ECON Micro (Canadian) 1st edition McEachern Test Bank

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Chapter 02 Economic Tools and Economic Systems

MULTICHOICE

1. Why does opportunity cost exist?

(A) because technology is fixed at any point in time

(B) because the law of comparative advantage is working

(C) because resources are scarce but wants are unlimited

(D) because the value of lost opportunities varies from person to person

Answer : (C)

2. How is opportunity cost defined?

(A) as the value of all alternatives NOT chosen

(B) as value of the best alternative NOT chosen

(C) as the difference between the benefits from a choice and the benefits from the next best alternative

(D) as the difference between the benefits from a choice and the costs of that choice

Answer : (B)

3. Suppose Roger has an hour before his next class starts. He can study, snack, or have a nap. What is this concept known as?

(A) incentive

(B) opportunity cost

(C) marginal cost

(D) specialization

Answer : (B)

4. What is the opportunity cost of an activity?

(A) the amount of money spent on the activity

(B) the value of the best alternative NOT chosen

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(C) the sum of benefits from all of the sacrificed alternatives

(D) the difference between the benefits and the costs of that activity

Answer : (B)

5. What is the term for what you give up to get an item?

(A) explicit cost

(B) direct cost

(C) true cost

(D) opportunity cost

Answer : (D)

6. Which statement describes how accurately a person's opportunity cost can be measured?

(A) It can be easily and accurately calculated.

(B) It cannot even be estimated.

(C) It does NOT change over time.

(D) The ability to calculate it varies, depending on time and circumstances.

Answer : (D)

7. What is being measured when the opportunity cost of going to college is calculated?

(A) the expense of room and board

(B) the expense of tuition

(C) the expense of room and board plus tuition

(D) the income forgone by NOT working, plus tuition

Answer : (D)

8. Suppose Rashida has the choice of working full time during the summer or going to summer school full time. The cost of summer tuition and books are $3200. If Rashida worked, she could make $7,000. Her rent is $1,000 for the summer, regardless of her choice. What is the opportunity cost of going to summer school?

(A) $3,200

(B) $7,000

(C) $8,000

(D) $10,200

Answer : (D)

9. Upon graduating from high school Carmen has a job offer, and the job would provide her with $20,000 in income for the coming year. She has also been accepted to Isaac and Avery College. Tuition for the coming year at the College is $15,000, room and board is $10,000, and she expects that books will cost $2,000. What is the opportunity cost of attending Isaac & Avery College?

(A) $37,000

(B) $32,000

(C) $27,000

(D) $20,000

Answer : (A)

10. Attending college involves many explicit and implicit costs. Which of the following best describes the opportunity cost of attending college?

(A) It is entirely monetary and consists of expenditures on tuition, books, transportation, and meals.

(B) It is NOT monetary, but consists solely of forgone income.

(C) It is the most valued alternative given up to attend college.

(D) It is negligible for most people, because they really have no choice but to attend college.

Answer : (C)

11. In the context of a person choosing whether to attend college or go to work, which of the following best describes the expenses associated with room and board?

(A) Room and board is an opportunity cost of attending college because it is subsidized by the government or by the college.

(B) Room and board is an opportunity cost of attending college because it involves cash expenditures.

(C) Room and board is NOT an opportunity cost of attending college if the student is on a

scholarship.

(D) Room and board is NOT usually part of the opportunity cost of attending college because a person requires a place to live and food to eat whether or NOT attending college.

Answer : (D)

12. Besides the cost of books, tuition, and fees, what is another opportunity cost of attending college fulltime?

(A) room and board

(B) earnings forgone by NOT working

(C) the cost of another college certificate

(D) the time spent at college

Answer : (B)

13. Which economic concept is reflected by the expression "time is money"?

(A) opportunity cost

(B) specialization

(C) market exchange

(D) comparative advantage

Answer : (A)

14. A test is scheduled for Monday morning. James goes to a party on Saturday night, but if he had NOT attended the party, he could have studied for the test or gone to a movie. Which of the following is the opportunity cost of going to the party?

(A) only the time spent studying for the test

(B) only the time spent going to the movie

(C) both the time spent going to the movie and the time spent studying

(D) either the time spent going to the movie or the time spent studying for the test

Answer : (D)

15. Which of the following is an opportunity cost of going to college?

(A) the total spent on food, clothing, books, and other expenses

(B) the value of the best opportunity a student gives up to attend college

(C) zero for students fortunate enough to have all their college expenses paid for by someone else

(D) zero, because a college education will give a student the opportunity to earn a larger income after graduation

Answer : (B)

16. What is the opportunity cost of an item?

(A) the number of hours needed to earn money to buy it

(B) what a person gives up to get the item

(C) usually more than the dollar value of the item

(D) usually less than the dollar value of the item

Answer : (B)

17. Melissa is a self-employed lawyer. She chooses to dine at a higher-priced restaurant 2 kilometres from her home over a cheaper restaurant 15 kilometres from home. Which of the following is the most likely explanation for her behaviour?

(A) The opportunity cost of her time is very low.

(B) She did NOT take travel time into consideration.

(C) The prices at the more expensive restaurant understate the opportunity cost of eating there.

(D) The higher monetary cost of the more expensive restaurant is offset by the higher opportunity cost of the lower-priced restaurant.

Answer : (D)

18. Opportunity cost is generally considered a subjective measure. Given this fact, which of the following best describes the concept of opportunity cost?

(A) It must be the same for everyone.

(B) It is the value of all alternative activities that are forgone.

(C) It has a maximum value equal to the minimum wage.

(D) It is the value of the next best alternative foregone.

Answer : (D)

19. How is the opportunity cost of an activity best measured?

(A) only by the monetary costs

(B) by the number of alternative activities that were forgone

(C) by the cost difference between the chosen activity and the next best alternative

(D) by the value expected from the best alternative that is forgone

Answer : (D)

20. When faced with a choice, a person will assess alternatives provided that the expected marginal benefit exceeds which of the following?

(A) marginal incentive

(B) marginal opportunity

(C) marginal scarcity

(D) marginal cost

Answer : (D)

21. Suppose Marlene has purchased a non-refundable $700 plane ticket. But, at the last moment, she cannot take the trip. She can, however, sell the ticket. The cost of sending the ticket to a buyer through overnight mail is $20, and it costs $10 for a courier to get the ticket to the post office for overnight delivery. What is the minimum amount of money Marlene should accept for the ticket?

(A) $730, because that is the total cost of the ticket and getting it to the buyer

(B) $720, because that is the total cost of the ticket and of getting it to the buyer

(C) $700, because that is what the ticket cost

(D) $30, because the ticket cost is a sunk cost

Answer : (D)

22. Which of the following best describes the concept of sunk costs?

(A) They can only be measured in monetary terms.

(B) They are opportunity costs.

(C) They should influence a person's choice if that person is a marginal decision maker.

(D) They should NOT be considered when making economic decisions.

Answer : (D)

23. When does the law of comparative advantage say that a person should produce a good?

(A) if she has the greatest desire to consume that good

(B) if she has the lowest opportunity cost of producing that good

(C) if she has an absolute advantage in a related activity

(D) if she has a comparative advantage in a related activity

Answer : (B)

24. Which statement best describes the concept of the law of comparative advantage?

(A) The individual with the lowest opportunity cost of producing a particular good should produce it.

(B) Comparative advantage exists only when one person has an absolute advantage in the production of two goods.

(C) Whoever has a comparative advantage in producing a good also has an absolute advantage in producing that good.

(D) Whoever has an absolute advantage in producing a good also has a comparative advantage in producing that good.

Answer : (A)

25. Which of the following best describes comparative advantage?

(A) the ability of an individual to specialize and produce a greater amount of some good than can another individual

(B) the number of units of one good given up in order to acquire something else

(C) the ability of an individual to produce a good at a lower opportunity cost than can another individual

(D) the amount of labour a particular individual needs to produce a fixed amount of capital goods

Answer : (C)

26. What can be concluded if Fred agrees to exchange four ginger snaps for one of Hazel's chocolate chip cookies?

(A) Both Fred and Hazel are at least as well off as they were before the exchange.

