Economic Growth

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16) Which of the following quotations illustrates economic growth?
A) "The firm should lower the price it charges for widgets and gadgets."
B) "The firm should sell more gadgets, even if it means less widget sales."
C) "The more and more gadgets the firm produces, the bigger the fall in widget production."
D) "If the firm invests more in capital equipment, it can expand production next year."
E) "The firm has been able to lower costs due to its extensive experience in building widgets."
Answer: D
Diff: 2 Type: MC
Topic: Economic Growth

17) Economic growth _____ overcome scarcity because _____.
A) does; with economic growth the *PPF* rotates outward and eventually becomes a horizontal line
B) does; we will eventually reach the point where we have too much
C) does not; we can produce more goods and services but it is still impossible to satisfy all our wants
D) does not; economic growth requires capital accumulation and technological change
E) does; with economic growth the *PPF* rotates outward and eventually becomes a vertical line
Answer: C
Diff: 2 Type: MC
Topic: Economic Growth
Source: MyEconLab

18) In 1963, the production possibilities per person in Canada were _____ than those in Hong Kong. Between 1963 and 2013, Hong Kong's production possibilities have _____ Canada's production possibilities.
A) smaller; expanded more quickly than
B) smaller; not expanded as quickly as
C) greater; not expanded as quickly as
D) greater; expanded more quickly than
E) greater; expanded at the same rate as
Answer: D
Diff: 2 Type: MC
Topic: Economic Growth
Source: MyEconLab

19) The production possibilities frontier shifts outward when
A) tastes and preferences change.
B) the quantity of money in the economy grows.
C) prices rise.
D) human capital accumulates.
E) the political party in power changes.
Answer: D
Diff: 2 Type: MC
Topic: Economic Growth

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20) Consider a production possibilities frontier with corn production measured on the vertical axis and car production measured on the horizontal axis. Unusually good weather for growing corn shifts
A) the horizontal intercept of the *PPF* rightward and the vertical intercept of the *PPF* upward.
B) the horizontal intercept of the *PPF* rightward but does not shift the vertical intercept of the *PPF.*
C) the vertical intercept of the PPF upward but does not shift the horizontal intercept of the *PPF*.
D) neither the horizontal intercept nor the vertical intercept of the *PPF.*
E) the vertical intercept of the *PPF* downward and the horizontal intercept of the *PPF* leftward.
Answer: C
Diff: 2 Type: MC
Topic: Economic Growth

Toyota Plans to Build a Better Company
Toyota will continue to produce 3 million cars per year and use the balance of its resources to upgrade its workers' skills and create new technology. In three years' time, Toyota plans to produce better cars and be more productive.
Source: *Financial Post*, April 7, 2014

21) Consider Toyota's *PPF*, which measures cars on the *x*-axis and new skills and new technology on the *y*-axis. Toyota's opportunity cost of upgrading workers' skills and creating new technology is
A) increased worker productivity.
B) zero.
C) more cars produced in the future.
D) fewer cars produced in the current year.
E) dependent on whether other car manufacturers also upgrade workers' skills and create new technology.
Answer: D
Diff: 3 Type: MC
Topic: Economic Growth
Source: MyEconLab

22) A factory produces vacuum cleaners and floor polishers. The factory adopts a new technology that allows it to use fewer resources to build floor polishers. With this new technology, the opportunity cost of producing a vacuum cleaner _____ and the factory is _____ efficient.
A) remains the same; less
B) equals the opportunity cost of producing a floor polisher; more
C) increases; equally
D) decreases; more
E) increases; more
Answer: C
Diff: 2 Type: MC
Topic: Economic Growth
Source: MyEconLab

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2.4 Gains from Trade

1) Individuals *A* and *B* can both produce good *X*. We say that *A* has a comparative advantage in the production of good *X* if
A) *A* has a lower opportunity cost of producing *X* than *B*.
B) *A* has a higher opportunity cost of producing X than B.
C) *A* can produce more units of *X* in a given time period than *B*.
D) *A* can produce *X* using newer technology than *B*.
E) *A* can produce less units of *X* in a given time period than *B*.
Answer: A
Diff: 3 Type: MC
Topic: Gains from Trade

