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Macroeconomics, Third Canadian Edition **(Hubbard)**
Chapter 2 Trade-offs, Comparative Advantage, and the Market System

2.1 Production Possibilities Frontiers and Opportunity Costs

1) _____ exists because unlimited wants exceed the limited resources available to fulfill those wants.
A) Scarcity
B) Productive efficiency
C) The command economy
D) Economic growth
E) Inefficiency
Answer: A
Diff: 2 Type: MC Page Ref: 35
Topic: Scarcity
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

2) Toyota built an assembly plant in Woodstock, Ontario. At this plant, Toyota is able to take advantage of paying lower transportation costs on cars to be sold in Canada than it would from its Japanese assembly plants, but it also sacrifices the ease of supervising its Japanese workers, who generally have high skills levels and few labour disputes. In deciding to open the Woodstock plant, Toyota
A) faced no trade-offs because employing lower-wage workers increased efficiency.
B) faced a trade-off between cost and convenience.
C) adopted a negative technological change because it replaced high-skilled workers with low-skilled workers.
D) eroded some of its competitiveness in the luxury car market because of its decreased cost of production.
E) decided on production quantities in which revenues are maximized.
Answer: B
Diff: 2 Type: MC Page Ref: 35
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills
Special Feature: Chapter Opener: Managers Making Choices at Toyota

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3) The principle of opportunity cost is that
A) in a market economy, taking advantage of profitable opportunities involves some money cost.
B) the economic cost of using a factor of production is the alternative use of that factor that is given up.
C) taking advantage of investment opportunities involves costs.
D) the cost of production varies depending on the opportunity for technological application.
E) unlimited wants exceed the limited resources available to fulfill those wants.
Answer: B
Diff: 3 Type: MC Page Ref: 36
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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4) The production possibilities frontier shows the _____ combinations of two products that may be produced in a particular time period with available resources.
A) minimum attainable
B) maximum attainable
C) many and various
D) restricted and only
E) equitable
Answer: B
Diff: 2 Type: MC Page Ref: 36
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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5) The production possibilities frontier model shows that
A) if consumers decide to buy more of a product its price will increase.
B) a market economy is more efficient in producing goods and services than is a centrally planned economy.
C) economic growth can only be achieved by free market economies.
D) if all resources are fully utilized, more of one good can be produced only by producing less of another good.
E) firms produce what people want in a particular period of time.
Answer: D
Diff: 2 Type: MC Page Ref: 36
Topic: Production Possibilities Frontiers
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6) The production possibilities frontier model assumes which of the following?
A) Labour, capital, land and natural resources are unlimited.
B) The economy produces only two products.
C) Any quantity of the two products is currently possible.
D) The level of available technology is variable.
E) Various products can be produced, now and in the future.
Answer: B
Diff: 2 Type: MC Page Ref: 36
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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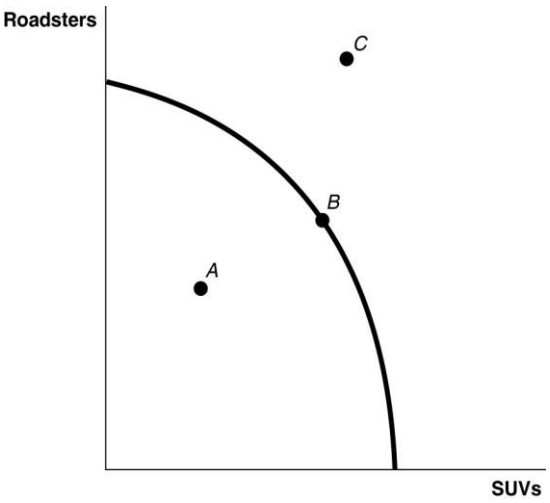
7) The attainable production points on a production possibility curve are
A) the horizontal and vertical intercepts.
B) the points along the production possibilities frontier.
C) the points outside the area enclosed by the production possibilities frontier.
D) the points along and inside the production possibility frontier.
E) the points of inefficiency, now and in the future.
Answer: D
Diff: 2 Type: MC Page Ref: 36
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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8) The points outside the production possibilities frontier are
A) attainable.
B) unattainable.
C) inefficient.
D) allocatively efficient.
E) productively efficient.
Answer: B
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Figure 2.1



9) ***Refer to Figure 2.1.*** Point *A* is
A) technically efficient.
B) unattainable with current resources.
C) inefficient in that not all resources are being used.
D) the equilibrium output combination.
E) the least-valued alternative in this society.
Answer: C
Diff: 1 Type: MC Page Ref: 37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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10) ***Refer to Figure 2.1.*** Point *B* is
A) technically efficient.
B) unattainable with current resources.
C) inefficient in that not all resources are being used.
D) the equilibrium output combination.
E) the least-valued alternative in this society.
Answer: A
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11) ***Refer to Figure 2.1.*** Point *C* is
A) technically efficient.
B) unattainable with current resources.
C) inefficient in that not all resources are being used.
D) is the equilibrium output combination.
E) the least-valued alternative in this society.
Answer: B
Diff: 1 Type: MC Page Ref: 37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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12) Carmelita can perform either a combination of 35 manicures and 70 pedicures or a combination of 50 manicures and 45 pedicures. If she now performs 35 manicures and 70 pedicures, what is the opportunity cost of performing an additional 15 manicures?
A) 5 pedicures
B) 20 pedicures
C) 25 pedicures
D) 45 pedicures
E) 50 pedicures
Answer: C
Diff: 2 Type: MC Page Ref: 37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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13) Bella can produce either a combination of 60 silk roses and 80 silk leaves or a combination of 70 silk roses and 55 silk leaves. If she now produces 60 silk roses and 80 silk leaves, what is the opportunity cost of producing an additional 10 silk roses?
A) 2.5 silk leaves
B) 10 silk leaves
C) 25 silk leaves
D) 55 silk leaves
E) 80 silk leaves
Answer: C
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14) If the production possibilities frontier is _____, then opportunity costs are constant as more of one good is produced.
A) bowed out
B) bowed in
C) nonlinear
D) linear
E) vertical
Answer: D
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Figure 2.2

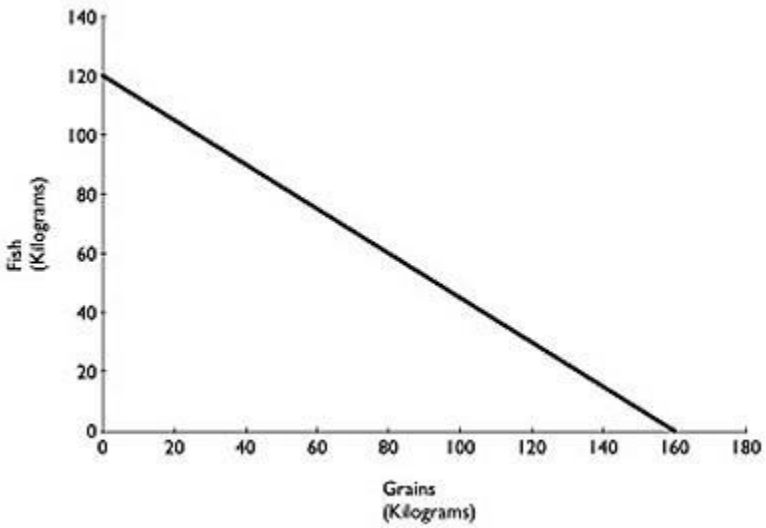


Figure 2.2 above shows the production possibilities frontier for Atikamekw Cree (ca. 1600) with a historical tradition of fishing and farming. Assume they produce two goods: fish and grains.

15) ***Refer to Figure 2.2.*** What is the opportunity cost of one kilogram of grain?
A) $\frac{3}{4}$ kilograms of fish

B) 1.2 kilograms of fish
C) $1\frac{1}{3}$ kilograms of fish

D) 12 kilograms of fish
E) 120 kilograms of fish
Answer: A
Diff: 2 Type: MC Page Ref: 37-39
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Pat's Pizza Pit

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16) ***Refer to Figure 2.2.*** What is the opportunity cost of one kilogram of fish?
A) $\frac{3}{4}$ kilogram of grain

B) $1\frac{1}{3}$ kilograms of grain

C) 1.6 kilograms of grain
D) 16 kilograms of grain
E) 160 kilograms of grain
Answer: B
Diff: 2 Type: MC Page Ref: 37-39
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17) ***Refer to Figure 2.2.*** Suppose Atikamekw Cree are currently producing 60 kilograms of grain per period. How much fish is it also producing, assuming that resources are fully utilized?
A) 45 kilograms of fish
B) 75 kilograms of fish
C) 80 kilograms of fish
D) 100 kilograms of fish
E) 120 kilograms of fish
Answer: B
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18) ***Refer to Figure 2.2.*** The linear production possibilities frontier in the figure indicates that
A) Atikamekw Cree have a comparative advantage in the production of vegetables.
B) Atikamekw Cree have a comparative disadvantage in the production of meat.
C) the trade-off between producing fish and grain is constant.
D) it is progressively more expensive to produce fish.
E) it is progressively more expensive to produce grain.
Answer: C
Diff: 2 Type: MC Page Ref: 37-39
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19) A production possibilities frontier with a bowed outward shape indicates
A) the possibility of inefficient production.
B) the possibility of scarcity of factors of production.
C) constant opportunity costs as more of one good is produced.
D) increasing opportunity costs as more of one good is produced.
E) zero opportunity costs as more of one good is produced.
Answer: D
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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20) Increasing opportunity cost is represented by a _____ production possibilities frontier.
A) linear
B) convex
C) concave
D) vertical
E) horizontal
Answer: C
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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21) The slope of a production possibilities frontier
A) measures the marginal revenue of producing one more unit of a good.
B) measures the total revenue of producing one more unit of a good.
C) measures the marginal cost of producing one more unit of a good.
D) measures the opportunity cost of producing one more unit of a good.
E) measures the total cost of producing one more unit of a good.
Answer: D
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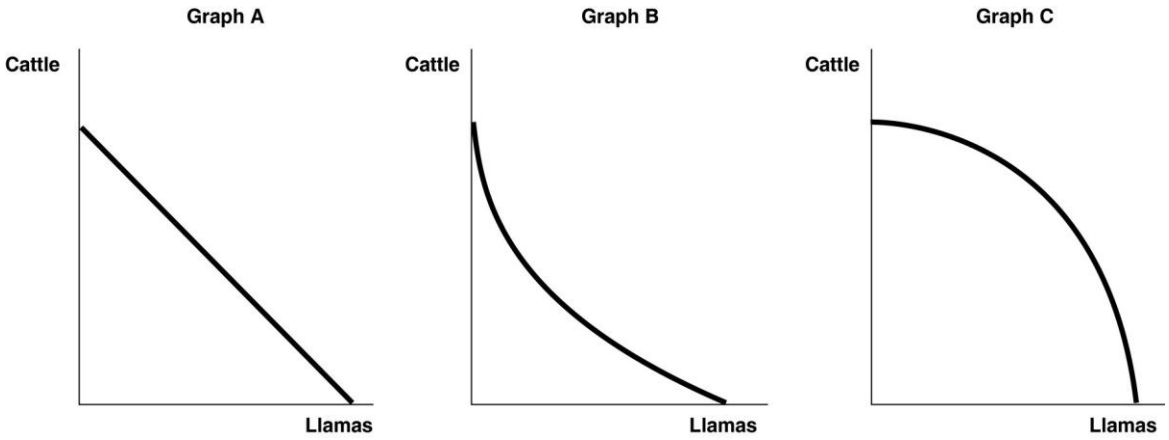
22) _____ opportunity cost implies that as more resources are applied to producing one good, that production increases by smaller and smaller amounts.
A) Increasing
B) Decreasing
C) Constant
D) Negative
E) Zero
Answer: A
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
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23) If opportunity costs are constant, the production possibilities frontier would be graphed as
A) a ray from the origin.
B) a perfectly horizontal straight line.
C) a perfectly vertical straight line.
D) a positively sloped straight line.
E) a negatively sloped straight line.
Answer: E
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Figure 2.3



24) ***Refer to Figure 2.3.*** Sergio Vignetto raises cattle and llamas on his land. His land is equally suitable for raising either animal. Which of the graphs in Figure 2.3 represent his production possibilities frontier?
A) Graph A
B) Graph B
C) Graph C
D) either Graph A or Graph C
E) either Graph B or Graph C
Answer: A
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
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25) ***Refer to Figure 2.3.*** Sergio Vignetto raises cattle and llamas on his land. Half the land is more suitable for raising cattle and half the land is better suited for raising llamas. Which of the graphs in Figure 2.3 represent his production possibilities frontier?
A) Graph A
B) Graph B
C) Graph C
D) either Graph A or Graph C
E) either Graph B or Graph C
Answer: C
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Table 2.1

Production choices for Tomaso's Trattoria

Choice	Quantity of Pizzas Produced	Quantity of Calzones Produced
A	48	0
B	36	15
C	24	30
D	12	45
E	0	60

26) ***Refer to Table 2.1.*** Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 24 pizzas and 30 calzones would appear
A) along Tomaso's production possibilities frontier.
B) inside Tomaso's production possibilities frontier.
C) outside Tomaso's production possibilities frontier.
D) at the horizontal intercept of Tomaso's production possibilities frontier.
E) at the vertical intercept of Tomaso's production possibilities frontier.
Answer: A
Diff: 2 Type: MC Page Ref: 36-37
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27) ***Refer to Table 2.1.*** Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 36 pizzas and 30 calzones would appear
A) along Tomaso's production possibilities frontier.
B) inside Tomaso's production possibilities frontier.
C) outside Tomaso's production possibilities frontier.
D) at the horizontal intercept of Tomaso's production possibilities frontier.
E) at the vertical intercept of Tomaso's production possibilities frontier.
Answer: C
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28) ***Refer to Table 2.1.*** Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 24 pizzas and 15 calzones would appear
A) along Tomaso's production possibilities frontier.
B) inside Tomaso's production possibilities frontier.
C) outside Tomaso's production possibilities frontier.
D) at the horizontal intercept of Tomaso's production possibilities frontier.
E) at the vertical intercept of Tomaso's production possibilities frontier.
Answer: B
Diff: 2 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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29) ***Refer to Table 2.1.*** Assume Tomaso's Trattoria only produces pizzas and calzones. Tomaso faces _____ opportunity costs in the production of pizzas and calzones.
A) increasing
B) decreasing
C) constant
D) negative
E) zero
Answer: C
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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30) An inward shift of a nation's production possibilities frontier can occur due to
A) a reduction in unemployment.
B) a natural disaster.
C) a change in the amounts of one good desired.
D) an increase in the labour force.
E) economic growth.
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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31) An outward shift of a nation's production possibilities frontier represents
A) a decrease in the labour force.
B) a natural disaster.
C) rising prices of the two goods.
D) an impossible situation.
E) economic growth.
Answer: E
Diff: 1 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

32) Economic decline (negative growth) is represented on a production possibilities frontier model by the production possibility frontier
A) shifting outward.
B) shifting inward.
C) becoming steeper.
D) becoming flatter.
E) staying the same.
Answer: B
Diff: 1 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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33) Economic growth is represented on a production possibilities frontier model by the production possibilities frontier
A) shifting outward.
B) shifting inward.
C) becoming steeper.
D) becoming flatter.
E) staying the same.
Answer: A
Diff: 1 Type: MC Page Ref: 41-42
Topic: Economic Growth
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34) Without an increase in the supplies of factors of production, how can a nation achieve economic growth?
A) by producing more high-value goods and less of low-value goods
B) through technological advancement which enables more output
C) by lowering the prices of factors of production
D) by increasing the prices of factors of production
E) by decreasing the size of the labour force
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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35) Which of the following would shift a nation's production possibilities frontier outward?
A) developing solar power that is more efficient in generating electricity
B) an increase in demand for the nation's products
C) a decrease in the unemployment rate
D) a law requiring workers to retire at age 50
E) producing less capital equipment
Answer: A
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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36) Which of the following would shift a nation's production possibilities frontier inward?
A) discovering a cheap way to convert sunshine into electricity
B) producing more capital equipment
C) an increase in the unemployment rate
D) a law requiring workers to retire at age 50
E) an increase in demand for the nation's product
Answer: D
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Figure 2.4

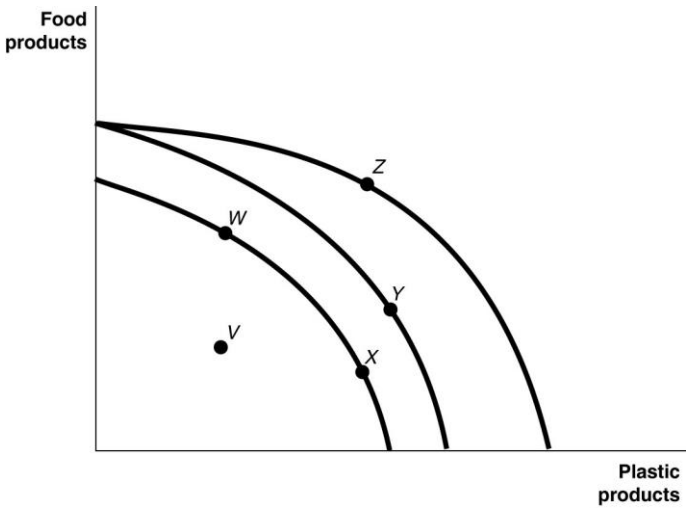


Figure 2.4 shows various points on three different production possibilities frontiers for a nation.