(B) Fred is better off than he was before the exchange, but Hazel is NOT.

(C) Hazel is better off than she was before the exchange, but Fred is NOT.

(D) Both Fred and Hazel are worse off than before the exchange.

Answer : (A)

27. The law of comparative advantage states which person should produce a good. Who is that person?

(A) the person who has the lowest opportunity cost of producing that good

(B) the person who can produce that good using the fewest resources

(C) the person who will produce that good using the most expensive resources

(D) the person who has the most desire for that good

Answer : (A)

28. John takes 10 minutes to iron a shirt and 20 minutes to type a paper. Harry takes 10 minutes to iron a shirt and 30 minutes to type a paper. Which statement best describes Harry's advantage?

(A) Harry has a comparative advantage in ironing.

(B) Harry has a comparative advantage in typing.

(C) Harry has an absolute advantage in typing.

(D) Harry has an absolute advantage in ironing.

Answer : (A)

29. Don can produce 10 pens or 20 pencils in 1 hour while Bob can produce 15 pens or 5 pencils in 1 hour. Which statement best describes Don's comparative advantage?

(A) Don has a comparative advantage in the production of pens.

(B) Don has a comparative advantage in the production of pencils.

(C) Don has a comparative advantage in producing both goods.

(D) Don does NOT have a comparative advantage in the production of either good.

Answer : (B)

30. Jason can wash a car in 20 minutes and wash a dog in 10 minutes. Megan can wash a car in 15 minutes and wash a dog in 15 minutes. Which statement best describes Megan's comparative advantage?

(A) Megan has a comparative advantage in washing a dog.

(B) Megan has a comparative advantage in washing a car.

(C) Megan has a comparative advantage in both activities.

(D) Megan does NOT have a comparative advantage in either activity.

Answer : (B)

31. Janis mows the lawn in 1 hour and types a paper in 1 hour. Kristen mows the lawn in 2 hours and types a paper in 1 hour. Which statement best describes Janis's comparative advantage?

(A) Janis has a comparative advantage in mowing a lawn.

(B) Janis has a comparative advantage in typing a paper.

(C) Janis does NOT have a comparative advantage in either service.

(D) Janis has a comparative advantage in both services.

Answer : (B)

32. Suppose Monica has a comparative advantage in baking and George has a comparative advantage in sewing. What can be concluded regarding absolute advantage?

(A) Monica must have an absolute advantage in baking, but nothing can be concluded about absolute advantage.

(B) Monica must have an absolute advantage in baking.

(C) George must have an absolute advantage in sewing.

(D) Monica and George have equal absolute advantages in producing both products.

Answer : (A)

33. Who would benefit from a trade if David has an absolute advantage in both gardening and baking compared to Robert?

(A) David would benefit by specializing in gardening if Robert specializes in baking.

(B) David would benefit by specializing in baking if Robert specializes in gardening.

(C) Both David and Robert may benefit from trading, but there is insufficient information to determine who should specialize in what.

(D) Neither David nor Robert would benefit from trading with the other.

Answer : (C)

34. Suppose Julian has the absolute advantage in producing two goods. Which statement best describes possible specialization?

(A) Julian must also have a comparative advantage in both goods.

(B) Julian cannot benefit from trade

(C) Julian will have the comparative advantage in only one good.

(D) Julian should specialize in the production of both goods.

Answer : (C)

35. When does a country have an absolute advantage in the production of a good?

(A) when that country can produce the good using fewer resources than another country would require

(B) when that country has the lowest opportunity cost of producing the good and can produce it with the fewest resources

(C) when that country has the lowest opportunity cost of producing the good regardless of whether it is produced with the fewest resources

(D) when that country has the greatest opportunity cost of producing the good regardless of whether it is produced with the fewest resources

Answer : (A)

36. What can be concluded if Sam can chop up more carrots per minute than Joe can?

(A) Joe has an absolute advantage in carrot chopping.

(B) Joe must have a comparative advantage in carrot chopping.

(C) Sam has an absolute advantage in carrot chopping.

(D) Sam must have a comparative advantage in carrot chopping.

Answer : (C)

37. Eileen has a comparative advantage over Jan in piano tuning but NOT in shoe polishing. What can therefore be concluded?

(A) Jan must have an absolute advantage in piano tuning.

(B) Eileen must have an absolute advantage in shoe polishing.

(C) Jan must have a lower opportunity cost of shoe polishing.

(D) Eileen must have an absolute advantage in shoe polishing and in piano tuning.

Answer : (C)

38. For each room she paints Helen gives up the opportunity to bake 40 cakes. And, for each room he paints, Josh gives up the opportunity to bake 60 cakes. What can be concluded regarding opportunity cost?

(A) The opportunity cost of painting is higher for Helen.

(B) The opportunity cost of baking cakes is lower for Josh.

(C) Helen's opportunity cost of painting one room is 1/40 of a cake.

(D) Josh's opportunity cost of baking one cake is 60 painted rooms.

Answer : (B)

39. For each room she paints, Helen gives up the opportunity to bake 40 cakes. Josh can paint one room in the time it takes him to bake 60 cakes. What is the opportunity cost of a cake for Helen?

(A) painting 1/60 of a room

(B) painting 1/40 of a room

(C) painting 2/3 of a room

(D) painting 1 1/2 rooms

Answer : (B)

40. For each room she paints, Helen gives up the opportunity to bake 40 cakes. Josh can

paint one room in the time it takes him to bake 60 cakes. What is the opportunity cost of a cake for Josh?

(A) painting 1/60 of a room

(B) painting 1/40 of a room

(C) painting 2/3 of a room

(D) painting 1 1/2 rooms

Answer : (A)

41. What can be concluded if Daniel produces one pair of shoes in 4 hours and Sarah produces one pair of shoes in 3 hours?

(A) Sarah has a comparative advantage in shoemaking.

(B) Daniel has a comparative advantage in shoemaking.

(C) Sarah has both an absolute advantage and a comparative advantage in shoemaking.

(D) Sarah has an absolute advantage in shoemaking.

Answer : (A)

42. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. What is Hans' opportunity cost of doing a load of laundry?

(A) 12 typed pages

(B) 8 typed pages

(C) 1 1/2 typed pages

(D) 2/3 of a typed page

Answer : (C)

43. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. What is Hans' opportunity cost of typing one page?

(A) 12 loads of laundry

(B) 8 loads of laundry

(C) 1 1/2 loads of laundry

(D) 2/3 of a load of laundry

Answer : (D)

44. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. What is Maria's opportunity cost of typing a page?

(A) 6 loads of laundry

(B) 4 loads of laundry

(C) 1 1/2 loads of laundry

(D) 2/3 of a load of laundry

Answer : (C)

45. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. What is Maria's opportunity cost of doing a load of laundry?

(A) 6 typed pages

(B) 4 typed pages

(C) 1 1/2 typed pages

(D) 2/3 of a typed page

Answer : (D)

46. Exhibit 2-1
Hans Maria

Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. Suppose Hans types one fewer pages. How many loads of laundry can he do in the time saved on typing?

(A) 12 loads of laundry

(B) 8 loads of laundry

(C) 1 1/2 loads of laundry

(D) 2/3 of a load of laundry

Answer : (D)

47. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. Suppose Hans does one fewer loads of laundry. How many pages can he type in the time saved on laundry?

(A) 12 pages

(B) 8 pages

(C) 1 1/2 pages

(D) 2/3 of a page

Answer : (C)

48. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. Suppose Maria does one fewer loads of laundry. How many pages can she type in the time saved on laundry?

(A) 2/3 of a page

(B) 1 1/2 pages

(C) 4 pages

(D) 6 pages

Answer : (A)

49. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. Suppose Maria types one fewer pages. How many loads of laundry can she do in the time saved on typing?

(A) 2/3 of a load

(B) 1 1/2 loads

(C) 4 loads

(D) 6 loads

Answer : (B)

50. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. What are Hans and Maria's trading opportunities?

(A) Maria has an absolute and a comparative advantage in typing.

(B) Maria has an absolute and a comparative advantage in doing laundry.

(C) Hans has an absolute and a comparative advantage in typing.

(D) Hans has an absolute advantage in doing laundry.