2) Individuals *A* and *B* can both produce goods *X* and *Y*. Individual *A* has a comparative advantage in the production of *X* if
A) *A* is faster than *B* at producing *X*.
B) the amount by which *A* must reduce production of *Y* is less than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
C) *B* has superior knowledge about how to produce *X*.
D) *A* has a preference to consume *X*.
E) the amount by which *A* must reduce production of *Y* is more than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
Answer: B
Diff: 2 Type: MC
Topic: Gains from Trade

3) Debra has an absolute advantage in producing a good when she
A) has a comparative advantage in producing that good.
B) can produce the good at lower opportunity cost than anyone else.
C) can produce more of that good than anyone else, using the same quantity of inputs.
D) has exclusive rights to sell that good.
E) has better technology than anyone else.
Answer: C
Diff: 2 Type: MC
Topic: Gains from Trade

4) A person who has an absolute advantage in the production of all goods will
A) also have a comparative advantage in the production of all goods.
B) not be able to gain from specialization and trade.
C) produce all goods at the lowest opportunity cost.
D) not have a comparative advantage in the production of any goods.
E) have a comparative advantage in the production of only some goods and not others.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

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Use the information below to answer the following questions.

Fact 2.4.1

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

5) Given Fact 2.4.1, the opportunity cost of producing 1 loaf of bread is
A) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.
B) 1/3 kilogram of butter for Andy and 1 kilogram of butter for Rolfe.
C) 3 kilograms of butter for Andy and 1 kilogram of butter for Rolfe.
D) 8 kilograms of butter for both Andy and Rolfe.
E) not calculable from the given information.
Answer: B
Diff: 2 Type: MC
Topic: Gains from Trade

6) From Fact 2.4.1, we know that
A) Andy has the lower opportunity cost of producing bread, while Andy and Rolfe have equal opportunity costs of producing butter.
B) Andy has the lower opportunity cost of producing both bread and butter.
C) Andy has the lower opportunity cost of producing bread, while Rolfe has the lower opportunity cost of producing butter.
D) Andy has the lower opportunity cost of producing butter, while Rolfe has the lower opportunity cost of producing bread.
E) Andy has the higher opportunity cost of producing both bread and butter.
Answer: C
Diff: 3 Type: MC
Topic: Gains from Trade

7) Refer to Fact 2.4.1. Which one of the following statements is true?
A) Andy has an absolute advantage in butter production.
B) Rolfe has an absolute advantage in butter production.
C) Andy has a comparative advantage in bread production.
D) Andy has a comparative advantage in butter production.
E) Rolfe has a comparative advantage in bread production.
Answer: C
Diff: 3 Type: MC
Topic: Gains from Trade

8) Refer to Fact 2.4.1. The opportunity cost of producing 1 kilogram of butter is
A) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.
B) 1 hour for Andy and 1 hour for Rolfe.
C) 3 loaves of bread for Andy and 1/3 loaf of bread for Rolfe.
D) 3 loaves of bread for Andy and 1 loaf of bread for Rolfe.
E) 8 loaves of bread for Rolfe and 24 loaves of bread for Andy.
Answer: D
Diff: 2 Type: MC
Topic: Gains from Trade

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9) Given Fact 2.4.1, Andy and Rolfe
A) can gain from trade if Andy specializes in butter production and Rolfe specializes in bread production.
B) can gain from trade if Andy specializes in bread production and Rolfe specializes in butter production.
C) cannot gain from trade.
D) can trade, but only Rolfe will gain.
E) can trade, but only Andy will gain.
Answer: B
Diff: 3 Type: MC
Topic: Gains from Trade

10) Consider Fact 2.4.1. After specialization, *total* consumption will
A) depend on the preferences of Andy and Rolfe.
B) be 8 loaves of bread and 24 kilograms of butter.
C) be 32 loaves of bread and 16 kilograms of butter.
D) be 8 loaves of bread and 8 kilograms of butter.
E) be 24 loaves of bread and 8 kilograms of butter.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

Use the information below to answer the following questions.