37) ***Refer to Figure 2.4.*** A movement from *X* to *Y*
A) could be due to a change in consumers' tastes and preferences.
B) could occur because of an influx of immigrant labour.
C) is the result of advancements in food production technology only.
D) is the result of advancements in plastic production technology only.
E) is the result of a decrease in consumer wealth.
Answer: B
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38) ***Refer to Figure 2.4.*** A movement from *Y* to *Z*
A) represents an increase in the demand for plastic products.
B) could occur because of general technological advancements.
C) is the result of advancements in food production technology.
D) is the result of advancements in plastic production technology.
E) is the result of a decrease in consumer wealth.
Answer: D
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39) ***Refer to Figure 2.4.*** Consider the following events:
a. an increase in the unemployment rate
b. a decrease in a nation's money supply
c. a war that kills a significant portion of a nation's population

Which of the events listed above could cause a movement from Y to *W* ?
A) a, b and c
B) a and b only
C) a and c only
D) a only
E) c only
Answer: E
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40) ***Refer to Figure 2.4.*** Consider the following movements:
a. from point *V* to point *W*
b. from point *W* to point *Y*
c. from point *Y* to point *Z*

Which of the movements listed above represents economic growth?
A) a, b, and c
B) b and c only
C) a only
D) b only
E) c only
Answer: B
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41) ***Refer to Figure 2.4.*** Consider the following events:
a. a decrease in the unemployment rate
b. general technological advancement
c. an increase in consumer wealth

Which of the events listed above could cause a movement from V to *W* ?
A) a only
B) a and b only
C) a and c only
D) b and c only
E) a, b, and c
Answer: A
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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42) ***Refer to Figure 2.4.*** Consider the following events:
a. a reduction in the patent protection period to no more than 2 years
b. a war that destroys a substantial portion of a nation's capital stock
c. the lack of secure and enforceable property rights system

Which of the events listed above could cause a movement from W to *V*?
A) a only
B) a and b only
C) a and c only
D) b and c only
E) a, b, and c
Answer: C
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43) The Great Depression of the 1930s with a large number of workers and factories unemployed would be represented in a production possibilities frontier graph
A) by a point inside the frontier.
B) by a point outside the frontier.
C) by a point on the frontier.
D) at the horizontal intercept of the frontier.
E) at the vertical intercept of the frontier.
Answer: A
Diff: 2 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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44) Suppose there is no unemployment in the economy and society decides that it wants more of one good. Which of the following statements is *true*?
A) It can only achieve this with an advance in technology.
B) It can increase output without giving up another good.
C) It can only achieve this with an increase in resource supplies.
D) It will have to give up production and consumption of some other good.
E) It will have to increase unemployment.
Answer: D
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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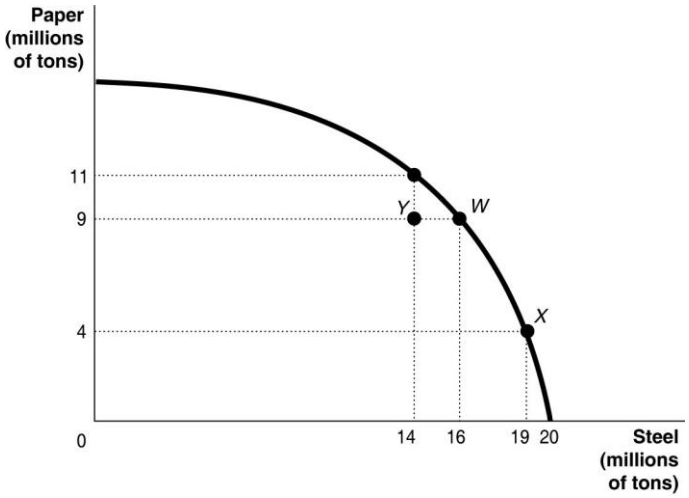
45) If society decides it wants more of one good and all resources are fully utilized, then
A) it is unable to do this unless technology advances.
B) additional resource supplies will have to be found.
C) it has to give up some of another good and incur some opportunity costs.
D) more unemployment will occur.
E) it can increase output without giving up another good.
Answer: C
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46) According to the production possibility model, if more resources are allocated to the production of physical and human capital, then which of the following is likely to happen?
A) Fewer goods will be produced for consumption today.
B) Fewer goods will be produced for consumption in the future.
C) The production possibilities frontier will be shifted inward in the future.
D) Economic growth will decline in the future.
E) The country's total production will fall in the future.
Answer: A
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
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Figure 2.5



47) ***Refer to Figure 2.5.*** If the economy is currently producing at point *Y*, what is the opportunity cost of moving to point *W*?
A) 2 million tons of steel
B) 2 million tons of paper
C) 9 million tons of paper
D) 16 million tons of paper
E) zero tons of paper and steel
Answer: E
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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48) ***Refer to Figure 2.5.*** If the economy is currently producing at point *W*, what is the opportunity cost of moving to point *X*?
A) 3 million tons of steel
B) 19 million tons of steel
C) 5 million tons of paper
D) 9 million tons of paper
E) zero tons of paper and steel
Answer: C
Diff: 1 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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49) ***Refer to Figure 2.5.*** If this economy is currently producing at point *X*, what is the opportunity cost of moving to point W?
A) 3 million tons of steel
B) 5 tons of paper
C) 7 tons of paper
D) 19 tons of steel
E) zero tons of paper and steel
Answer: A
Diff: 2 Type: MC Page Ref: 40-41
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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50) ***Refer to Figure 2.5.*** If this economy is currently considering switching from point *X* to point *W,* what is the opportunity cost of each newly produced ton of paper?
A) 0.6 tons of steel
B) 3 tons of steel
C) 1.67 tons of paper
D) 5 tons of paper.
E) zero tons of paper and steel
Answer: A
Diff: 3 Type: MC Page Ref: 40-41
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51) As provincial governments across Canada face growing budget deficits some analysts caution that rising health care spending could lead to reduced funding for universities and colleges. This statement suggests that
A) Canadian governments never really supported post secondary education.
B) there is a trade-off between health care spending and education spending.
C) society should value education spending more highly than health care spending.
D) there are long-term economic benefits generated by a healthier population.
E) there are fewer long-term economic benefits generated by an educated population.
Answer: B
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

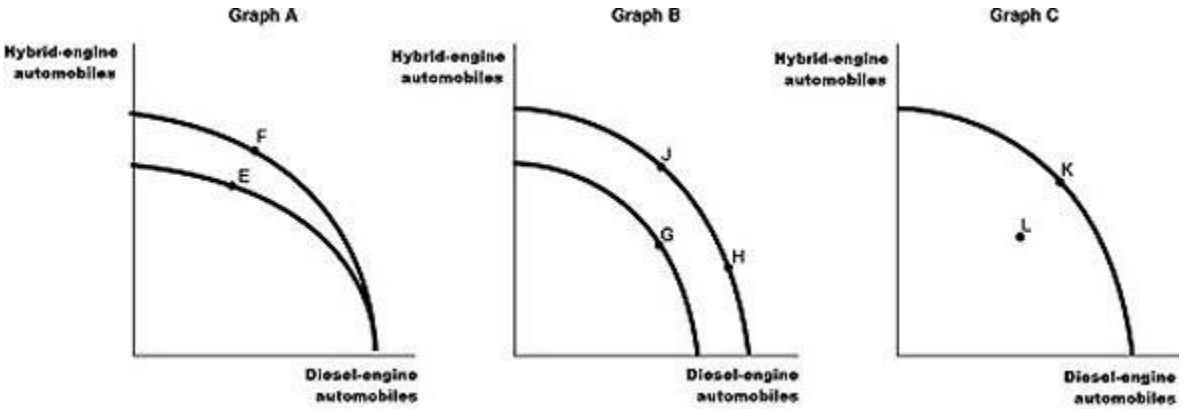
52) Suppose your expenses for this term are as follows: tuition: $7,000, room and board: $8,500, books and other educational supplies: $2,500. Further, during the term, you can only work part-time and earn $5,500 instead of your full-time salary of $20,000. What is the opportunity cost of going to college this term, assuming that your room and board expenses would be the same even if you did not go to college?
A) $7,000
B) $9,500
C) $20,000
D) $24,000
E) $38,000
Answer: D
Diff: 3 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

53) The opportunity cost of taking a semester-long economics class is
A) the cost of tuition and fees only.
B) the value of the time spent in the classroom.
C) zero because there is no admission charged if you are enrolled in the course.
D) equal to the highest value of an alternative use of the time and money spent on the class.
E) the knowledge and enjoyment you receive from attending the class.
Answer: D
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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Figure 2.6



Toyota found the emission standards too difficult to meet to bring its diesel-engine offerings to North America. They have instead focused their research on hybrid-engine technology. Assume Toyota chooses to produce both hybrid-engine vehicles and diesel-engine vehicles (for markets outside North America) for its Prius brand. Figure 2.6 shows changes to its production possibilities frontier in response to new developments and different strategic production decisions.

54) ***Refer to Figure 2.6.*** Assume a technological advancement greatly reduces the cost to produce hybrid-engine vehicles. This is best represented by the
A) movement from *E* to *F* in Graph A.
B) movement from *G* to *H* in Graph B.
C) movement from *H* to *J* in Graph B.
D) movement from *K* to *L* in Graph C.
E) movement from *L* to *K* in Graph C.
Answer: C
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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55) ***Refer to Figure 2.6.*** In response to changing regulations and enforcement, Toyota has cut back on the production of diesel-powered vehicles and increased its hybrid production. This strategy is best represented by the
A) movement from *F* to *E* in Graph A.
B) movement from *J* to *H* in Graph B.
C) movement from *G* to *J* in Graph B.
D) movement from *L* to *K* in Graph C.
E) movement from *K* to *L* in Graph C.
Answer: B
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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56) ***Refer to Figure 2.6.*** Assume that in 2019, after extensive research and development Toyota builds a new factory that can produce both types of vehicles that meet emission standards. This is best represented by the
A) movement from *E* to *F* in Graph A.
B) movement from *H* to *J* in Graph B.
C) movement from *J* to *G* in Graph B.
D) movement from *L* to *K* in Graph C.
E) movement from *K* to *L* in Graph C.
Answer: D
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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57) The federal government supports health care spending through the Canada Health Transfer. As the population ages and the number of people who are over 65 continues to rise, government spending on health care will
A) cause the federal government to go bankrupt within the next 5 years.
B) destabilize the economy and ultimately lead to the creation of new taxes.
C) leave less funding for other government programs, such as education, housing, and infrastructure.
D) start to decrease, as more nurses will be hired instead of doctors which will reduce health care costs.
E) start to decrease, as older generations retire and have more time for fitness.
Answer: C
Diff: 1 Type: MC Page Ref: 39-40
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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58) A decrease in the unemployment rate may be represented as a movement from a point on the production possibilities frontier to a point outside the frontier.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

59) If a country is producing efficiently and is on the production possibilities frontier, the only way to produce more of one good is to produce less of the other.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

60) Consider a country that produces only two goods: kayaks and mittens. Suppose it is possible for this country to increase its production of kayaks without producing fewer mittens. In this case, its current output combination is efficient.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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61) Any output combination outside a production possibility frontier is associated with unused or underutilized resources.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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62) An increase in the labour force shifts the production possibility frontier inwards over time.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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63) If additional units of a good could be produced at a constant opportunity cost, the production possibility frontier would be bowed outward (concave).
Answer: FALSE
Diff: 2 Type: TF Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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64) On a diagram of a production possibility frontier, opportunity cost is represented by the production possibility frontier shifting outward.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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65) To increase fuel efficiency, automobile manufacturers make cars small and light. Large cars absorb more of the impact of an accident than small cars but yield lower fuel efficiency. These facts suggest that a negative relationship exists between safety and fuel efficiency.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 35
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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66) Governments do not face trade-offs in providing programs, only individuals do.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 39-40
Topic: Trade-offs
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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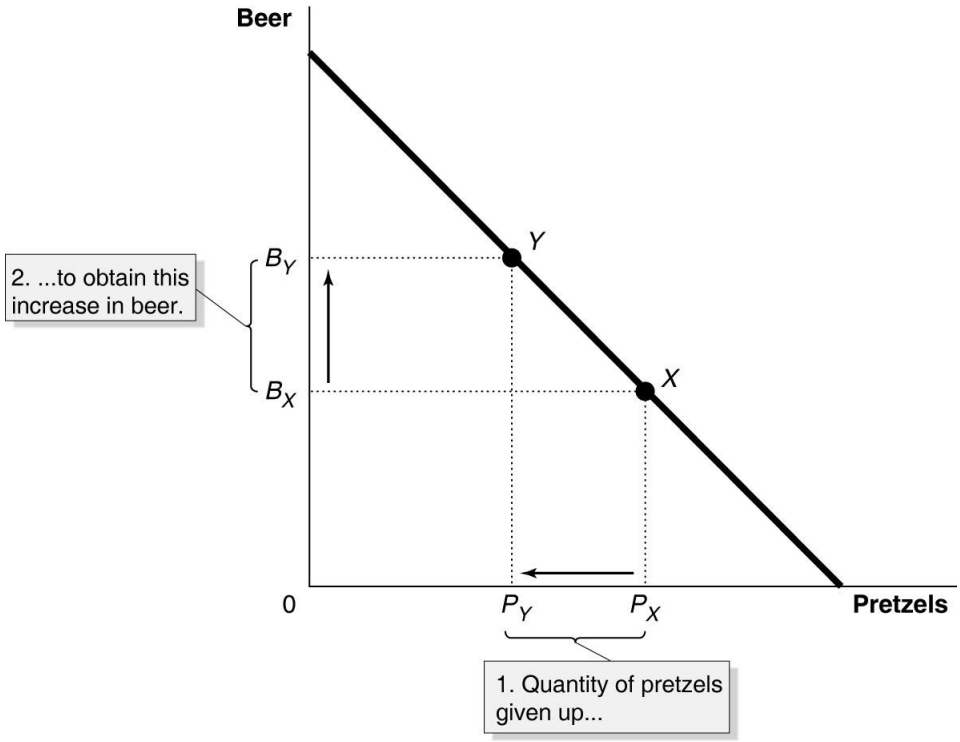
67) What is a production possibilities frontier? What do points along the frontier represent? What do points inside and outside the frontier represent?
Answer: A production possibilities frontier is a curve showing the maximum attainable combinations of two products that may be produced with available resources and current technology. Points along a production possibilities frontier are attainable with the resources available and are efficient. Points inside the frontier are attainable but inefficient. Points outside the frontier are unattainable.
Diff: 2 Type: ES Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

68) What shape does a production possibilities frontier take if it displays increasing opportunity costs? What shape does a production possibilities frontier take if it displays constant opportunity costs? Which shape is most common in production situations? Why are both types presented in the text?
Answer: A production possibilities frontier which displays increasing opportunity costs is bowed out. A production possibilities frontier which displays constant opportunity costs is linear. A bowed out production possibilities frontier is most common in production situations. Linear production possibilities frontiers are much simpler to work with mathematically, while still demonstrating the key points of the model.
Diff: 2 Type: ES Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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69) a. Draw a production possibilities frontier for a country that produces two goods, beer and pretzels. Assume that resources are equally suited to both tasks.
b. Define opportunity costs.
c. Use your production possibilities frontier graph to demonstrate the principle of opportunity costs.
Answer:
a. The PPF is linear to reflect the fact that resources are equally suited to both tasks.



b. Opportunity cost is defined as the highest valued alternative that must be forgone by taking an action.
c. In the PPF graph in part (a), suppose the country is currently producing at point *X* and wishes to move to point *Y* so that it can produce more beer. The only way it can obtain more beer is to give up some amount of pretzels.
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Table 2.2

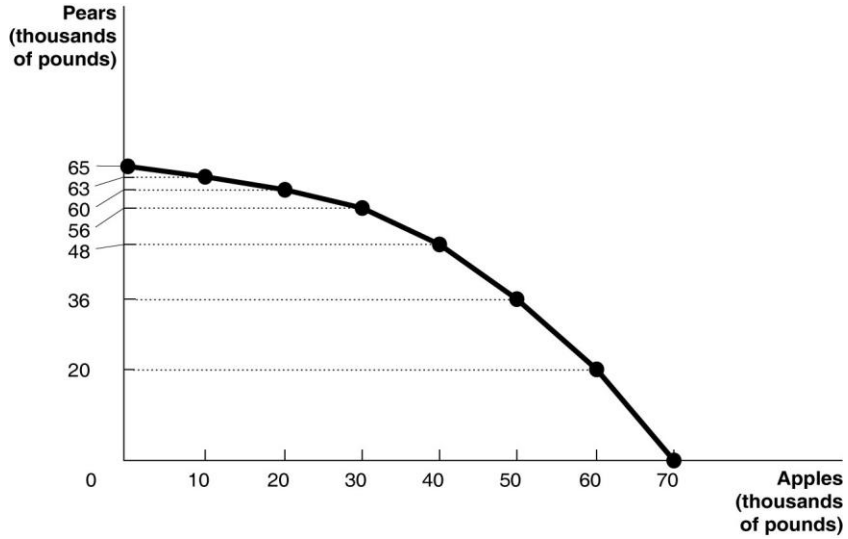
Possible Output Combinations	Apples (thousands of pounds)	Pears (thousands of pounds)
A	70	0
B	60	20
C	50	36
D	40	48
E	30	56
F	20	60
G	10	63
H	0	65

70) ***Refer to Table 2.2.*** The Fruit Farm produces only apples and pears. The table above shows the maximum possible output combinations of the two fruits using all resources and currently available technology.
a. Graph The Fruit Farm's production possibilities frontier. Put apples on the horizontal axis and pears on the vertical axis. Be sure to identify the output combination points on your diagram.
b. Suppose The Fruit Farm is currently producing at point *D*. What is the opportunity cost of producing an additional 8,000 pounds of pears?
c. Suppose The Fruit Farm is currently producing at point *D*. What happens to the opportunity cost of producing more and more pears? Does it increase, decrease or remain constant? Explain your answer.
d. Suppose The Fruit Farm is currently producing at point G. What happens to the opportunity cost of producing more and more apples? Does it increase, decrease or remain constant? Explain your answer.
e. Suppose The Fruit Farm is plagued by the apple maggot infestation which destroys apple trees but not pears. Show in a graph what happens to its PPF.

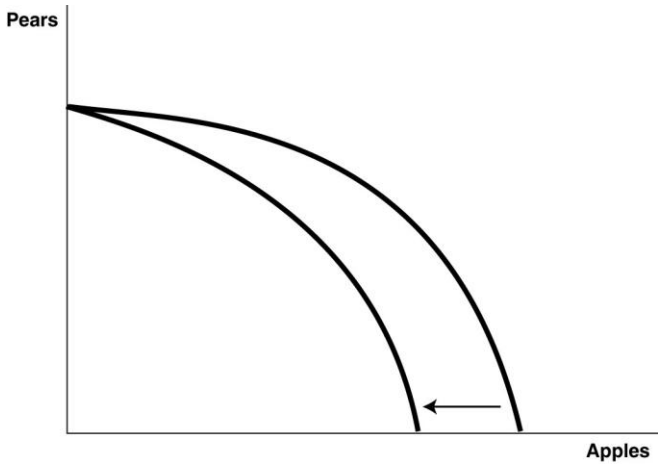
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Answer:
a.



b. 10,000 pounds of apples
c. It increases. For example to move to *E*, The Fruit Farm has to give up 10,000 pounds of apples to produce an additional 8,000 pounds of pears. For each additional 10,000 pounds of apples foregone, the payoff in terms of pears gets progressively smaller.
d. It increases. Each time it wants to produce an additional 10,000 pounds of apples, more and more pears must be given up.
e.