Answer : (B)

51. Exhibit 2-1
Hans Maria
Loads of laundry per hour 4 12
Pages typed per hour 6 8

Refer to the exhibit. When would Hans and Maria both be better off?

(A) if Hans specialized in typing and Maria specialized in doing laundry

(B) if Hans specialized in doing laundry and Maria specialized in typing

(C) if Maria did all of the typing and all of the laundry

(D) if Hans did all of the typing and all of the laundry

Answer : (A)

52. In a period of one week, Mohammed can knit 5 sweaters or bake 240 cookies. In a period of one week, Tetah can knit 15 sweaters or bake 480 cookies. Which of the following best describes Mohammed's and Tetah's resource allocation?

(A) Mohammed has the absolute and comparative advantage in both tasks.

(B) Tetah has the absolute and comparative advantage in both tasks.

(C) Mohammed has the absolute advantage in both tasks and the comparative advantage in knitting sweaters.

(D) Tetah has the absolute advantage in both tasks and the comparative advantage in knitting sweaters.

Answer : (D)

53. In the period of one week, Mohammed can knit 5 sweaters or bake 240 cookies. What is Mohammed's opportunity cost per sweater?

(A) 240 cookies

(B) 48 sweaters

(C) 1/48 of a cookie

(D) 48 cookies

Answer : (D)

54. In the period of one week, Mohammed can knit 5 sweaters or bake 240 cookies. What is Mohammed's opportunity cost per cookie?

(A) 5 sweaters

(B) 48 sweaters

(C) 1/48 of a sweater

(D) 48 cookies

Answer : (C)

55. In the period of one week, Mohammed can knit 5 sweaters or bake 240 cookies. In period of one week, Tetah can knit 15 sweaters or bake 480 cookies. How can Mohammed and Tetah produce the maximum quantities of cookies and sweaters?

(A) if Mohammed knits and bakes, and Tetah does nothing

(B) if Tetah knits and bakes, and Mohammed does nothing

(C) if Mohammed knits and Tetah bakes

(D) if Tetah knits and Mohammed bakes

Answer : (D)

56. In the period of one week, Tetah can knit 15 sweaters or bake 480 cookies. What is Tetah's opportunity cost per sweater?

(A) 480 cookies

(B) 32 cookies

(C) 15 cookies

(D) 1/32 of a cookie

Answer : (B)

57. In the period of one week, Tetah can knit 15 sweaters or bake 480 cookies. What is Tetah's opportunity cost per cookie?

(A) 480 sweaters

(B) 32 sweaters

(C) 15 sweaters

(D) 1/32 of a sweater

Answer : (D)

58. Exhibit 2-2
Boat captain Crew member
Fishhooks per day 30 60
Fishing poles per day 2 10

Refer to the exhibit. What should the crew member make?

(A) fishhooks, because he can make 30 more per day than the captain

(B) both fishhooks and fishing poles, because he is better at making both

(C) fishing poles, because that is where his comparative advantage lies

(D) neither fish hooks nor fishing poles, because the captain is better at making both

Answer : (C)

59. When does barter occur?

(A) when two people share everything

(B) when one product is exchanged directly for another product

(C) when money is used to buy goods

(D) when goods are used to buy money

Answer : (B)

60. Suppose James trades a ginger snap cookie for a chocolate chip cookie. What is James engaging in?

(A) barter

(B) comparative advantage

(C) absolute advantage

(D) division of labour

Answer : (A)

61. How does money facilitate trade?

(A) It eliminates the need for specialization.

(B) It prevents people from taking advantage of each other.

(C) It serves as a medium of exchange.

(D) It allows for the division of labour.

Answer : (C)

62. Which of the following is the best definition of barter?

(A) when money is exchanged for goods

(B) when money is exchanged for money

(C) when goods are exchanged directly without the use of money

(D) when goods are exchanged for a promise to pay money later

Answer : (C)

63. One function of money is as a medium of exchange. Which of the following best describes medium of exchange?

(A) It is socially acceptable for goods and services.

(B) It is easy to reproduce.

(C) It is used to eliminate specialization and the division of labour.

(D) It is used when a system of barter exists.

Answer : (A)

64. Which of the following is an example of specialization?

(A) a firm that produces a line of related products, such as eight kinds of breakfast cereal

(B) a physician with an orthopaedic surgery practice

(C) a family that eats at Wendy's every Thursday night

(D) a retailer that sells goods but provides no services

Answer : (B)

65. Which scenario involves specialization?

(A) a solo carpenter who builds a whole bedroom furniture set

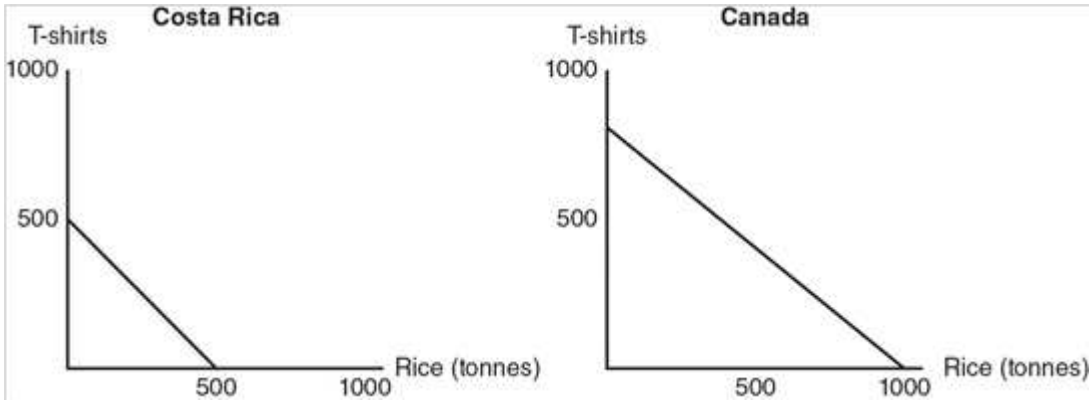
(B) a woman stranded on an island who must look after herself

(C) someone who is a "jack of all trades"

(D) professional mourners in Taiwan

Answer : (D)

66. Exhibit 2-3



Refer to the exhibit. In Costa Rica, what is the opportunity cost of 1 tonne of rice?

(A) 1/2 of a T-shirt

(B) 3/4 of a T-shirt

(C) 1 T-shirt

(D) 1 1/2 T-shirts

Answer : (C)

67. Which of the following best describes the concept of "division of labour"?

(A) It allows more people to be employed.

(B) It allows tasks to be performed more efficiently.

(C) It makes people happier on the job.

(D) It means that less management is required.

Answer : (B)

68. Which of the following is NOT a reason why the division of labour facilitates productivity increases?

(A) because it allows people to do those tasks for which they have the greatest natural ability

(B) because workers get better at performing tasks, the more they repeat the tasks

(C) because the more experience workers gain by specializing in a task, the more likely they will enjoy that task

(D) because more sophisticated production techniques are introduced

Answer : (C)

69. Which of the following is NOT a gain from division of labour?

(A) when workers' abilities are matched to tasks

(B) when workers gain experience from repeated performance of the tasks

(C) when workers save time by NOT switching to different tasks

(D) when workers' morale increases as tasks become more specialized

Answer : (D)

70. Why does division of labour increase productivity?

(A) because tasks can be assigned according to individual tastes and abilities

(B) because each worker must learn each of the numerous tasks in the total production process

(C) because specialization of labour allows for the introduction of cheaper, less-sophisticated production techniques

(D) because managers can force workers to produce goods that are valued more highly than the costs of producing them

Answer : (A)

71. Because of specialization and comparative advantage, which products do most people consume?

(A) only what they produce themselves

(B) the products produced by family and friends

(C) the products made by many other people

(D) whatever they can keep from what they produce

Answer : (C)

72. Restaurant fast food is faster to make and cheaper to buy than a similar meal prepared at home. Which of the following does NOT explain these facts?

(A) The preparation of restaurant fast food is divided into many separate tasks.

(B) The larger-scale production of food in a restaurant allows the introduction of more efficient machines.

(C) Workers in a fast-food restaurant gain productivity at a task over time.