Fact 2.4.2

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

11) Refer to Fact 2.4.2. Which one of the following statements is true?
A) Brenda has an absolute advantage over Agnes in the production of both goods.
B) Agnes has a comparative advantage in the production of *Y*.
C) Brenda has a comparative advantage in the production of *X*.
D) Brenda will not gain from trade.
E) Agnes will not gain from trade.
Answer: A
Diff: 3 Type: MC
Topic: Gains from Trade

12) Given Fact 2.4.2, the opportunity cost of producing a unit of *X* is
A) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
B) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
C) 1 hour for Agnes and 1/2 hour for Brenda.
D) 1 hour for Agnes and 2 hours for Brenda.
E) 1 hour for Agnes and 1/4 hour for Brenda.
Answer: A
Diff: 2 Type: MC
Topic: Gains from Trade

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13) Given Fact 2.4.2, the opportunity cost of producing a unit of *Y* is
A) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
B) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
C) 1 hour for Agnes and 1/2 hour for Brenda.
D) 1 hour for Agnes and 2 hours for Brenda.
E) 1 unit of *X* for Agnes and 1/2 unit of *X* for Brenda.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

14) Complete the following sentence. Given Fact 2.4.2,
A) there will be gains from trade, no matter what Brenda and Agnes specialize in, as long as they specialize.
B) there will be gains from trade only if Agnes specializes in the production of *Y* and Brenda in *X*.
C) there will be gains from trade only if Agnes becomes faster at producing *X*.
D) there will be no gains from trade because Agnes has an absolute advantage.
E) there will be gains from trade if Agnes specializes in the production of *X* and Brenda in *Y*.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

15) Given Fact 2.4.2, what would be the total output of *X* and *Y* in an eight-hour day if Agnes and Brenda each specialized in producing the good in which they have a comparative advantage?
A) 3 units of *X* and 5 units of *Y*
B) 8 units of *X* and 16 units of *Y*
C) 8 units of *X* and 32 units of *Y*
D) 24 units of *X* and 40 units of *Y*
E) 16 units of *X* and 8 units of *Y*
Answer: C
Diff: 3 Type: MC
Topic: Gains from Trade

16) Any two individuals will gain from exchange
A) unless one has an absolute advantage in producing all goods.
B) if each specializes in the production of the good for which he has the higher opportunity cost.
C) unless they have the same opportunity costs for producing all goods.
D) unless they have different opportunity costs for producing all goods.
E) unless they have the same absolute advantage in producing all goods.
Answer: C
Diff: 3 Type: MC
Topic: Gains from Trade

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Use the figure below to answer the following questions.

Table 2.4.1
The planets of Vulcan and Romulus each produce goods *X* and *Y*.
The following table gives points on their production possibilities frontiers.

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

17) Refer to Table 2.4.1. Which one of the following is true?
A) Romulus has both an absolute advantage and a comparative advantage in the production of *Y*.
B) Romulus has both an absolute advantage and a comparative advantage in the production of *X*.
C) Vulcan has a comparative advantage in the production of *X*.
D) Romulus has a comparative advantage in the production of *X*.
E) Vulcan should specialize in the production of *X*.
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade

18) Refer to Table 2.4.1. Which one of the following is true?
A) The opportunity cost of producing more of good *X* is the same for both planets.
B) The opportunity cost of producing more of good *Y* is the same for both planets.
C) The opportunity cost of producing more of good *X* is lower in Vulcan.
D) The opportunity cost of producing more of good *Y* is lower in Vulcan.
E) Vulcans are smarter than Romulans.
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade

19) Refer to Table 2.4.1. For Vulcan, the opportunity cost of producing an additional unit of *X* is
A) 4 units of *Y*.
B) 2 units of *Y*.
C) 2/3 units of *Y*.
D) 1 unit of *Y*.
E) dependent upon how many units of *X* are already produced.
Answer: B
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Topic: Gains from Trade

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20) Refer to Table 2.4.1. For Romulus, the opportunity cost of producing an additional unit of *X* is
A) 4 units of *Y*.
B) 2 units of *Y*.
C) 2/3 units of *Y*.
D) 1 unit of *Y*.
E) 3/2 units of *Y*.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