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Topic: Production Possibilities Frontiers
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71) _____ exists because unlimited wants exceed the limited resources available to fulfill those wants.
A) Scarcity
B) Productive efficiency
C) The command economy
D) Economic growth
E) Inflation
Answer: A
Diff: 2 Type: MC Page Ref: 36
Topic: Scarcity
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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72) The principle of _____ is that the economic cost of using a factor of production is the alternative use of that factor that is given up.
A) marginal cost
B) opportunity cost
C) normative economics
D) entrepreneurship
E) comparative advantage
Answer: B
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

73) The production possibilities frontier shows
A) the various products that can be produced now and in the future.
B) the maximum attainable combinations of two products that may be produced in a particular time period with available resources.
C) what an equitable distribution of products among citizens would be.
D) what people want firms to produce in a particular time period.
E) that the economy only produces two products at any given time.
Answer: B
Diff: 2 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
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74) _____ shows that if all resources are fully and efficiently utilized, more of one good can be produced only by producing less of another good.
A) Comparative advantage
B) Absolute advantage
C) The mixed market system
D) The command system
E) The production possibilities frontier model
Answer: E
Diff: 2 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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75) The production possibilities frontier model assumes all of the following, *except*
A) land and capital are fixed in quantity, but labour and natural resources are variable.
B) labour, capital, land, and natural resources are fixed in quantity.
C) the economy produces only two products at any given time.
D) any level of the two products that the economy produces is currently possible.
E) the level of technology is fixed and unchanging.
Answer: D
Diff: 2 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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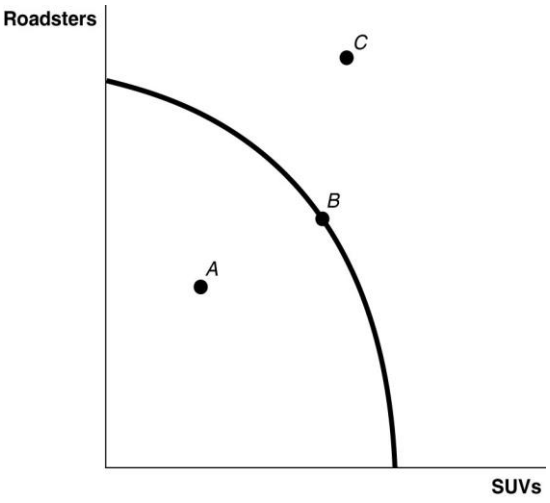
76) The _____ production points on a production possibility curve are the points along and inside the production possibility frontier.
A) attainable
B) unattainable
C) impossible
D) productively efficient
E) allocatively efficient
Answer: A
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Topic: Production Possibilities Frontiers
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77) The unattainable points in a production possibilities diagram are
A) the points within the production possibilities frontier.
B) the points along the production possibilities frontier.
C) the points of the horizontal and vertical intercepts.
D) the points outside the production possibilities frontier.
E) the intercepts on the horizontal and vertical axes.
Answer: D
Diff: 1 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
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Figure 2.7



78) ***Refer to Figure 2.7.*** _____ is (are) inefficient in that not all resources are being used.
A) Point *A*
B) Point *B*
C) Point *C*
D) Points *A* and *C*
E) Points *B* and *C*
Answer: A
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Topic: Production Possibilities Frontiers
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79) ***Refer to Figure 2.7.*** _____ is (are) technically efficient.
A) Point *A*
B) Point *B*
C) Point *C*
D) Points *A* and *C*
E) Points *B* and *C*
Answer: B
Diff: 1 Type: MC Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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80) ***Refer to Figure 2.7.*** _____ is (are) unattainable with current resources.
A) Point *A*
B) Point *B*
C) Point *C*
D) Points *A* and *C*
E) Points *B* and *C*
Answer: C
Diff: 1 Type: MC Page Ref: 36-37
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81) In a production possibilities frontier model, a point inside the frontier is
A) allocatively efficient.
B) productively efficient
C) allocatively inefficient.
D) productively inefficient.
E) not relevant to production.
Answer: D
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82) If the production possibilities frontier is linear, then
A) opportunity costs are decreasing as more of one good is produced.
B) it is easy to efficiently produce output.
C) opportunity costs are increasing as more of one good is produced.
D) opportunity costs are constant as more of one good is produced.
E) all points on the linear line are inefficient, as only a curve is efficient.
Answer: D
Diff: 2 Type: MC Page Ref: 36-37
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Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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Figure 2.8

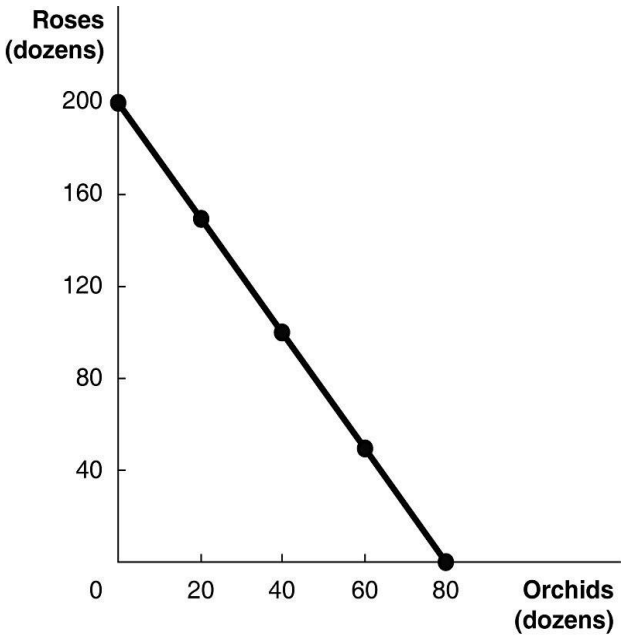


Figure 2.8 above shows the production possibilities frontier for Vidalia, a nation that produces two goods, roses and orchids.

83) ***Refer to Figure 2.8.*** What is the opportunity cost of one dozen orchids?
A) 0.4 dozen roses
B) 1.0 dozen roses
C) 2.5 dozen roses
D) 7.25 dozen roses
E) 16 dozen roses
Answer: C
Diff: 2 Type: MC Page Ref: 37-39
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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84) ***Refer to Figure 2.8.*** What is the opportunity cost of one dozen roses?
A) 0.4 dozen orchids
B) 1.0 dozen orchids
C) 2.5 dozen orchids
D) 7.25 dozen orchids
E) 16 dozen orchids
Answer: A
Diff: 2 Type: MC Page Ref: 37-39
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85) ***Refer to Figure 2.8.*** Suppose Vidalia is currently producing 20 dozen orchids per period. How many roses is it also producing, assuming that resources are fully utilized?
A) 30 dozen roses
B) 50 dozen roses
C) 100 dozen roses
D) 150 dozen roses
E) 200 dozen roses
Answer: D
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86) ***Refer to Figure 2.8.*** The linear production possibilities frontier in the figure indicates that
A) Vidalia has a comparative advantage in the production of orchids.
B) Vidalia has a comparative disadvantage in the production of roses.
C) the trade-off between roses and orchids is constant.
D) it is progressively more expensive to produce orchids.
E) it is progressively more expensive to produce roses.
Answer: C
Diff: 2 Type: MC Page Ref: 37-39
Topic: Opportunity Cost
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87) ***Refer to Figure 2.8.*** Suppose Vidalia receives orders for 60 dozen orchids and 120 dozen roses. Vidalia will
A) not be able to produce enough to fill the order.
B) will be able to produce enough to fill the order.
C) make a lot of extra money.
D) be using its resources inefficiently if it fills the order.
E) experience economic growth if it fills the order.
Answer: A
Diff: 3 Type: MC Page Ref: 37-39
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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88) What is the opportunity cost of a provincial government raising taxes to pay for increased spending on health care?
A) less private consumption
B) more private consumption
C) lower tax revenue
D) cuts to other government programs
E) extra spending will offset the increase in taxes
Answer: A
Diff: 1 Type: MC Page Ref: 39-40
Topic: Trade-offs
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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89) A production possibilities frontier with a _____ shape indicates increasing opportunity costs as more and more of one good is produced.
A) linear
B) bowed inward
C) bowed outward
D) perfectly horizontal
E) perfectly vertical
Answer: C
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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90) The slope of a production possibilities frontier measures the _____ of producing one more unit of a good.
A) marginal revenue
B) total revenue
C) marginal cost
D) opportunity cost
E) total cost
Answer: D
Diff: 1 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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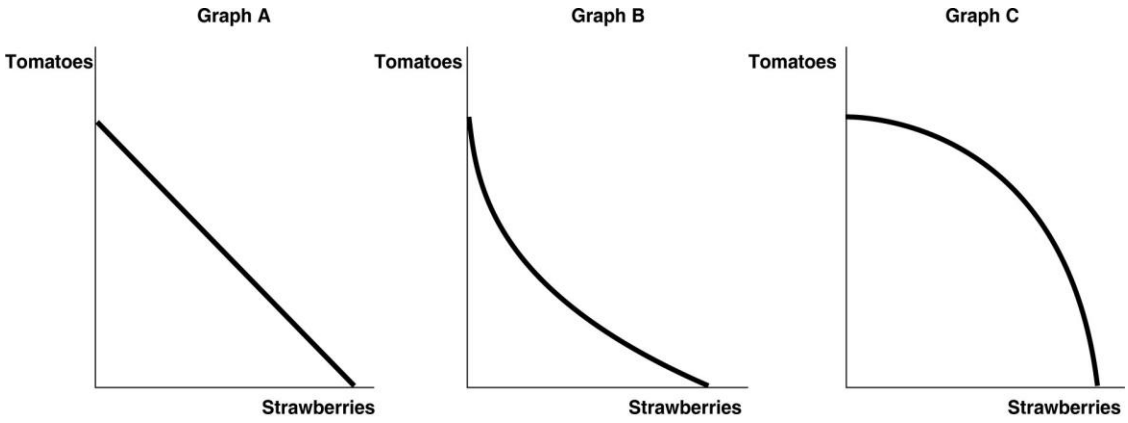
91) Increasing marginal opportunity cost implies that
A) the payoff from allocating more resources increases by progressively smaller amounts.
B) the benefits from allocating more resources decreases by progressively larger amounts.
C) rising opportunity costs make it inefficient to produce beyond a certain quantity.
D) the law of scarcity applies.
E) the law of comparative advantage applies.
Answer: A
Diff: 2 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

92) If opportunity costs are _____, the production possibilities frontier would be graphed as a negatively sloped straight line.
A) decreasing
B) increasing
C) negative
D) positive
E) constant
Answer: E
Diff: 1 Type: MC Page Ref: 40-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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Figure 2.9



93) ***Refer to Figure 2.9.*** Carlos Vanya grows tomatoes and strawberries on his land. His land is equally suited for growing either fruit. Which of the graphs in Figure 2.9 represents his production possibilities frontier?
A) Graph A
B) Graph B
C) Graph C
D) either Graph A or Graph B
E) either Graph B or Graph C
Answer: A
Diff: 2 Type: MC Page Ref: 36-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

94) ***Refer to Figure 2.9.*** Carlos Vanya grows tomatoes and strawberries on his land. A portion of his land is more suitable for growing tomatoes and the other portion is better suited for strawberry cultivation. Which of the graphs in Figure 2.9 represent his production possibilities frontier?
A) Graph A
B) Graph B
C) Graph C
D) either Graph A or Graph B
E) either Graph B or Graph C
Answer: C
Diff: 2 Type: MC Page Ref: 36-41
Topic: Opportunity Cost
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Table 2.3

Production Choices for Dina's Diner

Choice	Quantity of Sliders Produced	Quantity of Hot Wings Produced
A	80	0
B	60	25
C	40	50
D	20	75
E	0	100

95) ***Refer to Table 2.3.*** Assume Dina's Diner only produces sliders and hot wings. A combination of 40 sliders and 50 hot wings would appear
A) along Dina's production possibilities frontier.
B) inside Dina's production possibilities frontier.
C) outside Dina's production possibilities frontier.
D) at the vertical intercept of Dina's production possibilities frontier.
E) at the horizontal intercept of Dina's production possibilities frontier.
Answer: A
Diff: 2 Type: MC Page Ref: 36-41
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

96) ***Refer to Table 2.3.*** Assume Dina's Diner only produces sliders and hot wings. A combination of 40 sliders and 25 hot wings would appear
A) along Dina's production possibilities frontier.
B) inside Dina's production possibilities frontier.
C) outside Dina's production possibilities frontier.
D) at the vertical intercept of Dina's production possibilities frontier.
E) at the horizontal intercept of Dina's production possibilities frontier.
Answer: B
Diff: 2 Type: MC Page Ref: 37-41
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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97) ***Refer to Table 2.3.*** Assume Dina's Diner only produces sliders and hot wings. A combination of 60 sliders and 50 hot wings would appear
A) along Dina's production possibilities frontier.
B) inside Dina's production possibilities frontier.
C) outside Dina's production possibilities frontier.
D) at the vertical intercept of Dina's production possibilities frontier.
E) at the horizontal intercept of Dina's production possibilities frontier.
Answer: C
Diff: 2 Type: MC Page Ref: 36-41
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

98) ***Refer to Table 2.3.*** Dina faces _____ opportunity costs in the production of sliders and hot wings.
A) increasing
B) decreasing
C) constant
D) negative
E) positive
Answer: C
Diff: 2 Type: MC Page Ref: 36-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

99) An outward shift of a nation's production possibilities frontier can occur due to
A) a reduction in unemployment.
B) a natural disaster like a hurricane or bad earthquake.
C) a change in the amounts of one good desired.
D) an increase in the labour force.
E) a decrease in the labour force.
Answer: D
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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100) _____ a nation's production possibilities frontier represents economic growth.
A) An outward shift of
B) An inward shift of
C) Moving up along
D) Moving down along
E) A steeper curve in
Answer: A
Diff: 1 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

101) Economic growth is represented on a production possibilities frontier model by the production possibility frontier
A) shifting outward.
B) shifting inward.
C) becoming steeper.
D) becoming flatter.
E) staying the same.
Answer: A
Diff: 1 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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102) Without technological advancement, how can a nation achieve economic growth?
A) by producing more high-value goods and fewer low-value goods
B) by increasing the quantities of at least one factor of production
C) by producing more low-value goods and fewer high-value goods
D) by decreasing the size of the labour force
E) by passing a law requiring workers to retire at age 50
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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103) Which of the following would shift a nation's production possibilities frontier inward?
A) discovering a cheap way to convert sunshine into electricity
B) producing more capital equipment
C) an increase in the unemployment rate
D) a law requiring workers to retire at age 50
E) decreasing opportunity costs
Answer: D
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

104) Japan currently has fewer women working (outside the home) than most other developed countries. If these women were to take on jobs, it would
A) cause Japan's PPF to shift outward.
B) cause Japan's PPF to shift inward.
C) cause a reduction in Japan's ability to produce manufactured goods.
D) cause Japan to allow much more immigration.
E) decrease the labour force.
Answer: A
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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Figure 2.10

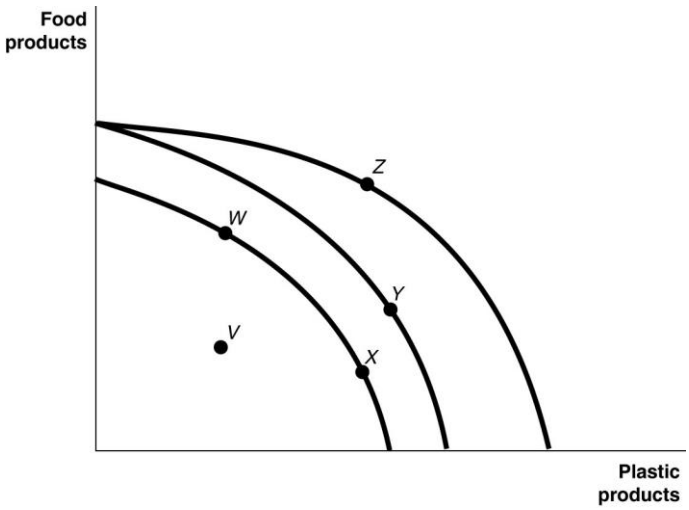


Figure 2.10 shows various points on three different production possibilities frontiers for a nation.

105) ***Refer to Figure 2.10.*** A movement from _____ could occur because of an influx of immigrant labour.
A) *X* to *W*
B) *X* to *Y*
C) *W* to *V*
D) *W* to *X*
E) *X* to *V*
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

106) ***Refer to Figure 2.10.*** A movement from _____ is the result of advancements in plastic production technology.
A) *V* to *X*
B) *W* to *X*
C) *Z* to *W*
D) *Y* to *Z*
E) *Y* to *X*
Answer: D
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
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107) Consider the following events:
a. an increase in the unemployment rate
b. a decrease in a nation's money supply
c. a war that kills a significant portion of a nation's population

Refer to Figure 2.10. Which of the events listed above could cause a movement from *Z* to *X* ?
A) a only
B) b only
C) c only
D) a and c only
E) a, b, and c
Answer: C
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

108) Consider the following movements:
a. from point *V* to point *W*
b. from point *W* to point *Y*
c. from point *Y* to point *Z*

Refer to Figure 2.10. Which of the movements listed above represents advancements in technology with respect to both plastic production and food production?
A) a only
B) b only
C) c only
D) b and c only
E) a, b, and c
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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109) Consider the following events:
a. a decrease in the unemployment rate
b. general technological advancement
c. an increase in consumer wealth

Refer to Figure 2.10. Which of the events listed above could cause a movement from *V* to *X* ?
A) a only
B) b only
C) c only
D) a and c only
E) a, b, and c
Answer: A
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

110) Consider the following events:
a. a reduction in the patent protection period to no more than 2 years
b. a war that destroys a substantial portion of a nation's capital stock
c. the lack of a secure and enforceable property rights system

Refer to Figure 2.10. Which of the events listed above could cause a movement from *W* to *V*?
A) a only
B) b only
C) c only
D) a and c only
E) a, b, and c
Answer: D
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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111) The recession of 2008-2009 would most likely be represented in a production possibilities frontier graph by
A) movement to a point inside the frontier.
B) movement to a point outside the frontier.
C) movement to a point on the frontier.
D) an increase in an intercept on either axis of the PPF.
E) a decrease in an intercept on either axis of the PPF.
Answer: A
Diff: 2 Type: MC Page Ref: 36-37
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

112) Suppose there is some unemployment in the economy and society decides that it wants more of one good. Which of the following statements is true?
A) It is not possible to achieve this unless technology advances.
B) It can increase output by employing more resources.
C) It will have to increase resource supplies.
D) It will have to give up production of some other good.
E) It will have to give up consumption of some other good.
Answer: B
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

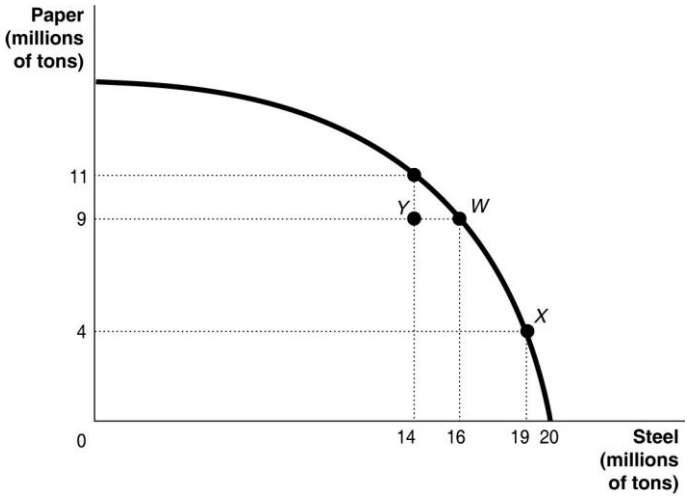
113) If society decides it wants more of one good and _____, then it has to give up some of another good and incur some opportunity costs.
A) technology advances
B) resources are underutilized
C) all resources are fully utilized
D) new resources are discovered
E) there is some unemployment
Answer: C
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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114) According to the production possibility model, if more resources are allocated to the production of physical and human capital, which of the following is *not* likely to occur?
A) Fewer goods will be produced for consumption today.
B) The production possibilities frontier will shift outward in the future.
C) Future economic growth will be enhanced.
D) The country's total production will fall.
E) Fewer goods will be produced for consumption in the future.
Answer: D
Diff: 2 Type: MC Page Ref: 41-42
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