(D) Workers are more productive when they are being paid.

Answer : (D)

73. What does the term "division of labour" refer to?

(A) discrimination in labour markets

(B) separating a job into smaller tasks completed by different people

(C) a worker who divides his time among different jobs and duties

(D) defining a job according to the appropriate gender

Answer : (B)

74. Which statement best describes the results of specialization of labour?

(A) It increases productivity without creating any problems.

(B) It reduces productivity, and is usually eliminated by business firms.

(C) It can create problems of boredom and repetitive motion injuries.

(D) It prevents the introduction of more sophisticated and efficient production techniques.

Answer : (C)

75. In economics, what does specialization mean?

(A) producing something using only one type of resource, such as labour

(B) producing something using only one type of labour

(C) focusing efforts on a particular product or a single task

(D) producing only one unit of output

Answer : (C)

76. Which of the following is an example of division of labour?

(A) an author writing a book one chapter at a time

(B) a firm trying to get rid of a labour union

(C) a firm allocating revenue among its resource suppliers

(D) a firm dividing an assembly process into separate steps

Answer : (D)

77. On a given production possibilities frontier, which of the following is NOT assumed to be fixed?

(A) the amount of labour available

(B) the production of each item

(C) the level of technology

(D) the amount of land and natural resources available

Answer : (B)

78. Which statement best describes the various points along a production possibilities frontier?

(A) The greatest achievable output levels are illustrated.

(B) Resources are NOT fully employed.

(C) More of one good can be obtained without giving up more of the other.

(D) More efficient output levels are possible.

Answer : (A)

79. When drawing a production possibilities frontier, which of the following is NOT usually assumed?

(A) that the quantity of resources is rapidly growing

(B) that technology is fixed

(C) that resources can be shifted between production of the two goods

(D) that resources are fully and efficiently employed

Answer : (A)

80. Which statement describes the usefulness of the production possibilities frontier?

(A) The production possibilities frontier demonstrates that, although resources are scarce for individuals, there is no problem of scarcity for society as a whole.

(B) The production possibilities frontier is based on unrealistic assumptions and therefore has no value as an economic tool.

(C) The production possibilities frontier is based on simplifying assumptions, but illustrates scarcity, opportunity cost, and economic growth.

(D) The production possibilities frontier is based on the assumption that technology is constantly changing.

Answer : (C)

81. Which of the following is most appropriately measured along one axis of the production possibilities frontier diagram?

(A) the quantity of a produced good

(B) the price of a produced good

(C) the quantity of natural resources

(D) the state of technology

Answer : (A)

82. What does "efficiency" refer to?

(A) producing output using the least amount of capital

(B) producing as far inside the production possibilities frontier as possible

(C) producing only one out of many possible commodities

(D) producing the maximum possible output from available resources

Answer : (D)

83. If all resources are used efficiently to produce goods and services, where on the production possibilities frontier will a nation will find itself producing?

(A) inside its production possibilities frontier

(B) somewhere on its production possibilities frontier

(C) outside of its production possibilities frontier

(D) at two points on its production possibilities frontier

Answer : (B)

84. Which of the following is a point that lies outside the production possibilities frontier?

(A) a point that represents unemployment of resources

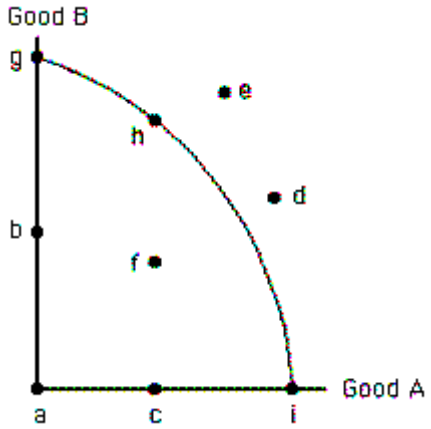
(B) a point that represents full employment of resources

(C) a point that does NOT represent an efficient combination of goods

(D) a point that cannot be reached using the available technology

Answer : (D)

85. Exhibit 2-4



Refer to the exhibit. Suppose all the economy's resources are used efficiently to produce good B. Then what point is the economy at?

(A) point e

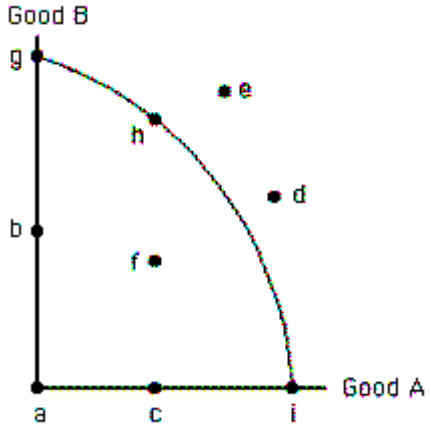
(B) point g

(C) point h

(D) point i

Answer : (B)

86. Exhibit 2-4



Refer to the exhibit. Suppose all the economy's resources are used efficiently to produce good A. Then what point is the economy at?

(A) point c

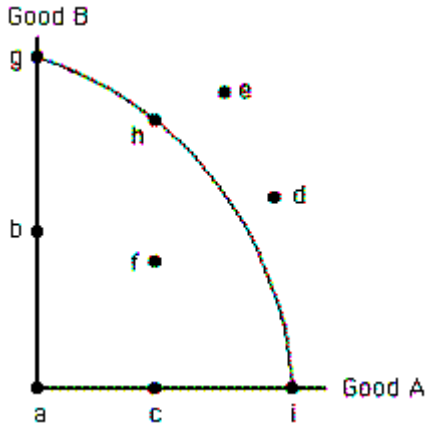
(B) point e

(C) point h

(D) point i

Answer : (D)

87. Exhibit 2-4



Refer to the exhibit. Which of the following points is unattainable, given the quantity of resources and level of technology?

(A) point e

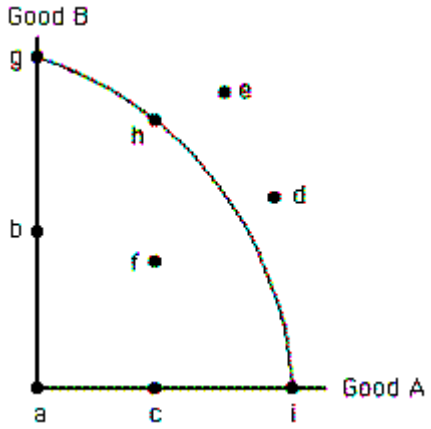
(B) point f

(C) point g

(D) point h

Answer : (A)

88. Exhibit 2-4



Refer to the exhibit. Which of the following points represents an inefficient use of the economy's resources?

(A) point d

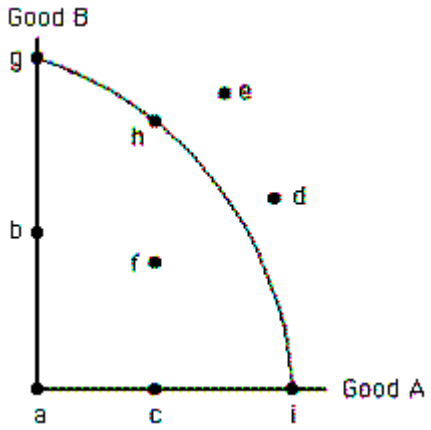
(B) point e

(C) point f

(D) point g

Answer : (C)

89. Exhibit 2-4



Refer to the exhibit. Suppose resources are used fully and efficiently. Then what point(s) can the economy produce at?

(A) point f

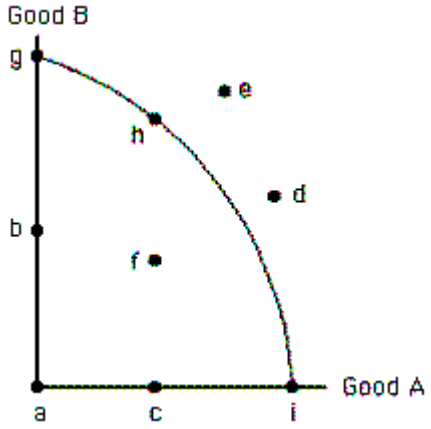
(B) point h, d, or e

(C) point d or e

(D) point g, h, or i

Answer : (D)

90. Exhibit 2-4



Refer to the exhibit. What does point e represent?