21) Refer to Table 2.4.1. For Romulus, the opportunity cost of producing an additional unit of *Y* is
A) 2/3 units of *X*.
B) 1/2 unit of *X*.
C) 2 units of *X*.
D) 3 units of *X*.
E) 3/2 units of *Y*.
Answer: A
Diff: 2 Type: MC
Topic: Gains from Trade

22) Refer to Table 2.4.1. For Vulcan, the opportunity cost of producing an additional unit of *Y* is
A) 2/3 units of *X*.
B) 1/2 units of *X*.
C) 2 units of *X*.
D) 3 units of *X*.
E) 4 units of *X*.
Answer: B
Diff: 2 Type: MC
Topic: Gains from Trade

23) Refer to Table 2.4.1. Each country will gain from trade if
A) Romulus specializes in both goods.
B) Vulcan specializes in both goods.
C) they both continue to produce both goods.
D) Vulcan specializes in good *X* and Romulus specializes in good *Y*.
E) Romulus specializes in good *X* and Vulcan specializes in good *Y*.
Answer: E
Diff: 3 Type: MC
Topic: Gains from Trade

24) If individuals *A* and *B* can both produce only goods *X* and *Y*, and *A* does *not* have a comparative advantage in the production of either *X* or *Y*, then we know
A) *B* has an absolute advantage in the production of *X* and *Y*.
B) *A* and *B* have the same opportunity costs for *X* and for *Y*.
C) *B* has a comparative advantage in the production of both *X* and *Y*.
D) the gains from trade will be large but only in one direction.
E) *A* must have lower opportunity costs of production for both goods.
Answer: B
Diff: 3 Type: MC
Topic: Gains from Trade

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25) Consider the following household. In 5 hours, Bob can cook 5 meals or clean 6 rooms. In 5 hours, Mary can cook 30 meals or clean 10 rooms. Select the best statement.
A) Bob has an absolute advantage in the production of both goods.
B) Since Mary is better at producing both goods, she should produce both.
C) Bob has a comparative advantage in cooking.
D) Mary has a comparative advantage in cooking.
E) Mary has a comparative advantage in cooking and cleaning.
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade

Use the table below to answer the following questions.

Table 2.4.2
Production for one week by Sheila and Bruce

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

26) Given the information in Table 2.4.2, can Sheila and Bruce gain by specialization?
A) Yes, but only if Bruce gets paid more than Sheila.
B) No, not under the given circumstances.
C) It depends on the wages each earns.
D) Only if they are married to each other.
E) Yes, if each specializes in the good in which he has a comparative advantage.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

27) Given the information in Table 2.4.2, which one of the following is true?
A) Sheila has a comparative advantage in good X.
B) Bruce has a comparative advantage in good X.
C) The opportunity cost to Bruce of an additional unit of X is 0.4 units of Y.
D) A and B
E) B and C
Answer: E
Diff: 3 Type: MC
Topic: Gains from Trade

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28) Suppose John and Joe each have different production possibility frontiers; John specializes in cloth and Joe specializes in corn. John's island unexpectedly has exceptionally good weather, and suddenly he is twice as productive in the production of *both* corn and cloth. Select the best statement.
A) This is an example of unemployed resources becoming employed.
B) As a result, John will have an absolute advantage in both corn and cloth.
C) As a result, it is possible that John and Joe will switch the goods in which they specialize.
D) There will be no change to the goods in which John and Joe specialize, because John's comparative advantage has not changed.
E) There will be a change to the goods in which John and Joe specialize, because John's opportunity cost of corn has decreased.
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade

29) It benefits people to specialize and trade with each other because
A) otherwise they would not survive.
B) they can take advantage of the fact they have an absolute advantage in the production of something.
C) with specialization and trade, this way they can consume outside the production possibilities frontier.
D) with specialization and trade, the strong can exploit the weak.
E) specialization and trade lead to a linear *PPF*.
Answer: C
Diff: 2 Type: MC
Topic: Gains from Trade