Figure 2.11



115) ***Refer to Figure 2.11.*** If the economy is currently producing at point *Y*, what is the opportunity cost of moving to point *X*?
A) 3 million tons of steel
B) 5 million tons of steel
C) 9 million tons of paper
D) 5 million tons of paper
E) 10 million tons of both paper
Answer: D
Diff: 2 Type: MC Page Ref: 36-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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116) ***Refer to Figure 2.11.*** If the economy is currently producing at point *X*, what is the opportunity cost of moving to point *W*?
A) 3 million tons of steel
B) 19 million tons of steel
C) 5 million tons of paper
D) 9 million tons of paper
E) 10 million tons of paper
Answer: A
Diff: 1 Type: MC Page Ref: 36-41
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

117) A student comments to his roommate that the only way he will be able to pass his final exams is to not sleep for the next three days. This statement suggests that
A) students are more concerned about good grades than good health.
B) society should value sleep more highly than good grades.
C) there is a trade-off between studying and sleep.
D) students can catch up on their sleep once final exams are over.
E) students do not need to sleep.
Answer: C
Diff: 2 Type: MC Page Ref: 35
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

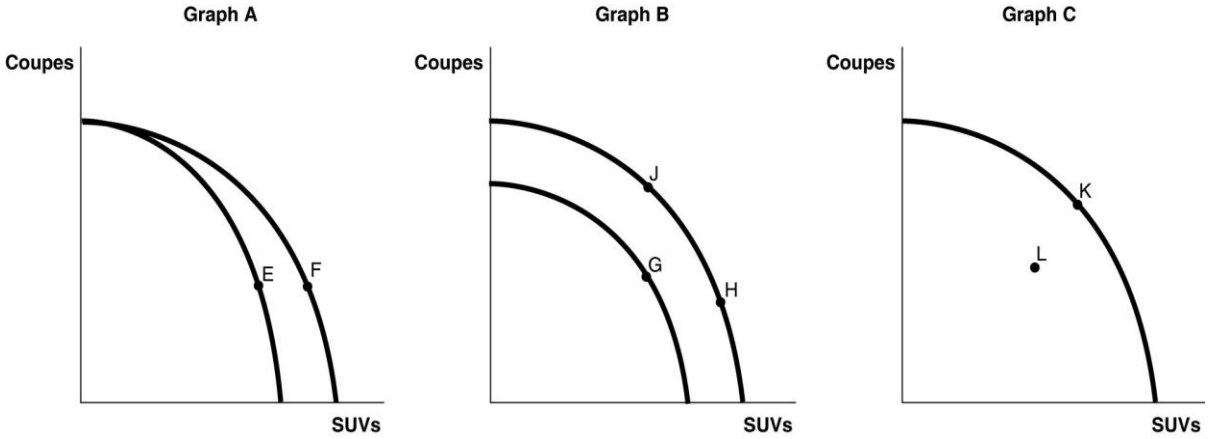
118) Suppose your expenses for this term are as follows: tuition: $5,000, room and board: $3,000, books and other educational supplies: $500. Further, during the term, you can only work part-time and earn $12,000 instead of your full-time salary of $20,000. What is the opportunity cost of going to university this term, assuming that your room and board expenses would be the same even if you did not go to university?
A) $5,500
B) $8,500
C) $13,500
D) $20,000
E) $20,500
Answer: C
Diff: 3 Type: MC Page Ref: 36
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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119) The opportunity cost of taking an online history class is
A) the knowledge you receive from taking the class.
B) the value of the time spent online.
C) equal to the highest value of an alternative use of the time and money spent on the class.
D) zero because there is no classroom time involved if you are enrolled in the course.
E) the cost of tuition and books for the class.
Answer: C
Diff: 2 Type: MC Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

Figure 2.12



Tesla motors currently has three different models available in Canada; the Model S and the Model 3 (both coupes) and the Model X (an SUV). Figure 2.12 shows changes to its production possibilities frontier in response to new developments and different strategic production decisions.

120) ***Refer to Figure 2.12.*** Suppose worker productivity increases so that the total number of vehicles produced increases as the company adds more machinery and workers and changes the layout of the factory. This is best represented by the
A) movement from *E* to *F* in Graph A.
B) movement from *G* to *H* in Graph B.
C) movement from *J* to *H* in Graph B.
D) movement from *H* to *J* in Graph B.
E) movement from *K* to *L* in Graph C.
Answer: B
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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121) ***Refer to Figure 2.12.*** In response to changing consumer demands, Tesla cuts back on the production of coupes and increases its production of SUVs. This strategy is best represented by
A) movement from *E* to *F* in Graph A.
B) movement from *G* to *H* in Graph B.
C) movement from *J* to *H* in Graph B.
D) movement from *H* to *J* in Graph B.
E) movement from *K* to *L* in Graph C.
Answer: C
Diff: 2 Type: MC Page Ref: 41-42
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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122) ***Refer to Figure 2.12.*** Suppose Tesla has to shut down a portion of its facility as it works on remodelling the facility to merge two of its separate assembly lines in preparation for the production of a new model called a "minibus". The production decision to shut down temporarily will result in a
A) movement from *E* to *F* in Graph A.
B) movement from *G* to *H* in Graph B.
C) movement from *J* to *H* in Graph B.
D) movement from *H* to *J* in Graph B.
E) movement from *K* to *L* in Graph C.
Answer: E
Diff: 2 Type: MC Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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123) If the price of a good or service rises, households have to choose whether to buy less of that good or service or spend less on other goods and services. When doctors and/or nurses demand pay increases, provincial governments
A) cut back on their total spending on health care.
B) increase spending on other programs.
C) automatically increase sales taxes.
D) cut back on other programs or increase taxation.
E) increase the minimum wage.
Answer: D
Diff: 2 Type: MC Page Ref: 39-40
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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124) An increase in the unemployment rate may be represented as a movement from a point on the production possibilities frontier to a point inside the frontier.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 36-37
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

125) If a country is producing efficiently and is on the production possibilities frontier, the only way to produce more of one good is with an advance in technology.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 36-37
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

126) Consider a country that produces only two goods: pineapples and tractors. Suppose it is possible for this country to increase its production of pineapples without producing fewer tractors. In this case, its current output combination is inefficient.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

127) Any output combination inside a production possibility frontier is associated with unused or underutilized resources.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

128) An increase in population shifts the production possibility frontier inwards over time.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 41-42
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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129) If additional units of a good could be produced at a constant opportunity cost, the production possibility frontier would be linear.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

130) On a diagram of a production possibilities frontier, opportunity cost is represented by the slope of the production possibilities frontier.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 36-37
Topic: Opportunity Cost
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Reflective Thinking

131) What causes a production possibilities frontier to shift outward?
Answer: A production possibilities curve shifts outward with economic growth, which occurs with an increase in resources or a positive technology change.
Diff: 2 Type: SA Page Ref: 40-41
Topic: Economic Growth
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

132) What causes a production possibilities frontier to shift inward?
Answer: A production possibilities curve shifts inward with economic decline, or negative growth. This occurs with a decrease in resources or a negative technology change.
Diff: 2 Type: SA Page Ref: 40-41
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills

133) To increase fuel efficiency, automobile manufacturers make cars small and light. Large cars absorb more of the impact of an accident than small cars but yield lower fuel efficiency. These facts suggest that a positive relationship exists between safety and fuel efficiency.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 35
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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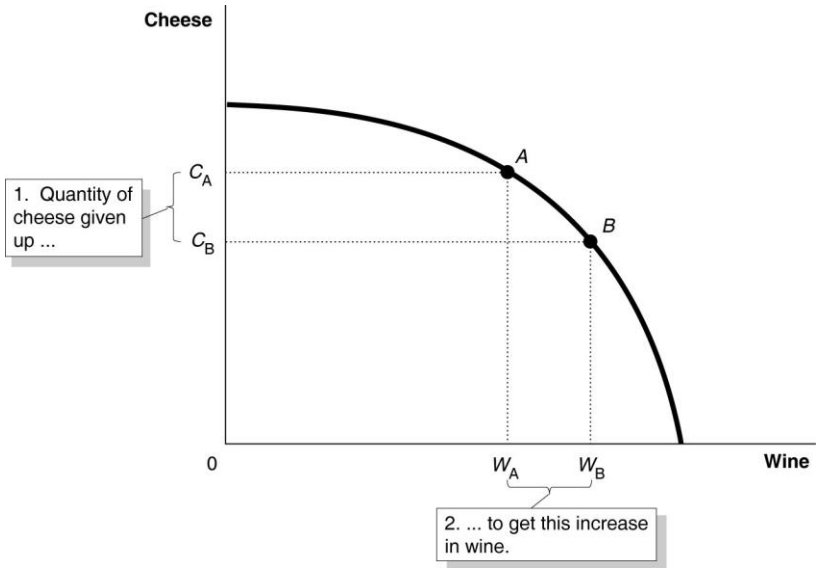
134) How are efficiency and inefficiency represented on a production possibilities frontier?
Answer: Efficiency is represented by points along the production possibilities frontier. Inefficiency is represented by points inside the production possibilities frontier.
Diff: 2 Type: SA Page Ref: 36-37
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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135) What does the term "increasing marginal opportunity cost" mean? How are increasing marginal opportunity costs represented on a bowed out production possibilities frontier?
Answer: Increasing marginal opportunity costs means that as more and more of a product is made, the opportunity cost of making each additional unit rises. They are represented by moving down a bowed out production possibilities frontier.
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136)
a. Draw a production possibilities frontier for a country that produces two goods, wine and cheese.
Assume that resources are not equally suited to both tasks.
b. Define opportunity costs.
c. Use your production possibilities frontier graph to demonstrate the principle of opportunity costs.
Answer:
a. The PPF is concave (bowed away from the origin) to reflect the fact that resources are not equally suited to both tasks.



b. Opportunity cost is defined as the highest valued alternative that must be forgone by taking an action.
c. In the PPF graph in part (a), suppose the country is currently producing at point *A* and wishes to move to point *B* so that it can produce more wine. The only way it can obtain more wine is to give up some amount of cheese.
Diff: 2 Type: SA Page Ref: 40-41
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
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Table 2.4

Possible Output Combinations	Cashews (thousands of kilograms)	Almonds (thousands of kilograms)
A	35	0
B	30	20
C	25	35
D	20	47
E	15	57
F	10	64
G	5	68
H	0	70

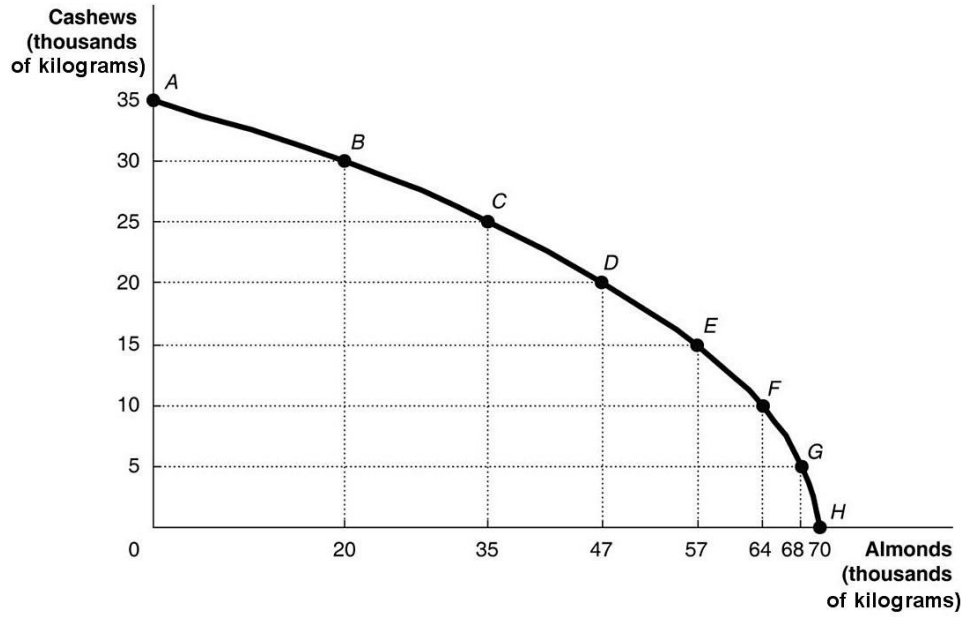
137) ***Refer to Table 2.4.*** The Nut House produces only cashews and almonds. The table above shows the maximum possible output combinations of the two nuts using all resources and currently available technology.

a. Graph The Nut House's production possibilities frontier. Put almonds on the horizontal axis and cashews on the vertical axis. Be sure to identify the output combination points on your diagram.
b. Suppose The Nut House is currently producing at point *C*. What is the opportunity cost of producing an additional 12,000 kilograms of almonds?
c. Suppose The Nut House is currently producing at point *C*. What happens to the opportunity cost of producing more and more almonds? Does it increase, decrease, or remain constant? Explain your answer.
d. Suppose The Nut House is currently producing at point *F*. What happens to the opportunity cost of producing more and more cashews? Does it increase, decrease, or remain constant? Explain your answer.
e. Suppose The Nut House is plagued by a variety of white root-rot disease, which destroys cashew trees but not almond trees. Show in a graph what happens to its PPF.

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Answer: a.

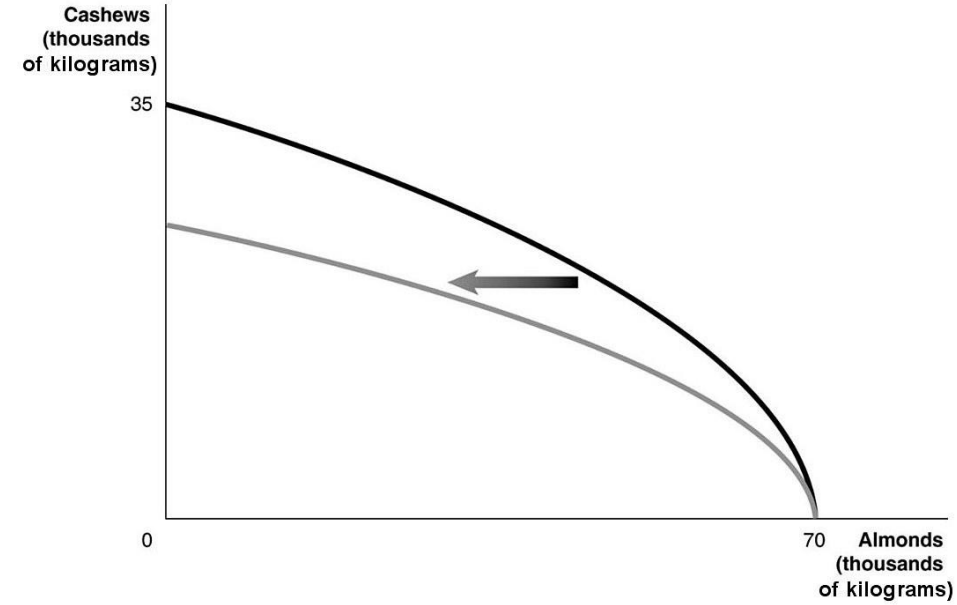


b. 5,000 kilograms of cashews

c. It increases. For example to move to *D*, The Nut House has to give up 5,000 kilograms of cashews to produce an additional 10,000 kilograms of almonds. For each additional 5,000 kilograms of cashews foregone, the payoff in terms of almonds gets progressively smaller.

d. It increases. Each time it wants to produce an additional 5,000 kilograms of cashews, more and more almonds must be given up.

e.



Diff: 3 Type: ES Page Ref: 37-38
Topic: Production Possibilities Frontiers
Learning Outcome: 2.1 Use a production possibilities frontier to analyze opportunity costs and trade-offs
AACSB: Analytic Skills
Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Pat's Pizza Pit

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2.2 Comparative Advantage and Trade

1) If you can produce more of something than others with the same resources, you have
A) a comparative advantage.
B) an absolute advantage.
C) an efficient production system.
D) a free-market economy.
E) a command economy.
Answer: B
Diff: 1 Type: MC Page Ref: 44-45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

Table 2.5

	Serena	**Haley**
Bracelets	8	9
Necklaces	16	12

Table 2.5 shows the output per week of two jewelers, Serena and Haley. They can either devote their time to making bracelets or making necklaces.