(A) an attainable combination of good A and good B

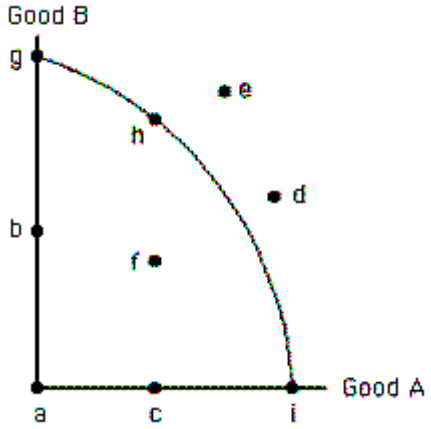
(B) an unattainable combination of good A and good B

(C) the combination of good A and good B that the economy will produce

(D) one possible efficient combination of good A and good B

Answer : (B)

91. Exhibit 2-4



Refer to the exhibit. What does point f represent?

(A) an efficient combination of good A and good B

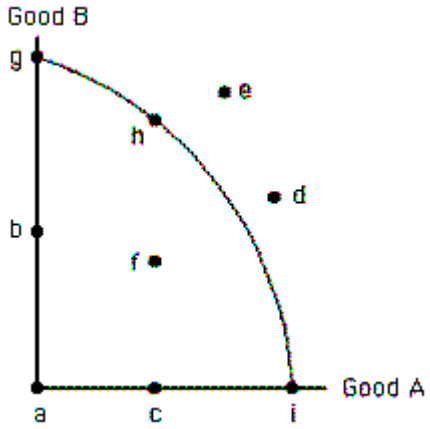
(B) the combination of good A and good B that the economy will produce

(C) an inefficient combination of good A and good B

(D) the only unattainable combination of good A and good B

Answer : (C)

92. Exhibit 2-4



Refer to the exhibit. Which statement explains why point g is efficient?

(A) The only way to increase production of A is by decreasing production of B.

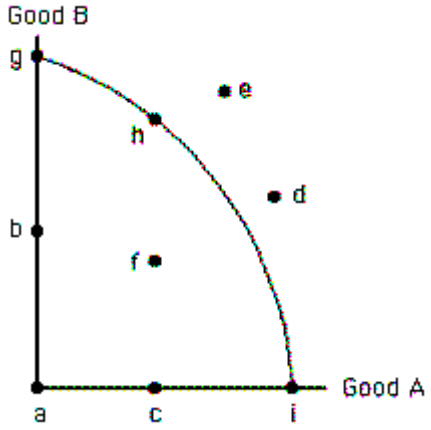
(B) The economy can increase production of both A and B from point b.

(C) It is impossible to move to any other point along the production possibilities frontier.

(D) It is impossible to move to any other point inside the production possibilities frontier.

Answer : (A)

93. Exhibit 2-4



Refer to the exhibit. Suppose that an economy is operating at point f and moves to point g. What happens to the production of A and B?

(A) The production of B increases without a change in the production of A.

(B) The production of A increases without a change in the production of B.

(C) The production of both A and B decrease.

(D) The production of B increases and the production of A decreases.

Answer : (D)

94. What do points inside the production possibilities frontier represent?

(A) full and efficient use of all resources

(B) inefficiency or unemployment, or both

(C) currently unattainable combinations of outputs

(D) currently unattainable combinations of resources

Answer : (B)

95. What do points outside the production possibilities frontier represent?

(A) unemployment of resources

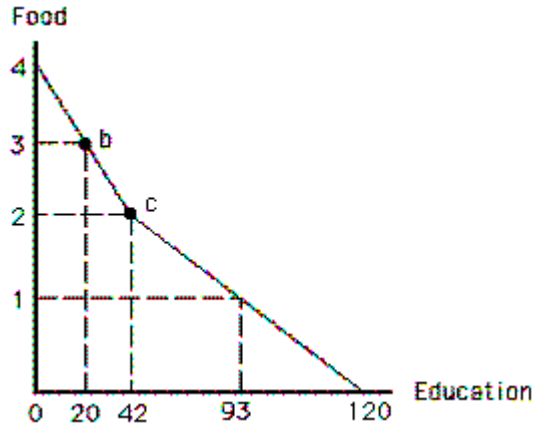
(B) inefficient use of resources

(C) combinations that are attainable only if all resources are used fully and efficiently

(D) currently unattainable combinations of outputs

Answer : (D)

96. Exhibit 2-5



Refer to the exhibit. What is the opportunity cost of moving from point c to point b?

(A) 62 units of education

(B) 22 units of education

(C) 3 units of food

(D) 1 unit of food

Answer : (B)

97. Assume that an economy has a bowed-out production possibilities frontier and that an economy is operating on the frontier. What happens when more of one good is produced?

(A) the opportunity cost of producing that good decreases

(B) efficiency decreases

(C) the opportunity cost of producing both goods must remain constant

(D) technology remains constant

Answer : (D)

98. Suppose that an economy is operating inside its production possibilities frontier. Which statement best describes what is happening in this economy?

(A) Some of the nation's resources are unemployed.

(B) The production decisions are made by the government.

(C) Unlimited resources must satisfy scarce desires.

(D) Human resources are scarce relative to human wants, therefore society must have some

mechanism for making choices.

Answer : (A)

99. Assume that an economy has a straight line production possibilities frontier. Which statement best describes what is happening in this economy?

(A) Resources must NOT be used efficiently.

(B) Resources must be unemployed.

(C) Society must NOT be using the latest technology.

(D) Resources must be equally adaptable at producing either product.

Answer : (D)

100. Why would a production possibilities frontier be bowed out?

(A) Resources are used efficiently.

(B) Production of one good involves an opportunity cost.

(C) Resources are NOT perfectly adaptable to making each good.

(D) Technology is improving.

Answer : (C)

101. Assume that resources are NOT perfectly adaptable to the production of both good A and good B. Which statement best corresponds to this situation?

(A) The opportunity cost of A increases as production of A increases.

(B) The opportunity cost of A decreases as production of A increases.

(C) It is impossible for the economy to produce both A and B.

(D) The opportunity cost of A is constant.

Answer : (A)

102. Assume a bowed-out production possibilities frontier showing possible output levels of good A and good B. What will the opportunity cost of producing the first 10 units of A usually be?

(A) the same as the opportunity cost of producing the second 10 units of A

(B) less than the opportunity cost of producing the second 10 units of A

(C) greater than the opportunity cost of making the second 10 units of A

(D) 10 units of A

Answer : (B)

103. Assume a bowed-out shape of a production possibilities frontier showing possible output levels of good A and good B. What is indicated if the economy produces more and more of good B?

(A) that larger and larger amounts of good A must be sacrificed

(B) that smaller and smaller amounts of good A must be sacrificed

(C) that more of good A will be produced

(D) that the amount of resources available in the economy must be increased

Answer : (A)

104. Suppose a production possibilities curve is a downward-sloping straight line. What does this indicate?

(A) that society cannot decide which good it prefers

(B) an absence of scarcity

(C) constant opportunity cost

(D) inefficiency

Answer : (C)

105. What does the law of increasing opportunity cost explain?

(A) why opportunity cost is constant along the production possibilities frontier

(B) why the production possibilities frontier is downward sloping

(C) why the production possibilities frontier is bowed out

(D) why efficient points lie along the production possibilities frontier

Answer : (C)

106. Which statement best reflects the law of increasing opportunity cost?

(A) Resources are NOT perfectly substitutable.

(B) Resources cannot always be used efficiently.

(C) An economy will operate at a point inside the production possibilities frontier.

(D) An economy will operate at a point along the production possibilities frontier.

Answer : (A)

107. Which statement best describes the economic principles associated with a straight-line production possibilities frontier?

(A) The problem of scarcity does NOT exist.

(B) Resources are imperfect substitutes.

(C) Opportunity costs are constant.

(D) Technology is rapidly expanding.