30) There are two goods, X and Y. If the opportunity cost of producing good X is lower for Pam than for Gino, then
A) Pam has an absolute advantage in the production of X.
B) Gino has an absolute advantage in the production of Y.
C) Pam has a comparative advantage in the production of X.
D) Gino has a comparative advantage in the production of Y.
E) C and D
Answer: E
Diff: 3 Type: MC
Topic: Gains from Trade

31) Mexico and Canada produce both oil and apples using labour only. A barrel of oil is produced with 4 hours of labour in Mexico and 8 hours of labour in Canada. A bushel of apples is produced with 8 hours of labour in Mexico and 12 hours of labour in Canada. Canada has
A) an absolute advantage in oil production.
B) an absolute advantage in apple production.
C) a comparative advantage in oil production.
D) a comparative advantage in apple production.
E) a comparative advantage in oil production and a comparative advantage in apple production.
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade

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32) In Portugal, the opportunity cost of a bale of wool is 3 bottles of wine. In England, the opportunity cost of 1 bottle of wine is 3 bales of wool. Given this information,
A) England has an absolute advantage in wine production.
B) Portugal has an absolute advantage in wool production.
C) Portugal has a comparative advantage in wine production.
D) Portugal has a comparative advantage in wool production.
E) no trade will occur.
Answer: C
Diff: 3 Type: MC
Topic: Gains from Trade

33) To gain from comparative advantage, countries must not only trade, they must also
A) save.
B) invest.
C) engage in research and development.
D) engage in capital accumulation.
E) specialize.
Answer: E
Diff: 1 Type: MC
Topic: Gains from Trade

34) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. If Tom and Jerry specialize and trade eggs and sandwiches with each other,
A) Tom benefits but Jerry does not.
B) Jerry benefits but Tom does not.
C) neither Tom nor Jerry benefit.
D) either Tom or Jerry benefit but we don't have enough information to know which one benefits.
E) both of them benefit.
Answer: E
Diff: 2 Type: MC
Topic: Gains from Trade

35) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. Both individuals gain if
A) Jerry produces eggs and trades them to Tom for sandwiches.
B) Jerry produces sandwiches and trades them to Tom for eggs.
C) they trade with each other regardless of who produces sandwiches and who produces eggs.
D) the opportunity cost of producing an egg is greater than the opportunity cost of producing a sandwich.
E) the opportunity cost of producing a sandwich is greater than the opportunity cost of producing an egg.
Answer: B
Diff: 2 Type: MC
Topic: Gains from Trade

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36) Which of the following describes comparative advantage?
A) Firm A can produce a good at a cost of $3 a unit, and Firm B can produce the same good at a cost of $4 a unit.
B) Jane can type 50 words per minute, and Joe can type 60 words per minute.
C) Firm A can produce 4 boxes of cereal in a day, and Firm B can produce 5 boxes of cereal in a day.
D) To produce a basket of wheat, Farmer John must give up growing 2 baskets of corn, whereas Farmer Ben must give up 3 baskets of corn to produce a basket of wheat.
E) Bill can read one book in a week, but it takes Jeannie 10 days to read the same book.
Answer: D
Diff: 1 Type: MC
Topic: Gains from Trade

37) The kitchen manager at an Italian restaurant is deciding what assignments he should give to his two cooks, John and David. John can make 25 pizzas or 40 servings of pasta per hour and David can make 20 pizzas or 30 servings of pasta per hour. Which is the manager's best choice?
A) Fire David because he is not as productive as John. John will produce both pasta and pizza.
B) David will make pizza because he has a comparative advantage in making pizza.
C) John and David will each spend half their time making pizza and half their time making pasta.
D) John will make pizza because he has a comparative advantage in making pizza.
E) Increase David's salary because with encouragement, he can increase his output.
Answer: B
Diff: 1 Type: MC
Topic: Gains from Trade

38) Tom and Don have different opportunity costs of producing two goods. If Tom and Don specialize in producing the goods in which each has a comparative advantage and they exchange goods, then
A) they each lose because they are no longer able to produce and consume both goods.
B) one of them will gain and one of them will lose.
C) each will gain because each can consume a combination of goods that is outside his production possibility frontier.
D) each will produce a combination of goods that is outside his production possibilities frontier.
E) each will produce a combination of goods that is inside his production possibilities frontier.
Answer: C
Diff: 2 Type: MC
Topic: Gains from Trade

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Use the information below to answer the following questions.