2) ***Refer to Table 2.5.*** Which of the following statements is *true*?
A) Haley has an absolute advantage in making both products.
B) Serena has an absolute advantage in making both products.
C) Haley has an absolute advantage in making bracelets and Serena in making necklaces.
D) Haley has an absolute advantage in making necklaces and Serena in making bracelets.
E) Neither Haley nor Serena has an absolute advantage.
Answer: C
Diff: 1 Type: MC Page Ref: 44-45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

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3) ***Refer to Table 2.5.*** What is Haley's opportunity cost of making a bracelet?
A) 3/4 of a bracelet
B) 3 bracelets
C) 1 1/3 necklaces
D) 2 necklaces
E) 12 necklaces
Answer: C
Diff: 2 Type: MC Page Ref: 45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

4) ***Refer to Table 2.5.*** What is Haley's opportunity cost of making a necklace?
A) 3/4 of a bracelet
B) 3 bracelets
C) 1 1/3 necklaces
D) 2 necklaces
E) 12 necklaces
Answer: A
Diff: 2 Type: MC Page Ref: 45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

5) ***Refer to Table 2.5.*** What is Serena's opportunity cost of making a bracelet?
A) 2 necklaces
B) 1/2 of a bracelet
C) 1/2 of a necklace
D) 3/4 of a bracelet
E) 12 necklaces
Answer: A
Diff: 2 Type: MC Page Ref: 45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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6) ***Refer to Table 2.5.*** What is Serena's opportunity cost of making a necklace?
A) 2 necklaces
B) 1/2 of a bracelet
C) 1/2 of a necklace
D) 3/4 of a bracelet
E) 12 necklaces
Answer: B
Diff: 2 Type: MC Page Ref: 45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

7) ***Refer to Table 2.5.*** Which of the following statements is *true*?
A) Haley has a comparative advantage in making both products.
B) Serena has a comparative advantage in making both products.
C) Haley has a comparative advantage in making bracelets and Serena in making necklaces.
D) Haley has a comparative advantage in making necklaces and Serena in making bracelets.
E) Neither Haley nor Serena has a comparative advantage.
Answer: C
Diff: 3 Type: MC Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

8) Comparative advantage means the ability to produce a good or service
A) at a lower selling price than any other producer.
B) at a lower opportunity cost than any other producer.
C) of a higher quality than any other producer.
D) at a higher profit level than any other producer.
E) better at producing compared to others.
Answer: B
Diff: 1 Type: MC Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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9) Specializing in the production of a good or service in which one has a comparative advantage enables a country to do all of the following *except*
A) engage in mutually beneficial trade with other nations.
B) increase the variety of products that it can consume with no increase in resources.
C) consume a combination of goods that lies outside its own production possibilities frontier.
D) produce a combination of goods that lies outside its own production possibilities frontier.
E) become better off by increasing both production and consumption
Answer: D
Diff: 3 Type: MC Page Ref: 42-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

10) For each bottle of wine that Italy produces, it gives up the opportunity to make 10 pounds of cheese. France can produce 1 bottle of wine for every 25 pounds of cheese it produces. Which of the following is *true* about the comparative advantage between the two countries?
A) Italy has the comparative advantage in cheese.
B) France has the comparative advantage in wine.
C) Italy has the comparative advantage in wine.
D) Both France and Italy have a comparative advantage in wine.
E) Neither France nor Italy has a comparative advantage in wine.
Answer: C
Diff: 2 Type: MC Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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Figure 2.13

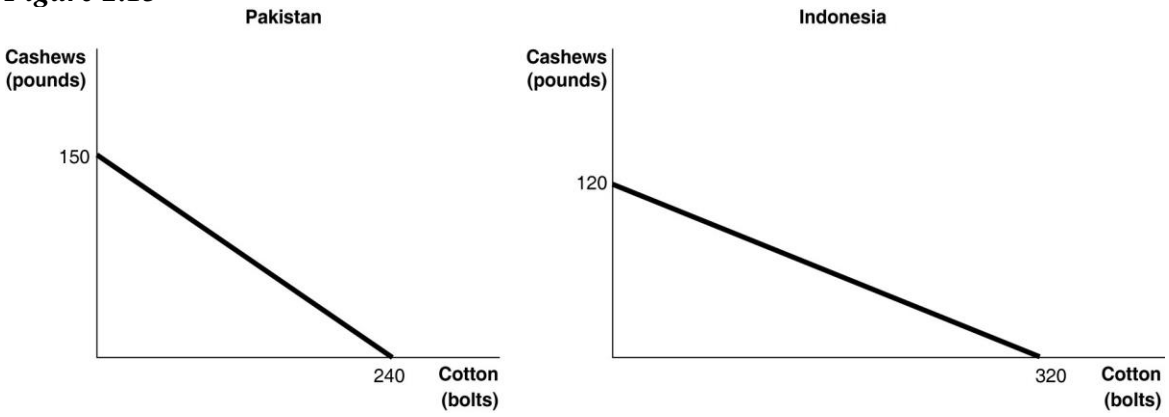


Figure 2.13 shows the production possibilities frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

11) ***Refer to Figure 2.13.*** What is the opportunity cost of producing 1 bolt of cotton in Pakistan?
A) 3/8 of a pound of cashews
B) 5/8 of a pound of cashews
C) 1 3/5 pounds of cashews
D) 150 pounds of cashews
E) 240 pounds of cashews
Answer: B
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

12) ***Refer to Figure 2.13.*** What is the opportunity cost of producing 1 bolt of cotton in Indonesia?
A) 3/8 of a pound of cashews
B) 5/8 of a pound of cashews
C) 2 2/3 pounds of cashews
D) 120 pounds of cashews
E) 320 pounds of cashews
Answer: A
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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13) ***Refer to Figure 2.13.*** What is the opportunity cost of producing 1 pound of cashews in Pakistan?
A) 3/8 of a bolt of cotton
B) 5/8 of a bolt of cotton
C) 1 3/5 bolts of cotton
D) 240 bolts of cotton
E) 320 bolts of cotton
Answer: C
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

14) ***Refer to Figure 2.13.*** What is the opportunity cost of producing 1 pound of cashews in Indonesia?
A) 3/8 of a bolt of cotton
B) 5/8 of a bolt of cotton
C) 2 2/3 bolts of cotton
D) 240 bolts of cotton
E) 320 bolts of cotton
Answer: C
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

15) ***Refer to Figure 2.13.*** Which country has a comparative advantage in the production of cotton?
A) Indonesia
B) Pakistan
C) Both countries have equal productive abilities.
D) Neither country has productive abilities.
E) cannot be determined
Answer: A
Diff: 2 Type: MC Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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16) ***Refer to Figure 2.13.*** Which country has a comparative advantage in the production of cashews?
A) Indonesia
B) Pakistan
C) Both countries have a comparative advantage.
D) Neither country has a comparative advantage.
E) cannot be determined
Answer: B
Diff: 2 Type: MC Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

17) ***Refer to Figure 2.13.*** If the two countries have the same amount of resources and the same technological knowledge, which country has an absolute advantage in the production of cotton?
A) Indonesia
B) Pakistan
C) Both countries have an absolute advantage.
D) Neither country has an absolute advantage.
E) cannot be determined
Answer: A
Diff: 2 Type: MC Page Ref: 44-45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

18) Individuals who have never been the best at doing anything
A) cannot have a comparative advantage in producing any product.
B) can still have a comparative advantage in producing some product.
C) perform all tasks at a higher opportunity cost than others.
D) must have an absolute advantage in at least ones task.
E) perform all tasks at a lower opportunity cost than others.
Answer: B
Diff: 2 Type: MC Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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Table 2.6

	One Digital Camera	Wheat (per pound)
China	100 hours	4 hours
South Korea	60 hours	3 hours

Table 2.6 shows the number of labour hours required to produce a digital camera and a pound of wheat in China and South Korea.

19) ***Refer to Table 2.6.*** Does either China or South Korea have an absolute advantage and if so, in what product?
A) South Korea has an absolute advantage in wheat.
B) China has an absolute advantage in wheat.
C) South Korea has an absolute advantage in both products.
D) China has an absolute advantage in digital cameras.
E) Neither country has an absolute advantage in both products.
Answer: C
Diff: 1 Type: MC Page Ref: 46-47
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

20) ***Refer to Table 2.6.*** What is China's opportunity cost of producing one digital camera?
A) 0.04 pounds of wheat
B) 4 pounds of wheat
C) 25 pounds of wheat
D) 40 pounds of wheat
E) 100 pounds of wheat
Answer: C
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

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21) ***Refer to Table 2.6.*** What is South Korea's opportunity cost of producing one digital camera?
A) 0.05 pounds of wheat
B) 20 pounds of wheat
C) 25 pounds of wheat
D) 60 pounds of wheat
E) 100 pounds of wheat
Answer: B
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

22) ***Refer to Table 2.6.*** What is China's opportunity cost of producing one pound of wheat?
A) 0.04 units of a digital camera
B) 4 digital cameras
C) 25 digital cameras
D) 40 digital cameras
E) 60 digital cameras
Answer: A
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

23) ***Refer to Table 2.6.*** What is South Korea's opportunity cost of producing one pound of wheat?
A) 60 digital cameras
B) 20 digital cameras
C) 5 digital cameras
D) 0.05 units of a digital camera
E) 0.04 units of a digital camera
Answer: D
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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24) ***Refer to Table 2.6.*** China has a comparative advantage in the production of
A) wheat.
B) digital cameras.
C) both products.
D) neither product.
E) Cannot be determined.
Answer: B
Diff: 2 Type: MC Page Ref: 46-47
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

25) ***Refer to Table 2.6.*** South Korea has a comparative advantage in the production of
A) wheat.
B) digital cameras.
C) both products.
D) neither product.
E) Cannot be determined.
Answer: B
Diff: 2 Type: MC Page Ref: 46-47
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

26) ***Refer to Table 2.6.*** If the two countries specialize and trade, who should export wheat?
A) There is no basis for trade.
B) China
C) South Korea
D) They should both be exporting wheat.
E) They should both be importing wheat.
Answer: B
Diff: 1 Type: MC Page Ref: 46-47
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

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27) ***Refer to Table 2.6.*** If the two countries specialize and trade, who should export digital cameras?
A) There is no basis for trade.
B) China
C) South Korea
D) They should both be importing digital cameras.
E) They should both be exporting digital cameras.
Answer: C
Diff: 1 Type: MC Page Ref: 46-47
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

28) If the best surgeon in town is also the best at cleaning swimming pools, then according to economic reasoning, this person should
A) pursue the activity he enjoys more.
B) specialize in cleaning swimming pools because it is more labour-intensive.
C) split his time evenly between being a surgeon and cleaning swimming pools.
D) specialize in being a surgeon because its opportunity cost is lower.
E) specialize in being a surgeon because its opportunity cost is higher.
Answer: D
Diff: 1 Type: MC Page Ref: 43
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

29) Crystal Schick is a highly talented photographer. She has chosen to specialize in photography because of all of the following *except*
A) she obviously has a comparative advantage in photography.
B) her opportunity cost of pursuing another career is very low.
C) for her, this is the most lucrative way to purchase the products that she wants to consume.
D) her photographs are highly esteemed by art lovers who are willing to pay very high prices.
E) her opportunity cost of pursuing another career is very high.
Answer: B
Diff: 3 Type: MC Page Ref: 43
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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30) If Sanjaya can shuck more oysters in one hour than Tatiana, then Sanjaya has a comparative advantage in shucking oysters.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

31) The basis for trade is comparative advantage, not absolute advantage.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

32) If a country produces only two goods, it is possible to have a comparative advantage in the production of both those goods.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

33) In a two-good, two-country world, if one country has an absolute advantage in the production of both goods, it cannot benefit by trading with the other country.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

34) For a person to have a comparative advantage in producing a product, she must be able to produce that product at a lower opportunity cost than her competitors.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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35) It is possible to have a comparative advantage in producing a good or service without having an absolute advantage.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking
Special Feature: Don't Let This Happen to You: Don't Confuse Absolute Advantage and Comparative Advantage

36) What is comparative advantage? What is absolute advantage?
Answer: Comparative advantage is the ability of an individual, firm, or country to produce a good or service at a lower opportunity cost than competitors. Absolute advantage is the ability of an individual, firm, or country to produce more of a good or service than competitors, using the same amount of resources.
Diff: 1 Type: ES Page Ref: 45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

37) Is it possible for a firm to have an absolute advantage in producing something without having a comparative advantage? Why or why not?
Answer: Yes, a firm can have an absolute advantage without having a comparative advantage. A firm may be able to produce more of a good or service than its competitors, but that does not necessarily mean it can produce the good or service at a lower opportunity cost than its competitors.
Diff: 2 Type: ES Page Ref: 45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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Table 2.7

	Digital Camera	**Wheat (bushels)**
China	100 hours	5 hours
South Korea	90 hours	3 hours

38) ***Refer to Table 2.7.*** This table shows the number of labour hours required to produce a digital cameras and a bushel of wheat in China and South Korea.
a. Which country has an absolute advantage in the production of digital cameras?
b. Which country has an absolute advantage in the production of wheat?
c. What is China's opportunity cost of producing one digital camera?
d. What is South Korea's opportunity cost of producing one digital camera?
e. What is China's opportunity cost of producing one bushel of wheat?
f. What is South Korea's opportunity cost of producing one bushel of wheat?
g. If each country specializes in the production of the product in which it has a comparative advantage, who should produce digital cameras?
h. If each country specializes in the production of the product in which it has a comparative advantage, who should produce wheat?
Answer:
a. South Korea has an absolute advantage in the production of digital cameras.
b. South Korea has an absolute advantage in wheat production.
c. China's the opportunity cost of producing one digital camera is 20 bushels of wheat.
d. South Korea's opportunity cost of producing one digital camera is 30 bushels of wheat.
e. China's opportunity cost of one bushel of wheat is 0.05 units of a digital camera.
f. South Korea's opportunity cost of one bushel of wheat is 0.03 units of a digital camera.
g. China should specialize in producing digital cameras.
h. South Korea should specialize in producing wheat.
Diff: 3 Type: ES Page Ref: 43-45
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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39) ***Refer to Table 2.7.*** This table shows the number of labour hours required to produce a digital camera and a bushel of wheat in China and South Korea.
a. If each country has a total of 9000 labour hours to devote to the production of the two goods, draw the production possibilities frontier for each country. Put "Digital Camera" on the horizontal axis and "Wheat" on the vertical axis. Be sure to identify the intercept values on your graphs.
b. Suppose each country allocates 60% its labour hours to wheat production and 40% to the production of digital cameras. Complete Table 2.8 below to show each country's output of the two products.

Table 2.8: Production and Consumption with no Trade

	Digital Camera Output	**Wheat Output (bushels)**
China		
South Korea		
Total		

c. If the two countries do not trade and consume whatever they produce, identify the current production and consumption point for each country on their respective production possibilities frontiers. Label China's consumption point "*C*" and South Korea's consumption point "*K*."
d. Suppose the two countries specialize and trade. Who should produce digital cameras and who should produce wheat? Explain your answer.
e. Complete Table 2.9 below to show each country's output with specialization.

Table 2.9: Output with Specialization

	Digital Camera Output	**Wheat Output (bushels)**
China		
South Korea		
Total		

f. Did specialization increase the combined output for the two countries without any increase in resources? If so, by how much?
g. Suppose China and South Korea agree to trade so that in exchange for 1,200 bushels of wheat, the exporter of wheat receives 48 digital cameras. Complete Table 2.10 below to show each country's consumption bundle after trade.

Table 2.10: Consumption with Trade

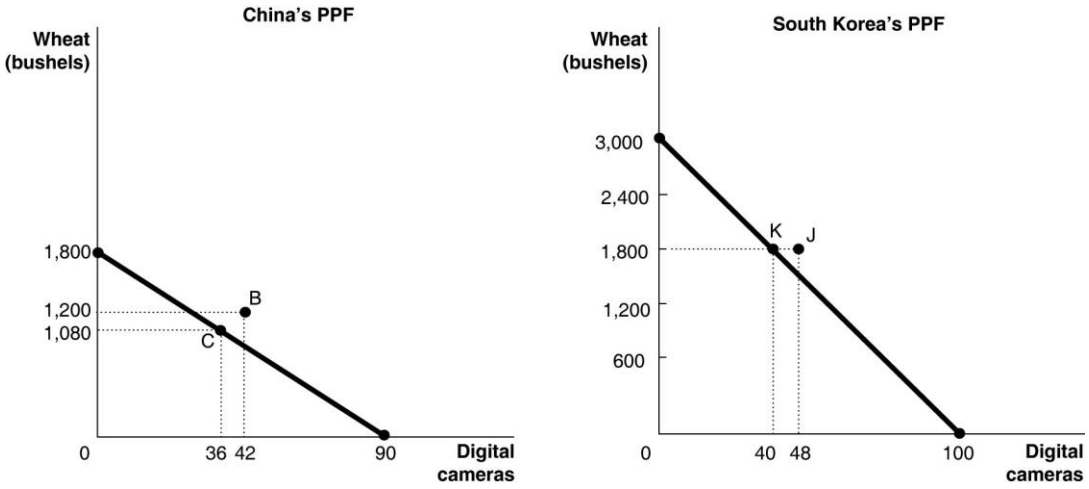
	Digital Camera	**Wheat (bushels)**
China		
South Korea		

h. Show the consumption points after trade on each country's production possibilities frontier. Label these points "*B*" for China and "*J*" for South Korea.

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i. Has trade made the two countries better off? Explain your answer.
Answer:
a.



b.

Table 2.8: Production and Consumption with no Trade

	Digital Camera Output	**Wheat Output (bushels)**
China	36	1,080
South Korea	40	1,800
Total	76	2,880

c. See graph in part (a)
d. China should specialize in producing digital cameras because it has a lower opportunity cost: 20 bushels of wheat as opposed to South Korea's 30 bushels of wheat. South Korea should specialize in producing wheat because it has a lower opportunity cost: 0.03 units of a digital camera as opposed to China's 0.05 units of a digital camera.
e.

Table 2.9: Output with Specialization

	Digital Camera Output	**Wheat Output (bushels)**
China	90	0
South Korea	0	3,000
Total	90	3,000

f. Yes, digital camera output increased by 14 units (from 76 units to 90 units) and wheat output increased by 120 bushels (from 2,880 bushels to 3,000 bushels).

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g.
Table 2.10: Consumption with Trade

	Digital Camera	**Wheat (bushels)**
China	42	1,200
South Korea	48	1,800

h. See graph in part (a)
i. Yes, trade has enabled the two countries to consume outside their PPFs.
Diff: 3 Type: ES Page Ref: 46-47
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

40) If you can produce more of something than others who have the same resources, you have
A) a comparative advantage.
B) an absolute advantage.
C) an efficient production system.
D) a free-market economy.
E) a command system.
Answer: B
Diff: 1 Type: MC Page Ref: 44-45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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Table 2.11

	George	Jack
Lawns Mowed	10	6
Gardens Cultivated	5	4

Table 2.11 shows the output per day of two gardeners, George and Jack. They can either devote their time to mowing lawns or cultivating gardens.