Answer : (C)

108. What does any movement along the production possibilities frontier involve?

(A) the production of more of both goods

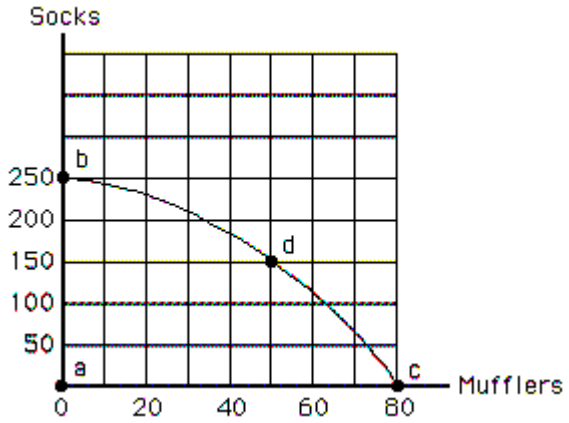
(B) the production of more of one good and less of the other good

(C) the production of less of both goods

(D) the production of more resources

Answer : (B)

109. Exhibit 2-6



Refer to the exhibit. What is the opportunity cost of moving from point b to d?

(A) 30 mufflers

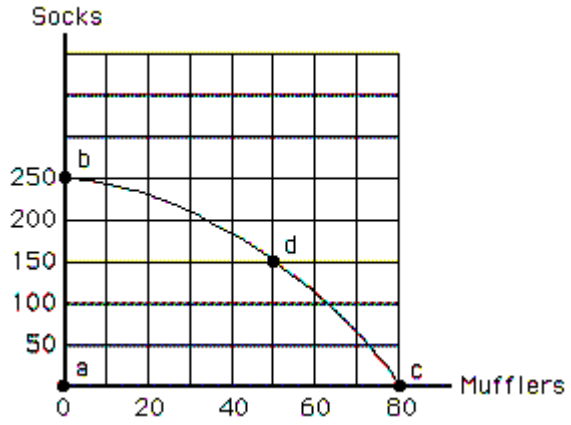
(B) 50 mufflers

(C) 100 socks

(D) 150 socks

Answer : (C)

110. Exhibit 2-6



Refer to the exhibit. If society moves from point c to point d, what is the outcome for society?

(A) It gains 100 socks.

(B) It loses 30 mufflers.

(C) It will be worse off after the change in production.

(D) It will NOT operate efficiently.

Answer : (B)

111. On a production possibilities frontier, how is the opportunity cost of one more unit of a commodity per time period measured?

(A) by the amount of the other commodity that must be sacrificed

(B) by the amount of unemployed resources that must be used

(C) by the amount of satisfaction it gives consumers

(D) by the amount of tax paid to government for production, sale, and use of the commodity

Answer : (A)

112. Suppose there are increases in resources, or improvements in technology. What will such increases cause the production possibilities frontier to do?

(A) shift outward

(B) shift inward

(C) become a straight line

(D) become horizontal

Answer : (A)

113. Which of the following would shift the production possibilities frontier outward?

(A) an increase in the size of the labour force

(B) more efficient use of existing resources and technology

(C) the end of a strike by a labour union

(D) society's desire to produce more of one of the goods

Answer : (A)

114. Which of the following would shift the production possibilities frontier outwards?

(A) an increase in worker training

(B) a war that destroyed many buildings

(C) a decrease in the size of the labour force

(D) a change to a more inefficient production process

Answer : (A)

115. Which of the following would shift the production possibilities frontier outward?

(A) a reduction in inefficiency

(B) a reduction in the size of the labour force

(C) an improvement in technology

(D) a change in the combination of goods produced

Answer : (C)

116. Suppose there is an improvement in technology. Which statement best reflects what would happen to a production possibilities frontier?

(A) A parallel shift of the production possibilities frontier would always result.

(B) A parallel shift of the production possibilities frontier would never result.

(C) A movement along the production possibilities frontier would be indicated.

(D) The production possibilities frontier would shift outward but NOT necessarily to a parallel position.

Answer : (D)

117. Suppose there is an improvement in technology. Which statement best reflects what would happen to a production possibilities frontier?

(A) The economy would produce outside its original production possibilities frontier.

(B) The economy would move along its original production possibilities frontier.

(C) There would be no effect on the production possibilities frontier.

(D) The production possibilities frontier would change to a line with a positive slope.

Answer : (A)

118. Which of the following is a reason why the production possibilities frontier can shift outward?

(A) because land becomes less fertile

(B) because labour skills improve

(C) because of a smaller capital stock

(D) because the work force becomes smaller

Answer : (B)

119. Which of the following would cause the production possibilities frontier to shift inward?

(A) an increase in the employment rate

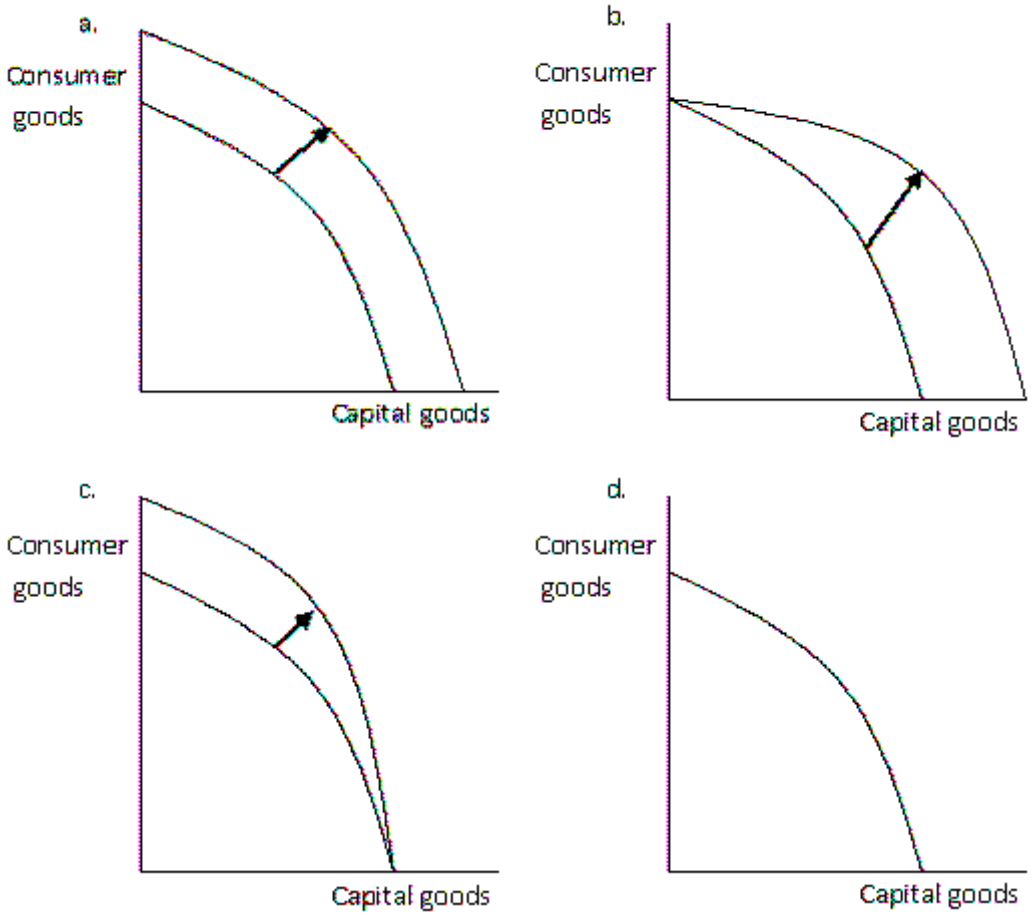
(B) mandatory retirement at age 55

(C) an improvement in technology

(D) a larger work force

Answer : (B)

120. Exhibit 2-7



Refer to the exhibit. Suppose a country's rate of immigration increases dramatically. Which graph best illustrates the impact on the production possibilities frontier?