Fact 2.4.1

In one hour, Sue can produce 50 caps or 10 jackets, and Tessa can produce 70 caps or 7 jackets.

39) Refer to Fact 2.4.1. Sue's opportunity cost of producing a cap is _____ jackets and Tessa's opportunity cost of producing a cap is _____ jackets.
A) 10; 7
B) 5; 10
C) 0.1; 0.2
D) 0.2; 0.1
E) 10; 5
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade
Source: MyEconLab

40) Refer to Fact 2.4.1. _____ has a comparative advantage in producing caps. If Sue and Tessa each specialize in producing the good in which they have a comparative advantage and trade 1 jacket for 7 caps, _____.
A) Sue; Tessa gains but Sue loses
B) Tessa; Sue loses but Tessa gains
C) Sue; both Sue and Tessa gain
D) Tessa; both Sue and Tessa gain
E) Tessa; Tessa loses but Sue gains
Answer: D
Diff: 3 Type: MC
Topic: Gains from Trade
Source: MyEconLab

2.5 Economic Coordination

1) Trade is organized using the social institutions of all of the following *except*
A) firms.
B) property rights.
C) money.
D) markets.
E) labour unions
Answer: E
Diff: 3 Type: MC
Topic: Economic Coordination

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

Which of the above statements are correct?
A) I only
B) III only
C) I and III only
D) II and III only
E) I, II and III
Answer: C
Diff: 3 Type: MC
Topic: Economic Coordination

3) A property right is
A) any commodity or token that is generally acceptable as a means of payment.
B) an economic unit that hires factors of production and organizes those factors to produce and sell goods and services.
C) any arrangement that enables buyers and sellers to get information and to do business with each other.
D) a social arrangement that governs the ownership, use, and disposable of anything that people value.
E) a medium of exchange.
Answer: D
Diff: 1 Type: MC
Topic: Economic Coordination
Source: MyEconLab

4) The flows in the market economy that go from firms to households are _____.
The flows in the market economy that go from households to firms are _____.
A) all flowing through goods markets; all flowing through factor markets
B) the real flows of goods and services and the income flows of wages, rent, interest and profits; the real flows of labour, land, capital and entrepreneurship and the flow of expenditure on goods and services
C) the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services; the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship
D) the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship; the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services
E) all flowing through factor markets; all flowing through goods markets
Answer: B
Diff: 3 Type: MC
Topic: Economic Coordination
Source: MyEconLab

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5) The main functions of markets include
A) promoting the social interest, but not the self-interest.
B) selling goods, but not factors of production.
C) enabling buyers and sellers to get information about each other.
D) establishing a physical location for business transactions.
E) promoting the self-interest, but not the social interest.
Answer: C
Diff: 2 Type: MC
Topic: Economic Coordination
Source: MyEconLab

6) In an economy lacking property rights, it would be _____ to realize the gains from trade, and there would be _____ specialization compared to an economy with property rights.
A) more difficult; less
B) more difficult; more
C) easier; less
D) easier; more
E) none of the above
Answer: A
Diff: 3 Type: MC
Topic: Economic Coordination

7) Intellectual property _____.
A) includes land and buildings
B) includes stocks and bonds and money in the bank
C) is the intangible product of creative effort
D) is protected by copyrights and patents
E) Both C and D are correct.
Answer: E
Diff: 2 Type: MC
Topic: Economic Coordination

8) Property rights
A) discourage economic growth by discouraging the development of new ideas and ways of doing things.
B) encourage investment but discourage entrepreneurial activity, so the effect on economic growth is uncertain.
C) encourage economic growth by creating incentives to invest in capital.
D) reduce the efficiency of government, which reduces economic growth over time.
E) encourage entrepreneurial activity but discourage investment, so the effect on economic growth is uncertain.
Answer: C
Diff: 2 Type: MC
Topic: Economic Coordination

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