41) ***Refer to Table 2.11.*** Which of the following statements is *true*?
A) Jack has an absolute advantage in both tasks.
B) George has an absolute advantage in both tasks.
C) Jack has an absolute advantage in lawn mowing and George in garden cultivating.
D) Jack has an absolute advantage in garden cultivating and George in lawn mowing.
E) Neither George nor Jack have an absolute advantage.
Answer: B
Diff: 1 Type: MC Page Ref: 44-45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

42) ***Refer to Table 2.11.*** What is Jack's opportunity cost of mowing a lawn?
A) half a garden cultivated
B) one lawn mowed
C) two-thirds of a garden cultivated
D) one and a half lawns mowed
E) two lawns mowed
Answer: C
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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43) ***Refer to Table 2.11.*** What is Jack's opportunity cost of cultivating a garden?
A) half a garden cultivated
B) one lawn mowed
C) one and a half lawns mowed
D) two lawns mowed
E) two-thirds of a garden cultivated
Answer: C
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

44) ***Refer to Table 2.11.*** What is George's opportunity cost of mowing a lawn?
A) half a garden cultivated
B) one lawn mowed
C) two lawns mowed
D) two-thirds of a garden cultivated
E) one and a half lawns mowed
Answer: A
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

45) ***Refer to Table 2.11.*** What is George's opportunity cost of cultivating a garden?
A) half a garden cultivated
B) one lawn mowed
C) one and a half lawns mowed
D) two lawns mowed
E) two-thirds of a garden cultivated
Answer: D
Diff: 2 Type: MC Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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46) ***Refer to Table 2.11.*** Which of the following statements is *true*?
A) Jack has a comparative advantage in both tasks.
B) George has a comparative advantage in both tasks.
C) Jack has a comparative advantage in lawn mowing and George in garden cultivating.
D) Jack has a comparative advantage in garden cultivating and George in lawn mowing.
E) Neither George nor Jack has a comparative advantage.
Answer: D
Diff: 3 Type: MC Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

47) Comparative advantage means
A) the ability to produce more of a product with the same amount of resources than any other producer.
B) the ability to produce a good or service at a lower opportunity cost than any other producer.
C) the ability to produce a good or service at a higher opportunity cost than any other producer.
D) compared to others, you are better at producing a product.
E) your opportunity costs for other activities are low.
Answer: B
Diff: 1 Type: MC Page Ref: 44-46
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

48) Specializing in the production of a good or service in which one has a comparative advantage enables a country to do which of the following?
A) never have to engage in trade with other nations
B) increase the variety of products that it can produce with a decrease in resources
C) consume a combination of goods that lies outside its own production possibilities frontier
D) produce a combination of goods that lies outside its own production possibilities frontier
E) have a low rate of economic growth
Answer: C
Diff: 3 Type: MC Page Ref: 44-46
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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49) For each watch that Switzerland produces, it gives up the opportunity to make 50 pounds of chocolate. Germany can produce 1 watch for every 100 pounds of chocolate it produces. Which of the following is *true* about the comparative advantage between the two countries?
A) Switzerland has the comparative advantage in chocolate.
B) Switzerland has the comparative advantage in watches.
C) Germany has the comparative advantage in watches and chocolate.
D) Germany has the comparative advantage in watches.
E) Neither Germany nor Switzerland has a comparative advantage.
Answer: B
Diff: 2 Type: MC Page Ref: 44-46
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

Figure 2.14

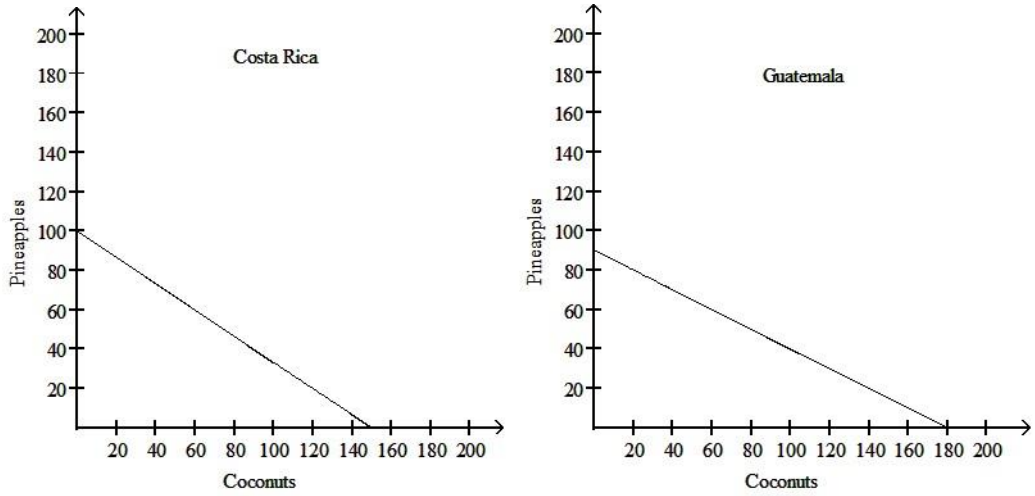


Figure 2.14 shows the production possibilities frontiers for Costa Rica and Guatemala. Each country produces two goods, pineapples and coconuts.

50) ***Refer to Figure 2.14.*** What is the opportunity cost of producing 1 tonne of coconuts in Costa Rica?
A) 3/8 of a tonne of pineapples
B) 2/3 of a tonne of pineapples
C) 1 1/2 tonnes of pineapples
D) 100 tonnes of pineapples
E) 150 tonnes of pineapples
Answer: B
Diff: 2 Type: MC Page Ref: 44-46
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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51) ***Refer to Figure 2.14.*** What is the opportunity cost of producing 1 tonne of coconuts in Guatemala?
A) 1/2 of a tonne of pineapples
B) 1 1/3 tonnes of pineapples
C) 2 tonnes of pineapples
D) 90 tonnes of pineapples
E) 100 tonnes of pineapples
Answer: A
Diff: 2 Type: MC Page Ref: 44-46
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

52) ***Refer to Figure 2.14.*** What is the opportunity cost of producing 1 tonne of pineapples in Costa Rica?
A) 3/8 of a tonne of coconuts
B) 2/3 of a tonne of coconuts
C) 1 1/2 tonnes of coconuts
D) 100 tonnes of coconuts
E) 180 tonnes of coconuts
Answer: C
Diff: 2 Type: MC Page Ref: 44-46
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

53) ***Refer to Figure 2.14.*** What is the opportunity cost of producing 1 tonne of pineapples in Guatemala?
A) 1/2 of a tonne of coconuts
B) 1 1/3 tonnes of coconuts
C) 2 tonnes of coconuts
D) 100 tonnes of coconuts
E) 180 tonnes of coconuts
Answer: C
Diff: 2 Type: MC Page Ref: 44-46
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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54) ***Refer to Figure 2.14.*** Which country has a comparative advantage in the production of coconuts?
A) Costa Rica
B) Guatemala
C) Neither country has any productive abilities.
D) Both countries have equal productive abilities.
E) Cannot be determined.
Answer: B
Diff: 2 Type: MC Page Ref: 44-46
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

55) ***Refer to Figure 2.14.*** Which country has a comparative advantage in the production of pineapples?
A) Costa Rica
B) Guatemala
C) Neither country has a comparative advantage.
D) Both countries have an equal comparative advantage.
E) Cannot be determined.
Answer: A
Diff: 2 Type: MC Page Ref: 44-46
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

56) ***Refer to Figure 2.14.*** If the two countries have the same amount of resources and the same technological knowledge, which country has an absolute advantage in the production of both pineapples and coconuts?
A) Costa Rica
B) Guatemala
C) Neither country has an absolute advantage.
D) Both countries have an equal absolute advantage.
E) Cannot be determined.
Answer: C
Diff: 2 Type: MC Page Ref: 44-46
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

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Table 2.12

	One Cell Phone	Lumber (per cubic metre)
Estonia	40 hours	8 hours
Finland	16 hours	4 hours

Table 2.12 shows the number of labour hours required to produce a cell phone and a cubic metre of lumber in Estonia and Finland.

57) ***Refer to Table 2.12***. Does either Estonia or Finland have an absolute advantage and if so, in what product?
A) Finland has an absolute advantage in lumber.
B) Estonia has an absolute advantage in lumber.
C) Estonia has an absolute advantage in cell phones.
D) Finland has an absolute advantage in both products.
E) Estonia has an absolute advantage in both products.
Answer: D
Diff: 1 Type: MC Page Ref: 46-47
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

58) ***Refer to Table 2.12.*** What is Estonia's opportunity cost of producing one cell phone?
A) 0.2 cubic metres of lumber
B) 5 cubic metres of lumber
C) 8 cubic metres of lumber
D) 16 cubic metres of lumber
E) 32 cubic metres of lumber
Answer: B
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

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59) ***Refer to Table 2.12.*** What is Finland's opportunity cost of producing one cell phone?
A) 0.25 cubic metres of lumber
B) 4 cubic metres of lumber
C) 12 cubic metres of lumber
D) 16 cubic metres of lumber
E) 32 cubic metres of lumber
Answer: B
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

60) ***Refer to Table 2.12.*** What is Estonia's opportunity cost of producing one cubic metre of lumber?
A) 0.2 cell phones
B) 5 cell phones
C) 8 cell phones
D) 16 cell phones
E) 32 cell phones
Answer: A
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

61) ***Refer to Table 2.12.*** What is Finland's opportunity cost of producing one cubic metre of lumber?
A) 0.25 cell phones
B) 4 cell phones
C) 12 cell phones
D) 16 cell phones
E) 32 cell phones
Answer: A
Diff: 2 Type: MC Page Ref: 46-47
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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62) ***Refer to Table 2.12.*** Estonia has a comparative advantage in the production of
A) both products.
B) lumber.
C) cell phones.
D) neither product.
E) Cannot be determined.
Answer: B
Diff: 2 Type: MC Page Ref: 46-47
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

63) ***Refer to Table 2.12.*** Finland has a comparative advantage in the production of
A) both products.
B) lumber.
C) cell phones.
D) neither product.
E) Cannot be determined.
Answer: C
Diff: 2 Type: MC Page Ref: 46-47
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

64) ***Refer to Table 2.12.*** If the two countries specialize and trade, who should export lumber?
A) There is no basis for trade between the two countries.
B) Estonia
C) Finland
D) They should both be exporting lumber.
E) They should both be importing lumber.
Answer: B
Diff: 1 Type: MC Page Ref: 46-47
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

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65) ***Refer to Table 2.12.*** If the two countries specialize and trade, who should export cell phones?
A) There is no basis for trade between the two countries.
B) Estonia
C) Finland
D) They should both be importing cell phones.
E) They should both be exporting cell phones.
Answer: C
Diff: 1 Type: MC Page Ref: 46-47
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

66) Assume few people can be excellent surgeons but many people can be excellent managers. If the best surgeon in town is also the best manager, economic reason suggests they should
A) split their time evenly between being a surgeon and a manager.
B) specialize in being a surgeon because its opportunity cost is lower.
C) pursue the activity she enjoys more.
D) specialize in being a manager because it is more capital-intensive.
E) specialize in being a manager because its opportunity cost is lower.
Answer: B
Diff: 1 Type: MC Page Ref: 44-45
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

67) Izzy Amador is a highly talented tattoo artist. An economist would argue she has chosen to specialize in tattoo art for all of the following reasons, *except*
A) her tattoos are highly esteemed by tattoo lovers who are willing to pay very high prices.
B) for her, this is the most lucrative way to purchase the products that she wants to consume.
C) her opportunity cost of pursuing another career is very low.
D) she obviously has a comparative advantage in tattoo art.
E) her opportunity cost of pursuing another career is very high.
Answer: C
Diff: 3 Type: MC Page Ref: 44-45
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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68) If Blake can pick more cherries in one hour than Cody, then Blake has a comparative advantage in cherry picking.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

69) The basis for trade is absolute advantage, not comparative advantage.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

70) If a country produces only two goods, then it is not possible to have a comparative advantage in the production of both those goods.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

71) In a two-good, two-country world, if one country has an absolute advantage in the production of both goods, it can still benefit by trading with the other country.
Answer: TRUE
Diff: 2 Type: TF Page Ref: 44-45
Topic: Absolute Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

72) If the opportunity cost of producing more of one good increases as more of that good is produced, then the production method is inefficient.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 44-45
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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73) It is not possible to have a comparative advantage in producing a good or service without having an absolute advantage.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking
Special Feature: Don't Let This Happen to You: Don't Confuse Absolute Advantage and Comparative Advantage

74) Is it possible for a firm to have a comparative advantage in producing something without having an absolute advantage? Why or why not?
Answer: Yes, a firm can have a comparative advantage without having an absolute advantage if it can produce a good or service at a lower opportunity cost than competitors, even if it is not able to produce more of the good or service than its competitors.
Diff: 2 Type: SA Page Ref: 44-45
Topic: Comparative Advantage
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

75) Should countries specialize in producing goods and services based on having a comparative advantage or an absolute advantage? Why?
Answer: Countries should specialize in producing products based on comparative advantage because this allows countries to produce those products and services at a lower opportunity cost than potential trading partners.
Diff: 2 Type: SA Page Ref: 45-46
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Reflective Thinking

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Table 2.13

	Cell Phone	**Lumber (cubic metres)**
Estonia	20 hours	5 hours
Finland	18 hours	4 hours

76) ***Refer to Table 2.13.*** This table shows the number of labour hours required to produce a cell phone and a cubic metre of lumber in Estonia and Finland.

a. Which country has an absolute advantage in the production of cell phones?
b. Which country has an absolute advantage in the production of lumber?
c. What is Estonia's opportunity cost of producing one cell phone?
d. What is Finland's opportunity cost of producing one cell phone?
e. What is Estonia's opportunity cost of producing one cubic metre of lumber?
f. What is Finland's opportunity cost of producing one cubic metre of lumber?
g. If each country specializes in the production of the product in which it has a comparative advantage, who should produce cell phones?
h. If each country specializes in the production of the product in which it has a comparative advantage, who should produce lumber?
Answer:
a. Finland has an absolute advantage in the production of cell phones.
b. Finland has an absolute advantage in lumber production.
c. Estonia's opportunity cost of producing one cell phone is 4 cubic metres of lumber.
d. Finland's opportunity cost of producing one cell phone is 4.5 cubic metres of lumber.
e. Estonia's opportunity cost of one cubic metre of lumber is 0.25 units of a cell phone.
f. Finland's opportunity cost of one cubic metre of lumber is 0.22 units of a cell phone.
g. Estonia should specialize in producing cell phones.
h. Finland should specialize in producing lumber.
Diff: 3 Type: SA Page Ref: 42-46
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
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Table 2.14

	Cell Phone	**Lumber (cubic metres)**
Estonia	20 hours	5 hours
Finland	18 hours	4 hours

77) ***Refer to Table 2.14.*** This table shows the number of labour hours required to produce a cell phone and a cubic metre of lumber in Estonia and Finland.

a. If each country has a total of 3,600 labour hours to devote to the production of the two goods, draw the production possibilities frontier for each country. Put "Cell Phone" on the horizontal axis and "Lumber" on the vertical axis. Be sure to identify the intercept values on your graphs.
b. Suppose each country allocates 55% of its labour hours to lumber production and 45% to the production of cell phones. Complete Table 2.15 below to show each country's output of the two products.

Table 2.15: Production and Consumption With No Trade

	Cell Phone Output	**Lumber Output (cubic metres)**
Estonia		
Finland		
Total		

c. If the two countries do not trade and consume whatever they produce, identify the current production and consumption point for each country on their respective production possibilities frontiers. Label Estonia's consumption point "*E*" and Finland's consumption point "*F*."
d. Suppose the two countries specialize and trade. Who should produce cell phones and who should produce lumber? Explain your answer.
e. Complete Table 2.16 below to show each country's output with specialization.

Table 2.16: Output With Specialization

	Cell Phone Output	**Lumber Output (cubic metres)**
Estonia		
Finland		
Total		

f. Did specialization increase the combined output for the two countries without any increase in resources? If so, by how much?

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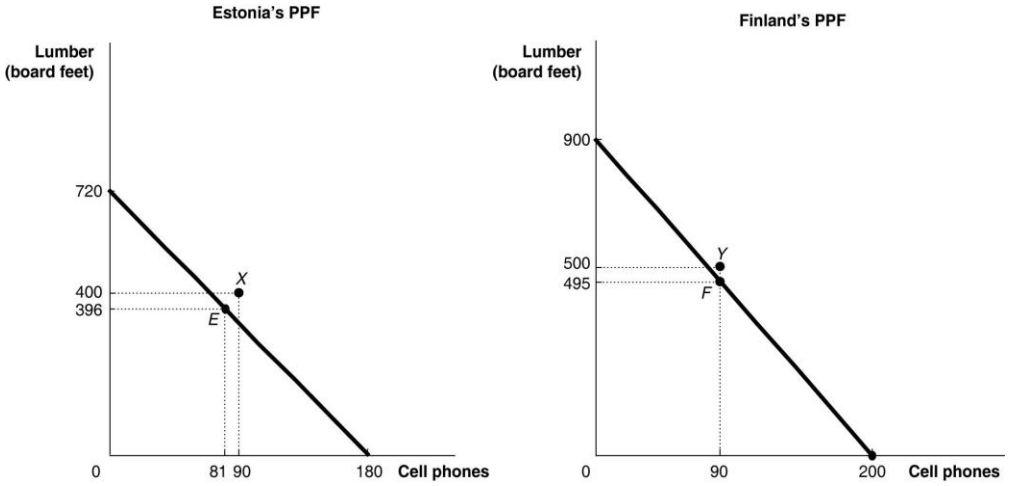
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g. Suppose Estonia and Finland agree to trade so that in exchange for 400 cubic metres of lumber, the exporter of lumber receives 90 cell phones. Complete Table 2.17 below to show each country's consumption bundle after trade.

Table 2.17: Consumption With Trade

	Cell Phone	**Lumber (cubic metres)**
Estonia		
Finland		

h. Show the consumption points after trade on each country's production possibilities frontier. Label these points "*X*" for Estonia and "*Y*" for Finland.
i. Has trade made the two countries better off? Explain your answer.
Answer:
a.



b.

Table 2.15: Production and Consumption With No Trade

	Cell Phone Output	**Lumber Output (cubic metres)**
Estonia	81	396
Finland	90	495
Total	171	891

c. See graph in part (a)
d. Estonia should specialize in producing cell phones because it has a lower opportunity cost: 4 cubic metres of lumber as opposed to Finland's 4.5 cubic metres of lumber. Finland should specialize in producing lumber because it has a lower opportunity cost: 0.22 units of a cell phone as opposed to Estonia's 0.25 units of a cell phone.

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e.

Table 2.16: Output With Specialization

	Cell Phone Output	**Lumber output (cubic metres)**
Estonia	180	0
Finland	0	900
Total	180	900

f. Yes, cell phone output increased by 9 units (from 171 units to 180 units) and lumber output increased by 9 cubic metres (from 891 cubic metres to 900 cubic metres).

g.

Table 2.17: Consumption With Trade

	Cell Phone	**Lumber (cubic metres)**
Estonia	90	400
Finland	90	500

h. See graph in part (a)

i. Yes, trade has enabled the two countries to consume outside their PPFs.

Diff: 3 Type: ES Page Ref: 42-46
Topic: Specialization
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills
Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

78) Suppose in the United States, the opportunity cost of producing an engine is 4 auto bodies. In Canada, the opportunity cost of producing an engine is 2 auto bodies.

a. What is the opportunity cost of producing an auto body for the United States?
b. What is the opportunity cost of producing an auto body for Canada?
c. Which country has a comparative advantage in the production of auto bodies?
d. Which country has a comparative advantage in the production of engines?

Answer:

a. For the United States, the opportunity cost of producing an auto body is 1/4 of an engine.
b. For Canada, the opportunity cost of producing an auto body is 1/2 of an engine.
c. The United States has a comparative advantage in the production of auto bodies.
d. Canada has a comparative advantage in the production of engines.