(A) graph a

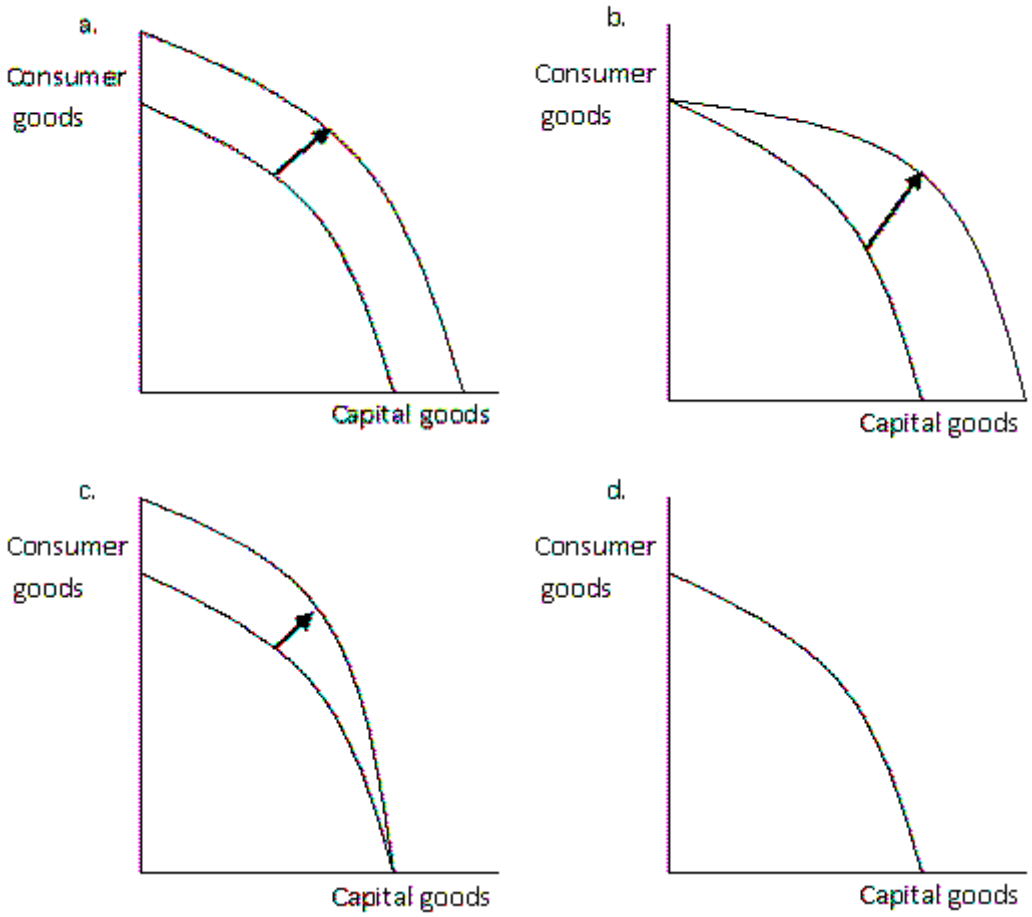
(B) graph b

(C) graph c

(D) graph d

Answer : (A)

121. Exhibit 2-7



Refer to the exhibit. Suppose a decrease in unemployment occurs. Which graph best illustrates the impact on the production possibilities frontier?

(A) graph a

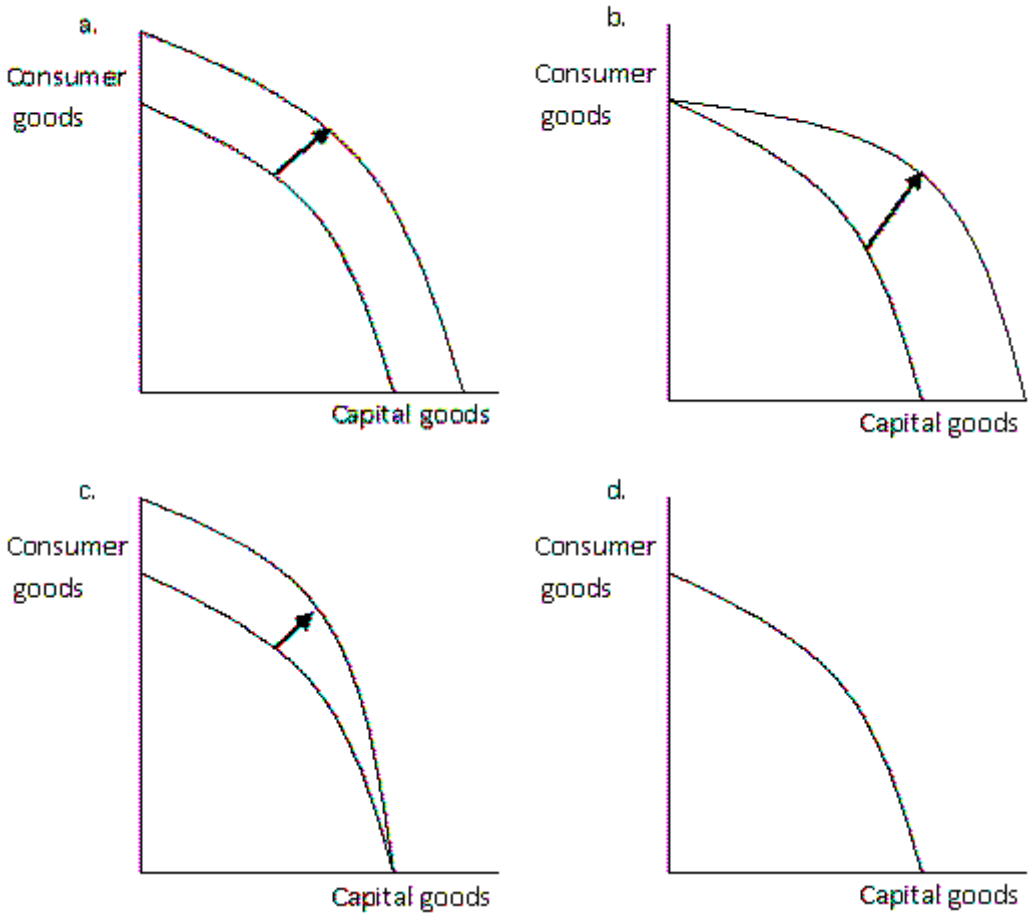
(B) graph b

(C) graph c

(D) graph d

Answer : (D)

122. Exhibit 2-7



Refer to the exhibit. Suppose a technological improvement occurs, one that will make efficient use of the resources used to produce consumer goods. Which graph best illustrates the impact on the production possibilities frontier?

(A) graph a

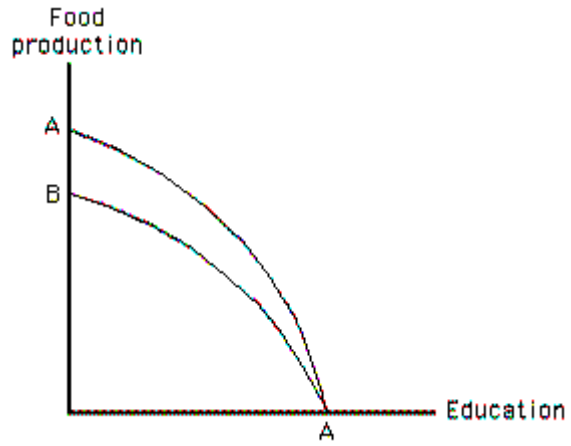
(B) graph b

(C) graph c

(D) graph d

Answer : (C)

123. Exhibit 2-8



Refer to the exhibit. Which of the following would cause the production possibilities frontier to shift from AA to BA?

(A) a drought that affected food production but had no effect on education

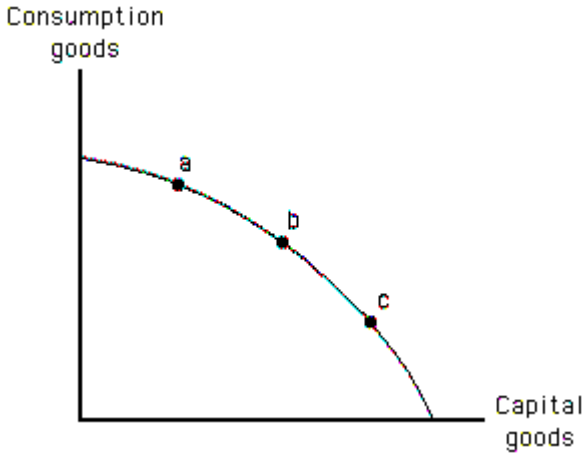
(B) a technological improvement in education that had no effect on food production

(C) a technological improvement in food production that had no effect on education

(D) a disease that affected students' ability to learn (and therefore education) but did NOT affect food production

Answer : (A)

124. Exhibit 2-9



Refer to the exhibit. At which labelled point would current production lead to the largest outward shift in the production possibilities frontier in a later year?

(A) at point a, because this point represents a greater consumption level than point b

(B) at point b, because this point represents greater total production than the other two points

(C) at point c, because this point represents a greater consumption level than the other two points

(D) at point c, because this point represents greater production of capital than the other two points

Answer : (D)

125. Which of the following would shift the production possibilities frontier?

(A) a change in technology

(B) a change in unemployment

(C) a change in product prices

(D) a change in society's preferences for commodities

Answer : (A)

126. Why is the production possibilities frontier usually a bow-shaped curve instead of a straight line?

(A) because it is easier to illustrate the concepts of scarcity and prices with a bow-shaped curve than it is with a straight line

(B) because early economists began drawing them in this way and the convention has continued throughout the years

(C) because output eventually reaches a maximum and then declines

(D) because resources are NOT perfectly adaptable to the production of all goods

Answer : (D)

127. Which of the following can NOT be shown using the production possibilities frontier?

(A) scarcity

(B) efficiency

(C) the law of increasing opportunity cost

(D) the best combination of goods and services for an economy

Answer : (D)

128. What is reflected by an outward shift of the production possibilities frontier?

(A) stability

(B) growth

(C) decline

(D) inefficiency

Answer : (B)

129. Which of the following is NOT determined by a nation's position relative to its production possibilities frontier?

(A) the price of each good illustrated

(B) whether it has unemployed resources

(C) the opportunity cost of each good illustrated

(D) society's relative preferences regarding each good illustrated

Answer : (A)

130. Which economic question is answered by the decision to produce butter instead of guns?

(A) What to produce?

(B) How to produce?

(C) For whom to produce?

(D) Who has a comparative advantage in gun production?

Answer : (A)

131. Suppose dairy farmers use automatic milking machines instead of milking by hand. Which economic question does their decision answer?

(A) What to produce?

(B) How to produce?

(C) For whom to produce?

(D) What is the price of milk?

Answer : (B)

132. Which economic question is answered by the decision to give all of the butter the economy produces to homeless people?

(A) What to produce?

(B) How to produce?

(C) For whom to produce?

(D) Who has a comparative advantage in butter production?

Answer : (C)

133. Which of the following questions does an economy NOT have to answer?

(A) Which goods will be produced?

(B) Why are these particular goods produced?

(C) Which resources should be used?

(D) How should resources be combined to produce each product?

Answer : (B)

134. Regarding the economic question "What will be produced?", what types of economies are faced with this question?

(A) only economies in a market system

(B) only command economies

(C) all economies regardless of their wealth

(D) only wealthy economies

Answer : (C)

135. What term refers to the set of mechanisms and institutions that resolve the basic economic questions?

(A) economic system

(B) production possibilities dilemma

(C) business economic resolution device

(D) absolute advantage economic determination

Answer : (A)

136. Which statement best reflects the main purpose of an economic system?

(A) It must NOT allow some members of society to gain an unfair advantage when answering the three economic questions.

(B) It must choose pure capitalism to adequately answer the three economic questions.

(C) It is a set of social institutions and mechanisms organized to answer the three economic questions.

(D) It can address problems of scarcity only by embracing the social institution of private property.

Answer : (C)

137. Which of the following is a characteristic of pure capitalism?

(A) private property rights

(B) government ownership of resources

(C) a reliance on plans to direct resources to their best uses

(D) central planning

Answer : (A)

138. What does Adam Smith's term "the invisible hand" refer to?

(A) the hidden role of government in setting regulations that govern trading in markets

(B) the most capable entrepreneurs in the economy

(C) market forces

(D) the unseen work of the financial markets that facilitate trade

Answer : (C)

139. Which of the following is a major distinguishing feature between capitalist and socialist (or command) economies?

(A) Under capitalism the average citizen is always wealthier than in socialist economies.

(B) Decision making is typically decentralized in socialist economies and is centralized in capitalist economies.

(C) Resources are publicly owned in capitalist economies.

(D) Decision making is typically decentralized under capitalism while it is centralized in command economies.

Answer : (D)

140. Which statement best describes what Adam Smith believed would happen when people pursue their own self-interests?

(A) There would be a tendency to promote the general welfare.

(B) The government's "invisible hand" would be required to keep the economy running smoothly.

(C) Aggregate demand may be caused to be greater than aggregate supply.

(D) The wealth of a nation would increase, in terms of the quantity of gold and silver it owned.

Answer : (A)

141. Which of the following is characteristic of a pure command system?

(A) Resources are privately owned.

(B) The price system is used to allocate resources to their best uses.

(C) Centralized decision making is used to answer the basic economic questions.

(D) Individual choices are reflected through collective decisions.

Answer : (C)

142. Which of the following is characteristic of pure capitalism?

(A) All resources are owned communally.

(B) Economic activity is coordinated by government decision makers.

(C) The price system is used to guide resources to their highest-valued uses.

(D) Centralized economic planning is used to answer the basic economic questions.

Answer : (C)

143. What does the "invisible hand" described by Adam Smith refer to?

(A) the allocative role of markets and market forces

(B) the importance of government intervention and central planning

(C) the actions of successful entrepreneurs in directing the economy

(D) the role of monopolized industries in leading the nation

Answer : (A)

144. Which of the following is a characteristic of a command economy?

(A) A dictator makes every economic decision.

(B) Owners can sell their resources to the highest bidder.

(C) No individual or group coordinates the economy.

(D) In theory, individual choices are reflected in collective decisions, and decisions are made by central planners.

Answer : (D)

145. Which of the following is characteristic of a pure command economy?

(A) All resources are privately owned.

(B) Economic activity is coordinated by the price system.

(C) Competitive markets guide resources to their highest-valued uses.

(D) Centralized economic planning is used to answer the basic economic questions.

Answer : (D)

146. Which country has one of the most centrally planned economies in the world today?

(A) the United States

(B) North Korea

(C) Canada

(D) Japan

Answer : (B)

147. Which of the following best describes the Canadian economy?

(A) It is a purely capitalist economy.

(B) It is a command economy.

(C) It is a socialist economy.

(D) It is a mixed capitalist economy.

Answer : (D)

148. Which of the following best describes why the mixed economy is the dominant economic system in the world?

(A) because custom and religion have no influence on economic decisions in these systems

(B) because pure capitalist economies have placed more control in the hands of individuals in recent years

(C) because there is public (i.e., governmental) ownership of resources, but regulation of government by individuals reduces some of the flaws of pure capitalism

(D) because there is private ownership of property, but government regulation of individuals reduces some of the flaws of pure capitalism

Answer : (D)

149. Which of the following best describes the mixed capitalist economy?

(A) Decisions are based primarily on religion or custom.

(B) All resources are publicly owned and economic planning is centralized.

(C) All resources are privately owned and prices are used to coordinate economic activity.

(D) Resources are both publicly and privately owned and some markets are regulated.

Answer : (D)

150. Which of the following will make a production possibilities frontier shift outwards?

(A) a decrease in capital stock

(B) a decrease in resource availability

(C) an increase in unemployment

(D) an improvement in technology

Answer : (D)

151. The "rules of the game" are the set of conditions that shape individual incentives and constraints. What determines the rules of the game?

(A) scarcity

(B) technology

(C) the amount of consumer goods in the economy

(D) the laws about resource ownership and the role of government

Answer : (D)

152. Recognition of the incentive power of property rights and markets is increasing. As a result, what are some of the most die-hard planners now allowing?

(A) more influence from custom or religion

(B) family relations to play significant roles

(C) a role for markets

(D) allowing communal ownership of property

Answer : (C)