Diff: 3 Type: SA Page Ref: 42-46
Topic: Opportunity Cost
Learning Outcome: 2.2 Understand comparative advantage and explain how it is the basis for trade
AACSB: Analytic Skills

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2.3 The Market System

1) Which of the following is *not* a factor of production?
A) an acre of farmland
B) a drill press in a machine shop
C) the manager of the local tire shop
D) $1,000 in cash
E) entrepreneurship
Answer: D
Diff: 2 Type: MC Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

2) An example of a factor of production is
A) stock issued by Bombardier.
B) the train cars exported by Bombardier.
C) a snow machine produced by Bombardier.
D) a worker hired by Bombardier.
E) a bailout by the government of Bombardier.
Answer: D
Diff: 2 Type: MC Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

3) If a commercial dairy farm wants to raise funds to purchase feeding troughs, it does so in the
A) output market.
B) product market.
C) factor market.
D) dairy products market.
E) resource market.
Answer: C
Diff: 1 Type: MC Page Ref: 48
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

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4) The natural resources used in production are made available in the
A) goods and services market.
B) product market.
C) government market.
D) factor market.
E) resource market.
Answer: D
Diff: 1 Type: MC Page Ref: 48
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

5) When you purchase a new pair of jeans you do so in the
A) factor market.
B) input market.
C) product market.
D) resource market.
E) output market.
Answer: C
Diff: 1 Type: MC Page Ref: 48
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

6) The resource income earned by those who supply _____ is called wages.
A) labour
B) capital
C) equipment
D) entrepreneurship
E) land
Answer: A
Diff: 1 Type: MC Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

7) Which of the following statements about an entrepreneur is *false*?
A) organizes the other factors of production into a working unit
B) develops the vision for the firm and funds the producing unit
C) sells his or her entrepreneurial services in the output market
D) risks the personal funds provided
E) operates a business for profit
Answer: C
Diff: 2 Type: MC Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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8) The _____ demonstrates the roles played by households and firms in the market system.
A) production possibilities frontier
B) circular flow model
C) theory of comparative advantage
D) business cycle
E) scarcity theory
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

9) Households
A) have no influence on the circular flow in a market economy.
B) purchase resources in the factor market.
C) sell goods in the product market.
D) sell resources in the factor market.
E) buy resources in the factor market.
Answer: D
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

10) Households _____ final goods and services in the _____ market.
A) purchase; factor
B) purchase; product
C) sell; factor
D) sell; product
E) provide; open
Answer: B
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

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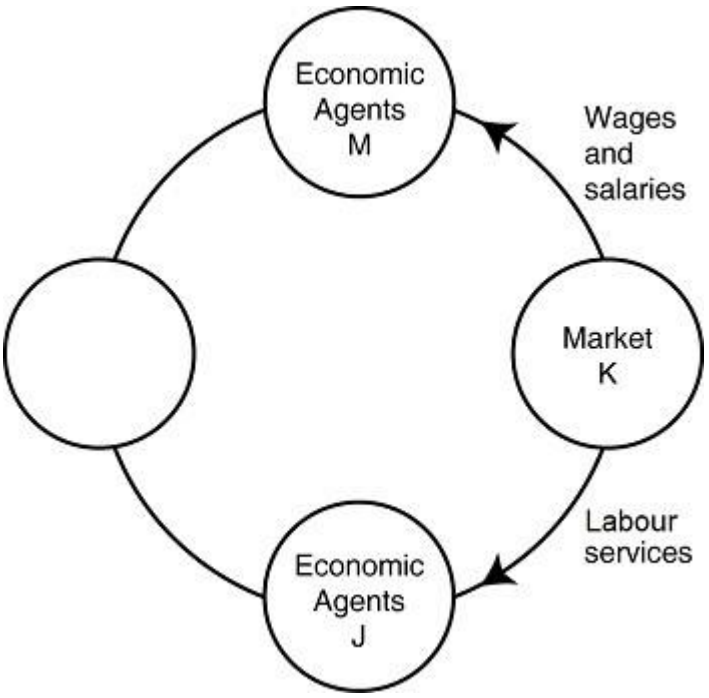
11) In the circular flow model, producers
A) sell goods and services in the factor market.
B) and households spend earnings from resource sales on goods and services in the factor market.
C) hire resources sold by households in the factor market.
D) spend earnings from resource sales on goods and services in the product market.
E) supply labour, entrepreneurial ability, and other factors of production to firms
Answer: C
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

12) Which of the following is a flow in the circular flow model?
A) the flow of goods and services from households to firms
B) the flow of profit and the flow of revenue
C) the flow of income earned by firms and the flow of expenditures earned by households
D) the flow of revenue received by firms and the flow of payments to resource owners
E) the flow of spending from firms to households
Answer: D
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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Figure 2.15



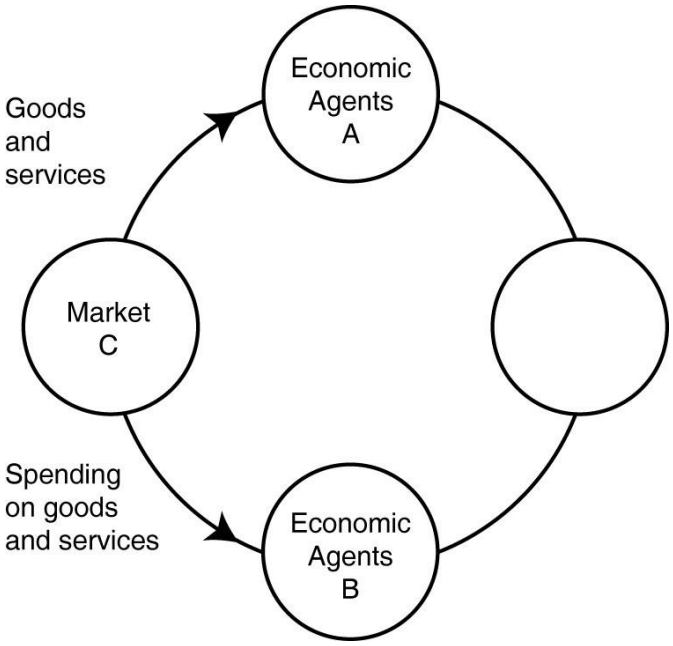
13) ***Refer to Figure 2.15.*** One segment of the circular flow diagram in the figure shows the flow of labour services from market *K* to economic agents *J*. What is market *K* and who are economic agents *J*?
A) *K* = factor markets; *J* = households
B) *K* = product markets; *J* = households
C) *K* = factor markets; *J* = firms
D) *K* = product markets; *J* = firms
E) *K* = product markets; *J* = factor markets
Answer: C
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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14) ***Refer to Figure 2.15.*** One segment of the circular flow diagram in the figure shows the flow of wages and salaries from market *K* to economic agents *M*. What is market *K* and who are economic agents *M*?
A) *K* = factor markets; *M* = households
B) *K* = product markets; *M* = households
C) *K* = factor markets; *M* = firms
D) *K* = product markets; *M* = firms
E) *K* = product markets; *J* = factor markets
Answer: A
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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Figure 2.16

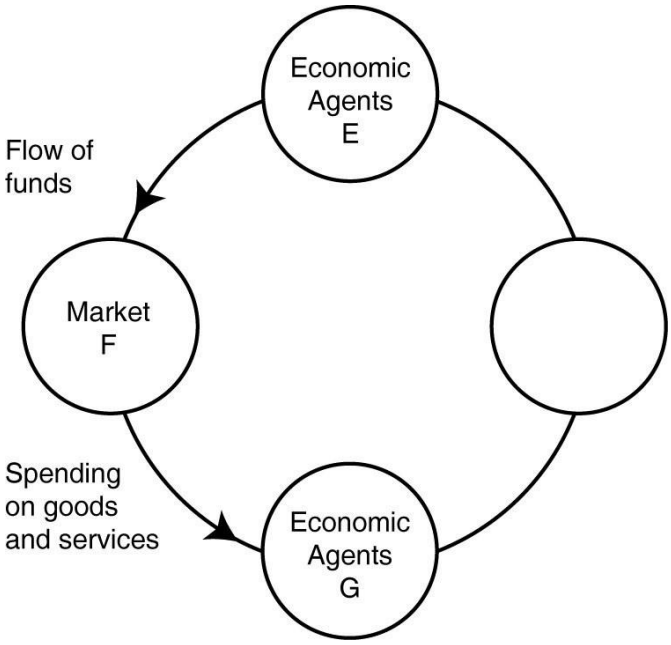


15) ***Refer to Figure 2.16.*** One segment of the circular flow diagram in the figure shows the flow of goods and services from market *C* to economic agents *A*. What is market *C* and who are economic agents *A*?
A) *C* = factor markets; *A* = households
B) *C* = product markets; *A* = households
C) *C* = factor markets; *A* = firms
D) *C*= product markets; *A* = firms
E) *C*= product markets; *A* = factor markets
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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Figure 2.17



16) ***Refer to Figure 2.17.*** One segment of the circular flow diagram in the figure shows the flow of funds from economic agents *E* to market *F*. Who are economic agents *E* and what is market *F*?
A) *E* = households; *F* = product markets
B) *E* = firms; *F* = product markets
C) *E* = households; *F* = factor markets
D) *E* = firms; *F* = factor markets
E) *C*= product markets; *A* = factor markets
Answer: A
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

17) All of the following are examples of spending on factors of production in the circular flow model *except*
A) Bima hires two students to work at his ice-cream store.
B) "Get Fit Together" purchases 3 new treadmills for its gym.
C) Iris buys a dozen roses for her mother's birthday.
D) The Banyan Tree rents a much larger property so that it can add a restaurant to its facilities.
E) Celeste buys fresh herbs at the farmers' market to use in her restaurant.
Answer: C
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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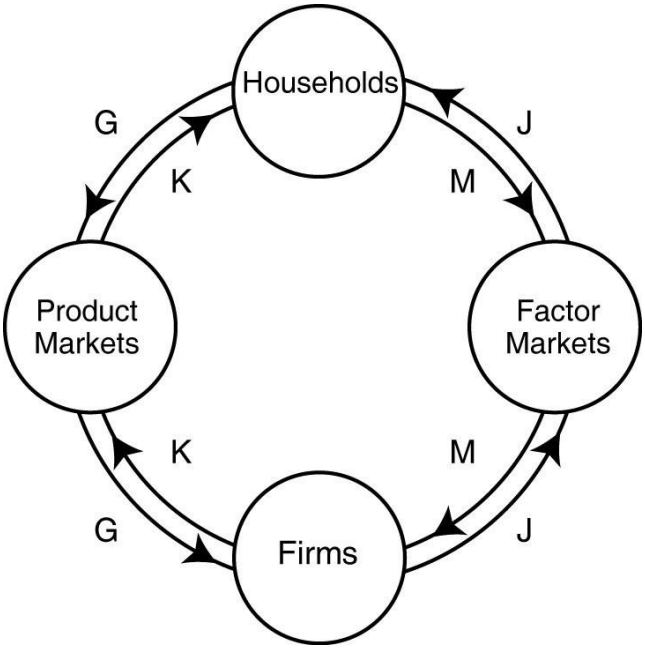
18) Which of the following is an example of spending on goods and services in the circular flow model?
A) Belinda purchases a new computer for her tax-preparation business.
B) Javier buys 800 square feet of wood flooring for his vacation home.
C) Celeste buys fresh herbs at the farmers' market to use in her restaurant.
D) Timmy purchases a new examination table for use in his veterinary clinic.
E) Iris buys a dozen roses for her mother's birthday.
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

19) "An Inquiry into the Nature and Causes of the Wealth of Nations" published in 1776 was written by
A) John Maynard Keynes.
B) Karl Marx.
C) Alfred Marshall.
D) Adam Smith.
E) John Stuart Mill
Answer: D
Diff: 1 Type: MC Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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Figure 2.18



20) ***Refer to Figure 2.18.*** Which two arrows in the diagram depict the following transaction: LaDonna sells 20 pairs of sunglasses at the Oakley store.
A) *J* and *M*
B) *J* and *G*
C) *K* and *M*
D) *K* and *G*
E) *K* and *J*
Answer: D
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

21) ***Refer to Figure 2.18.*** Which two arrows in the diagram depict the following transaction: Dorian Gray hires "Wild Oscar," a professional portrait artist, to paint his picture.
A) *J* and *M*
B) *K* and *G*
C) *K* and *M*
D) *J* and *G*
E) *M* and *G*
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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22) ***Refer to Figure 2.18.*** Which two arrows in the diagram depict the following transaction: Barney earns $250 for selling scissors and razors to Floyd's Barber Shop.
A) *J* and *M*
B) *K* and *G*
C) *K* and *M*
D) *J* and *G*
E) *M* and *G*
Answer: A
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

23) Adam Smith's behavioural assumption about humans was that people
A) typically act irrationally.
B) usually act in a rational, self-interested way.
C) are consistently greedy.
D) typically act randomly.
E) should not own property.
Answer: B
Diff: 1 Type: MC Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

24) All of the following countries come close to the free market benchmark *except*
A) Canada.
B) North Korea.
C) Germany.
D) Singapore.
E) Japan.
Answer: B
Diff: 1 Type: MC Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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25) All of the following are critical functions of the government in facilitating the operation of a market economy *except*
A) protecting private property.
B) enforcing property rights.
C) ensuring an equal distribution of income.
D) enforcing contracts.
E) providing a legal environment.
Answer: C
Diff: 2 Type: MC Page Ref: 50-52
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

26) The term "property rights" refers to
A) the physical possession of a house which the owner legally purchased.
B) the ability to exercise control over one's own resources within the confines of the law.
C) the government's right to appropriate land from wealthy land owners to redistribute to peasants.
D) the right of a business not to have its assets confiscated by the government.
E) the right of government to expropriate land without compensation.
Answer: B
Diff: 1 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

27) A major factor contributing to the slow growth rate of less developed economies is
A) the lack of enforceable property rights.
B) the lack of natural resources.
C) the lack of workers.
D) the high rate of illiteracy.
E) the high rate of corruption.
Answer: A
Diff: 2 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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28) A successful market economy requires
A) a government-controlled banking system and government price controls.
B) well-defined property rights and an independent court system.
C) generous unemployment benefits for everyone in the labour force.
D) an equitable distribution of income and
E) placing limits on immigration.
Answer: B
Diff: 2 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

29) Consider the following items:
a. the novel "The DaVinci Code" by Dan Brown
b. "The Spirited Shipper," an innovative wine shipping box
c. a Swiss chef's award-winning recipe
d. an original fabric design, for example, the fabric used for "Coach" bags and luggage

Which of the items listed is an example of intellectual property?
A) a and b only
B) a and d only
C) b and c only
D) a, b, and c
E) all of the items listed
Answer: E
Diff: 2 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

30) An organization of producers that limits the amount of a good produced is known as a
A) free market organization.
B) guild.
C) collective.
D) co-op.
E) trade alliance.
Answer: B
Diff: 1 Type: MC Page Ref: 51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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31) Stricter laws and regulations to protect intellectual property rights
A) will help to create a more successful market system.
B) will only benefit those companies whose intellectual property rights have in the past been ignored.
C) will tend to have little impact on an economy since intellectual property is not tangible.
D) will create a stronger black market for intellectual property.
E) will encourage innovation in intellectual property.
Answer: A
Diff: 1 Type: MC Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

32) If a nation changes its laws to more actively enforce intellectual property rights, all of the following will most likely take place *except*
A) more software companies will choose to export their products to that country.
B) more film makers will choose to do business in that country.
C) the black market for intellectual property will become more prosperous in that country.
D) foreign investment in that country will increase.
E) more companies will invest in research and development.
Answer: C
Diff: 2 Type: MC Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

33) In economies with no effective government,
A) standards of living are typically very low.
B) standards of living are typically very high.
C) standards of living typically rise rapidly.
D) people cease to be so materialistic.
E) trade can flourish.
Answer: A
Diff: 2 Type: MC Page Ref: 52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking
Special Feature: Apply the Concept: Too Little of a Good Thing

34) The payment received by suppliers of entrepreneurial skills is called interest.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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35) In the circular flow model, households supply resources such as labour services in the product market.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 48
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

36) Entrepreneurs bring together the factors of production to produce goods and services.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

37) In a free market there are virtually no restrictions, or at best few restrictions on how factors of production can be employed.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

38) Crude oil is not an example of a factor of production, but when crude oil is processed into gasoline, it is not a factor of production.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

39) Each person goes about her daily business seeking to maximize her own self interests. In doing so, she contributes to the welfare of society at large. This is the idea underlying Adam Smith's "invisible hand."
Answer: TRUE
Diff: 2 Type: TF Page Ref: 50-51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

40) What is the difference between product markets and factor markets?
Answer: Product markets are markets for goods and services. Factor markets are markets for the factors of production, which are the inputs used to make goods and services.
Diff: 1 Type: ES Page Ref: 48-49
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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41) How do firms and households interact in markets?
Answer: Firms supply goods and services to households, and buy factors of production from households. Households supply factors of production to firms, and buy goods and services from firms.
Diff: 1 Type: ES Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

42) What is meant by the term "free market"?
Answer: A free market is a market with few government restrictions on how a good or service can be produced or sold or on how factors of production can be employed.
Diff: 1 Type: ES Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

43) How does Adam Smith's idea of the "invisible hand" apply to the various parts, made by many different manufacturers in many different countries, that are used by Apple to produce an iPad?
Answer: Smith used the "invisible hand" reference to explain why markets provide consumers with desired products and services. In the case of the iPad, the invisible hand of the market has led these parts manufacturers to contribute their knowledge and resources to the process that ultimately results in a product available for sale in the United States and around the world.
Diff: 3 Type: ES Page Ref: 50-51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Analytic Skills

44) Which of the following is a factor of production?
A) a sofa produced by a furniture manufacturer
B) 20 shares of Microsoft stock
C) the janitor at the local elementary school
D) $500 in cash
E) entrepreneurship
Answer: C
Diff: 2 Type: MC Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

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45) An example of a factor of production is
A) a car produced by an auto manufacturer.
B) a worker hired by an auto manufacturer.
C) a loan granted to an auto manufacturer.
D) the automobiles exported by an auto manufacturer.
E) taxes paid by an auto manufacturer.
Answer: B
Diff: 2 Type: MC Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

46) If a microbrewery wants to purchase a new bottling machine, it does so in the
A) factor market.
B) output market.
C) product market.
D) alcoholic beverages market.
E) government market.
Answer: A
Diff: 1 Type: MC Page Ref: 48-49
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

47) A worker is hired in a(n)
A) goods and services market.
B) product market.
C) government market.
D) factor market.
E) input market.
Answer: D
Diff: 1 Type: MC Page Ref: 48-49
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

48) When you purchase a bicycle you do so in the
A) resource market.
B) product market.
C) input market.
D) factor market.
E) labour market.
Answer: B
Diff: 1 Type: MC Page Ref: 48-49
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49) The income earned by those who supply labour services is called
A) wages and salaries.
B) stock options.
C) profit.
D) bonus.
E) taxes.
Answer: A
Diff: 1 Type: MC Page Ref: 48-49
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

50) Which of the following statements about an entrepreneur is *true*?
A) An entrepreneur purchases other factors of production in the output market.
B) An entrepreneur develops the vision for the firm and funds the producing unit.
C) An entrepreneur sells entrepreneurial services in the output market.
D) An entrepreneur does not face personal risk.
E) An entrepreneur does not operate a business.
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

51) The circular flow model demonstrates
A) the role of the government in overseeing the market system.
B) the roles played by households and firms in the market system.
C) how shortages and surpluses are eliminated in a market.
D) how demand and supply for goods and services are in equilibrium.
E) the maximum attainable combinations of two products.
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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52) The circular flow shows us that
A) firms and households depend on each other.
B) firms make all the important decisions in the economy.
C) households have no role in the economy beyond consuming products.
D) firms are the ultimate consumers in the economy.
E) a command economy is efficient.
Answer: A
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

53) Firms
A) have no influence on the circular flow in a market economy.
B) purchase resources in the product market.
C) sell goods in the product market.
D) sell resources in the factor market.
E) bring supply and demand into equilibrium.
Answer: C
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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54) Households
A) purchase final goods and services in the factor market.
B) purchase final goods and services in the product market.
C) purchase resources in the product market.
D) purchase resources in the factor market.
E) have no influence on the circular flow in a market economy.
Answer: B
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

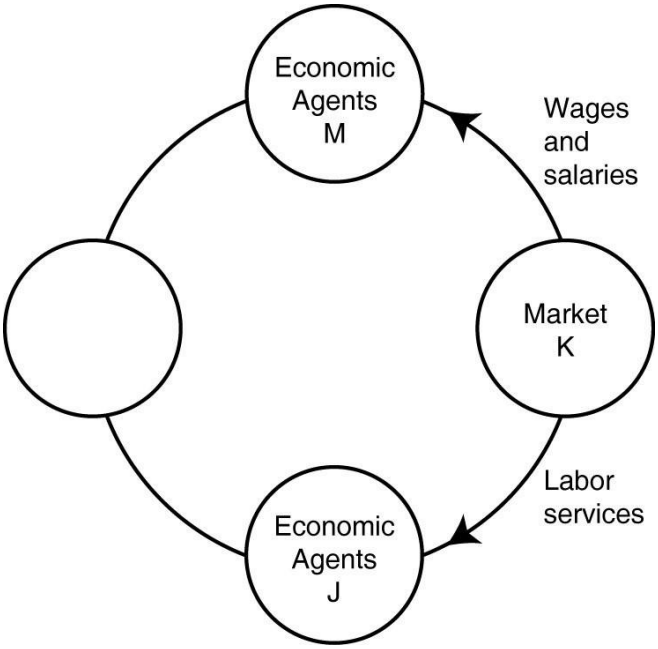
55) In the circular flow model, households
A) sell goods and services in the input market.
B) and firms spend earnings from resource sales on goods and services in the factor market.
C) hire resources sold by firms in the factor market.
D) spend earnings from resource sales on goods and services in the product market.
E) have no influence on the circular flow in a market economy.
Answer: D
Diff: 1 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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56) Which of the following is *not* a flow in the circular flow model?
A) the flow of resources to produce goods and services
B) the flow of profit and the flow of revenue
C) the flow of income earned by households
D) the flow of payments to resource owners
E) the flow of expenditures incurred by households
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

Figure 2.19



57) ***Refer to Figure 2.19.*** In the circular flow diagram, Market *K* represents
A) households.
B) product markets.
C) firms.
D) factor markets.
E) government.
Answer: D
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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58) ***Refer to Figure 2.19.*** In the circular flow diagram, Economic Agents *M* represents
A) households.
B) product markets.
C) firms.
D) factor markets.
E) government.
Answer: A
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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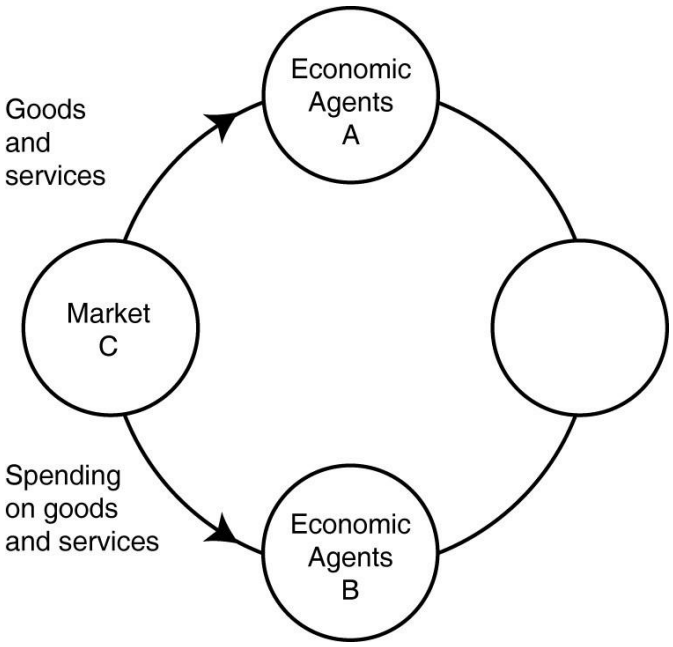
59) Which of the following are represented by the same flow in the circular flow model?
A) the flow of goods and the flow of factors of production
B) the flow of costs and the flow of revenue
C) the flow of income earned from the sale of resources and the flow of expenditures on goods and services
D) the flow of income received by households and the flow of tax revenues paid by firms
E) the flow of expenditures on goods and services and the flow of tax revenues paid by firms
Answer: B
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

60) Which of the following statements is *true* about a simple circular flow model?
A) Producers are neither buyers nor sellers in the product market.
B) Households are neither buyers nor sellers in the input market.
C) Producers are buyers in the factor market.
D) Households are sellers in the product market.
E) Firms are the owners and suppliers of factors of production.
Answer: C
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
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Figure 2.20

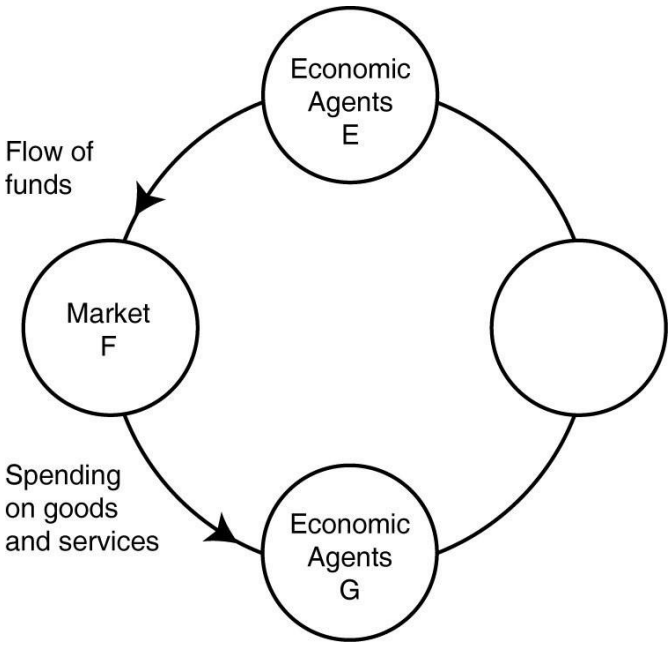


61) ***Refer to Figure 2.20.*** In the circular flow diagram, who are Economic Agents *A* and who are Economic Agents *B*?
A) *A* = firms; *B* = households
B) *A* = households; *B* = firms
C) *A* = households; *B* = factor markets
D) *A*= firms; *B* = product markets
E) *A*= households; *B* = product markets
Answer: B
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

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Figure 2.21



62) ***Refer to Figure 2.21.*** One segment of the circular flow diagram in Figure 2.21 shows the flow of funds from Market *F* to Economic Agents *G*. The funds represent spending on goods and services. What is Market *F* and who are Economic Agents *G*?
A) *F* = factor markets; *G* = households
B) *F* = product markets; *G* = households
C) *F* = factor markets; *G* = firms
D) *F* = product markets; *G* = firms
E) *F* = product markets; *G* = factor markets
Answer: D
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

63) Which of the following is an example of spending on factors of production in the circular flow model?
A) Tuon purchases a cappuccino at the student union.
B) Laurence rents a car to drive to a wedding in Montreal.
C) Yvette pays $50 to join a softball league.
D) The "Lucky Ducky" casino buys a new craps table for the casino floor.
E) Nader buys an economics textbook on Amazon.
Answer: D
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64) Which of the following is *not* an example of spending on goods and services in the circular flow model?
A) Amanda purchases a new electric guitar to pursue her hobby seriously.
B) Chaitanya buys a new spa pedicure chair for her expanding nail salon business.
C) Hernan buys a pizza at Papa C's.
D) Lenny buys a new digital camera to take pictures at his son's graduation.
E) The "Lucky Ducky" casino buys a new craps table for the casino floor.
Answer: B
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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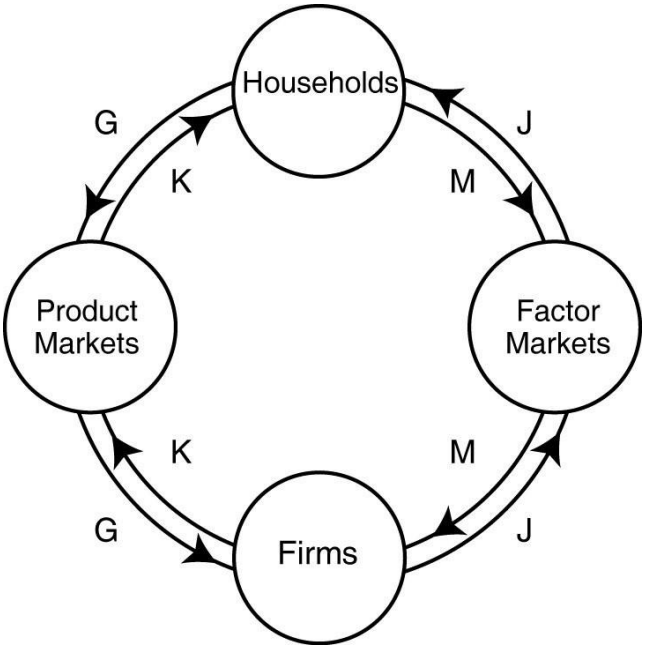
65) Which of the following is an example of spending on goods and services in the circular flow model?
A) Micah purchases a new wrench for his auto repair business.
B) Chester buys a first-class ticket from Montreal to London for his long-awaited vacation.
C) Toby buys a new lawn mower to use in his lawn care business.
D) Lily purchases a new massage table for use in her therapy center.
E) Chris buys a bottling system for his winery.
Answer: B
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Analytic Skills

66) Published in 1776, _____ was written by Adam Smith.
A) *The General Theory of Employment, Interest, and Money*
B) *The Communist Manifesto*
C) *The Declaration of Economics*
D) *An Inquiry into the Nature and Causes of the Wealth of Nations*
E) *Principles of Political Economy*
Answer: D
Diff: 1 Type: MC Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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Figure 2.22



67) ***Refer to Figure 2.22.*** Which two arrows in the diagram depict the following transaction? Stanley purchases the novel *Night of Sorrows* for his summer reading pleasure.
A) *J* and *M*
B) *J* and *G*
C) *K* and *M*
D) *K* and *G*
E) *K* and *J*
Answer: D
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

68) ***Refer to Figure 2.22.*** Which two arrows in the diagram depict the following transaction? Lizzie Haxem hires College Pro Painters, a painting company, to paint her home.
A) *J* and *M*
B) *K* and *G*
C) *K* and *M*
D) *J* and *G*
E) *K* and *J*
Answer: B
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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69) ***Refer to Figure 2.22.*** Which two arrows in the diagram depict the following transaction? Carter earns a $400 commission for selling men's designer shoes at Moores.
A) *J* and *M*
B) *K* and *G*
C) *K* and *M*
D) *J* and *G*
E) *K* and *J*
Answer: A
Diff: 2 Type: MC Page Ref: 49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

70) _____ behavioural assumption about humans was that people usually act in a rational, self-interested way.
A) Thomas Malthus's
B) Adam Smith's
C) Karl Marx's
D) Janet Yellen's
E) John Maynard Keynes's
Answer: B
Diff: 1 Type: MC Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

71) Which of the following countries is currently furthest from the free market benchmark?
A) the United States
B) Japan
C) Cuba
D) France
E) Canada
Answer: C
Diff: 1 Type: MC Page Ref: 51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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72) When BlackBerry made its Leap smart phone, it relied on
A) the market to coordinate most of the production.
B) its employees to coordinate most of the production.
C) the federal government to coordinate most of the production.
D) the guild of electronics engineers to coordinate most of the production.
E) universities to coordinate most of the production.
Answer: A
Diff: 1 Type: MC Page Ref: 50
Topic: Market Economies
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

73) A critical function of the government in facilitating the operation of a market economy is
A) producing goods and services for low-income households.
B) setting up and enforcing private property rights.
C) ensuring an equal distribution of income to all citizens.
D) controlling the market prices of essential services.
E) eliminating social classes
Answer: B
Diff: 2 Type: MC Page Ref: 51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking
Special Feature: Apply the Concept: Too Little of a Good Thing

74) The ability to exercise control over one's own resources within the confines of the law refers to
A) the free market.
B) property rights.
C) entrepreneurship.
D) having an absolute advantage.
E) the command system.
Answer: B
Diff: 1 Type: MC Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

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75) The primary purpose of patents and copyrights is to
A) provide owners with large profit forever.
B) protect firms from being taken advantage of by competing firms.
C) protect domestic firms from foreign competition.
D) encourage the expenditure of funds on research and development to create new products.
E) produce fewer goods and services.
Answer: D
Diff: 1 Type: MC Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

76) If property rights are not well enforced, which of the following is *not* likely to occur?
A) Fewer goods and services will be produced.
B) Economic efficiency will be reduced.
C) An economy will produce inside its production possibilities frontier.
D) A significant number of people will be willing to invest in local businesses.
E) Business deals are honoured.
Answer: D
Diff: 2 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

77) A successful market economy requires well-defined property rights and
A) balanced supplies of all factors of production.
B) an independent court system to adjudicate disputes based on the law.
C) detailed government regulations.
D) a safety net to ensure that those who cannot participate in the market economy can earn an income.
E) anti-expropriation laws.
Answer: B
Diff: 2 Type: MC Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking
Special Feature: Apply the Concept: Too Little of a Good Thing

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78) All of the following are considered intellectual property *except*
A) books.
B) films.
C) software.
D) shares of stock.
E) music.
Answer: D
Diff: 2 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

79) In Canada, property rights are under the jurisdiction of
A) both federal and provincial governments.
B) provincial governments only.
C) the federal government only.
D) municipal government.
E) the United Nations.
Answer: A
Diff: 1 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

80) In most provinces, provincial property rights law is known as
A) the *Sale of Goods Act*.
B) the *Property Rights Act*.
C) something different in each province.
D) the *Purchase and Sale Act*.
E) the *Competition Act.*
Answer: A
Diff: 1 Type: MC Page Ref: 51-52
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

81) A guild is
A) a group of independent producers competing with each other.
B) an organization of producers that limits the amount of a good produced.
C) a group of nations who agree not to compete with each other.
D) a nation that is a free market benchmark.
E) an intergovernmental organization.
Answer: B
Diff: 1 Type: MC Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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82) In 18th century Europe, governments gave guilds legal authority to limit production of goods. This authority obstructed the market mechanism because the guild's actions prevented the forces of _____ from coordinating the self-interested decisions of producers and consumers.
A) absolute advantage
B) demand and supply
C) opportunity cost
D) nature
E) government
Answer: B
Diff: 2 Type: MC Page Ref: 50-51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

83) When a celebrity has the desire to have his image protected following his death, this is best described as an example of the protection of
A) an invention.
B) a patent.
C) a trademark.
D) intellectual property.
E) privacy.
Answer: D
Diff: 2 Type: MC Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

84) In the desire to have a celebrity's image protected to prevent it from being used in ways he would not approve, a celebrity's estate
A) will probably not be successful, since there are no laws regulating this kind of use in Canada.
B) will have to be granted a patent declaring the celebrity's image a new product, and this will give the estate protection for 7 years.
C) can rely on Canadian laws that protect intellectual property rights to prevent the unauthorized use of his image.
D) will most likely be more successful in developing countries than in high-income countries, since property regulations are better enforced in developing countries.
E) will pay Google to remove all images from the Internet.
Answer: C
Diff: 2 Type: MC Page Ref: 5190-92
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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85) If Canada falls behind patent or copyright protection in other countries, which of the following would most likely occur?
A) Innovating companies would likely expand their Canada-based research and development departments.
B) More dollars would be spent on the development of new technology.
C) Canadian companies would increase domestic investment in the development of more innovative products.
D) Fewer patents would be issued to innovators and inventors.
E) Going to court to enforce a patent or copyright will be successful.
Answer: D
Diff: 2 Type: MC Page Ref: 50-51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Analytic Skills

86) The payment received by suppliers of entrepreneurial skills is called profit.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 48-49
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

87) In the circular flow model, households demand resources such as labour services in the product market.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

88) In economics, the term "free market" refers to a market where no sales tax is imposed on products sold.
Answer: FALSE
Diff: 1 Type: TF Page Ref: 50-51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

89) In a free market there are virtually no restrictions, or at best few restrictions, on how a good or service can be produced or sold.
Answer: TRUE
Diff: 1 Type: TF Page Ref: 50-51
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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90) A stand of redwood trees is not an example of a factor of production but the harvested and processed redwood is a factor of production.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 48-49
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

91) The idea underlying Adam Smith's "invisible hand" is that people tend to behave in ways that go unnoticed in society.
Answer: FALSE
Diff: 2 Type: TF Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

92) In a simple circular flow diagram, who supplies factors of production in markets and who buys these factors of production? Who supplies goods and services in markets and who buys these goods and services?
Answer: Households supply factors of production and buy goods and services in markets. Firms buy factors of production and supply goods and services in markets.
Diff: 2 Type: SA Page Ref: 48-49
Topic: The Circular Flow of Income
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

93) List the four broad categories of factors of production.
Answer: labour, capital, natural resources, and entrepreneurship
Diff: 2 Type: SA Page Ref: 48
Topic: Factors of Production
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

94) Define the term "property rights." Explain why the lack of well-defined and enforceable property rights is detrimental to the smooth functioning of a market system.
Answer: The term "property rights" refers to the rights that individuals or firms have to the exclusive use of their resources, within the confines of the law. Well-defined and enforceable property rights provide the incentive for people and firms to invest resources and undertake risks. This encourages the production of a wide range of goods and services. Without property rights and the means to enforce these rights, no person would want to undertake such a risk.
Diff: 2 Type: SA Page Ref: 50-51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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95) Why are music, television, and movie companies concerned about their products being posted to Internet websites such as YouTube?
Answer: These companies believe that their intellectual property rights are being violated when the unauthorized use of their material appears on these websites, and this reduces their ability to sell this material.
Diff: 3 Type: SA Page Ref: 51
Topic: Property Rights
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

96) Adam Smith, the father of modern economics, wrote in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner but from their regard to their own interest." Explain what he meant by that statement and how such behaviour promotes the wealth of a nation.
Answer: The statements refer to the fact that people act in their own self-interest. For example, the butcher who sells meat and the baker who bakes bread carry out these activities because these tasks contribute to their livelihood, not because they are concerned about other people. Nevertheless, their actions benefited others. This is precisely one of the virtues of a market: people do not have to act virtuously to produce worthwhile outcomes. Producing goods and services that consumers value increases the wealth of a nation.
Diff: 3 Type: SA Page Ref: 50
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
AACSB: Reflective Thinking

97) Identify whether each of the following transactions will take place in the factor market or in the product market:
a. Shondra buys a Harley-Davidson Softail motorcycle.
b. Aimee works 20 hours a week at a grocery store.
c. Gustavo sells a warehouse to a produce delivery company.
d. Cadbury increases employment at its Ontario plant.
Answer: Transaction a takes place in the product market. Transactions b, c, and d take place in the factor market.
Diff: 2 Type: SA Page Ref: 48
Topic: Markets
Learning Outcome: 2.3 Explain the basic idea of how a market system works
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