Exploring Macroeconomics (Canadian) 5th edition Sexton Test Bank

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TRUE/FALSE

1 : The production possibilities curve for an economy that experiences a constant opportunity cost of production is bowed out.
A : true
B : false

Correct Answer : B

2 : Movement from one point on the production possibilities curve to another leads to more of both goods being produced.
A : true
B : false

Correct Answer : B

3 : The production possibilities curve marks the boundary between attainable and unattainable combinations of output.
A : true
B : false

Correct Answer : A

4 : Any output combination outside the production possibilities curve is attainable in the current period only if prices decrease.
A : true
B : false

Correct Answer : B

5 : An economy that has many unemployed workers and idle factories is not operating efficiently.
A : true
B : false

Correct Answer : A

6 : The opportunity cost of a particular good tends to increase with its rate of output because some resources cannot be easily adapted from the production of one good or service to another.
A : true
B : false

Correct Answer : A

7 : The law of increasing opportunity costs implies that a society's production possibilities curve will be a bowed out line.
A : true
B : false

Correct Answer : A

8 : A decrease in the unemployment rate will shift an economy's production possibilities curve outward.
A : true
B : false

Correct Answer : B

9 : An increase in available natural resources will tend to cause a society's production possibilities curve to shift outward.
A : true
B : false

Correct Answer : A

10 : An improvement in technology will tend to cause a society's production possibilities curve to shift outward.
A : true
B : false

Correct Answer : A

11 : High economic growth can eventually eliminate the problem of scarcity.
A : true
B : false

Correct Answer : B

12 : An increase in an economy's capital stock increases its future productive capacity.
A : true
B : false

Correct Answer : A

13 : Other things being constant, an economy must give up some consumer goods and services today to produce more capital goods in order to grow.
A : true
B : false

Correct Answer : A

14 : Capital accumulation causes the production possibilities curve to shift outward over time.
A : true
B : false

Correct Answer : A

15 : A market is a place where some sort of exchange occurs.
A : true
B : false

Correct Answer : B

16 : A competitive market has a few buyers and sellers, each with a lot of market power.

A : true
B : false

Correct Answer : B

17 : A market can enforce property rights efficiently.
A : true
B : false

Correct Answer : B

18 : Market failure occurs when the market fails to allocate resources efficiently.
A : true
B : false

Correct Answer : A

19 : Efficiency leads to equality.
A : true
B : false

Correct Answer : B

20 : There are four factors of production: land, labour, capital, and entrepreneurship.
A : true
B : false

Correct Answer : A

21 : When you buy groceries at your local supermarket, you are making a transaction in the factor market.
A : true
B : false

Correct Answer : B

22 : In the simple circular flow model of the economy, total expenditures on goods and services equal total household income.
A : true
B : false

Correct Answer : A

MULTIPLE CHOICE

23 : Which of the following statements about the production possibilities curve is the most accurate?
A : It is a curve that shows the quantity of output that will be offered for sale at various prices.
B : It is a graph that shows the various combinations of output it is possible for an economy to produce given its available resources and technology.
C : It is a graph that shows the combinations of output that are most profitable to produce.

D : It is a graph that shows the various combinations of resources that can be used to produce a given level of output.

Correct Answer : B

24 : Which of the following is illustrated when the production possibilities curve is a straight line?
A : Resources are not equally substitutable between productions of the goods because there is an increase in opportunity cost.
B : As an increasing quantity of resources is shifted from one manufacturing process to another, there is no increase in opportunity cost.
C : Opportunity costs are negative.
D : Opportunity costs increase as output of either commodity is expanded.

Correct Answer : B

25 : What does a straight-line production possibilities curve illustrate?
A : The opportunity cost of production does not vary along the curve.
B : The output combinations along the curve provide equal levels of satisfaction to consumers.
C : The opportunity cost of production of the good on the Y-axis increases as you move down along the curve.
D : The market price of the two goods is the same everywhere along the curve.

Correct Answer : A

26 : Along a straight-line production possibilities curve, which of the following best describes the opportunity costs of producing the good on the X-axis?
A : They are decreasing.
B : They are constant.
C : They are increasing.
D : They are varied.

Correct Answer : B

27 : What trade-off does a linear (straight line) production possibilities curve illustrate?
A : a trade-off in which the opportunity cost of a good increases with the level of its production
B : a trade-off in which the opportunity cost of a good is constant at all levels of production
C : a trade-off in which the opportunity cost is zero with all levels of production
D : a trade-off in which the opportunity cost of a good decreases with the level of its production

Correct Answer : B

28 : Seoyun must write a business term paper and prepare for an economics exam. The production possibilities curve between business and economics preparation is a straight line. As time spent studying business increases, what is the effect on the opportunity cost of studying for business?
A : It increases.
B : It remains the same.
C : It first increases, then decreases.
D : It decreases.

Correct Answer : B

29 :

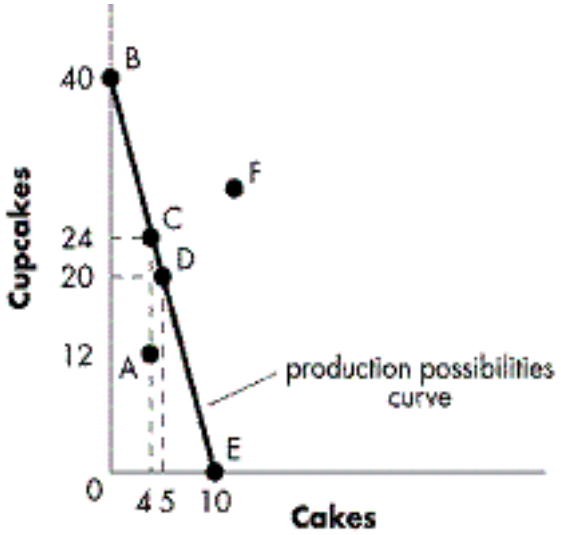


Figure 2-1??Refer to Figure 2-1. Which of the following statements best describes the opportunity cost of producing an additional cake as the economy moves in a southeast direction along the production possibilities curve?

A : It increases.
B : It decreases.
C : It remains constant.
D : It equals zero.

Correct Answer : C

30 :

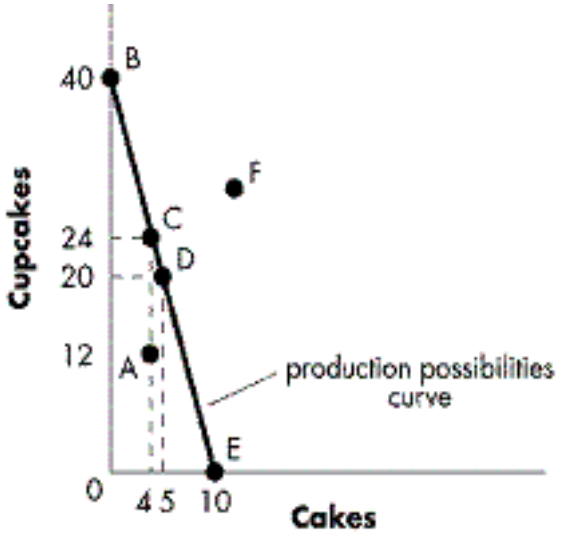


Figure 2-1??Refer to Figure 2-1. What is the opportunity cost of producing an additional cupcake equal to?

A : 1/4 of a cake
B : 4 cakes
C : 10 cakes
D : 40 cakes

Correct Answer : A

31 :

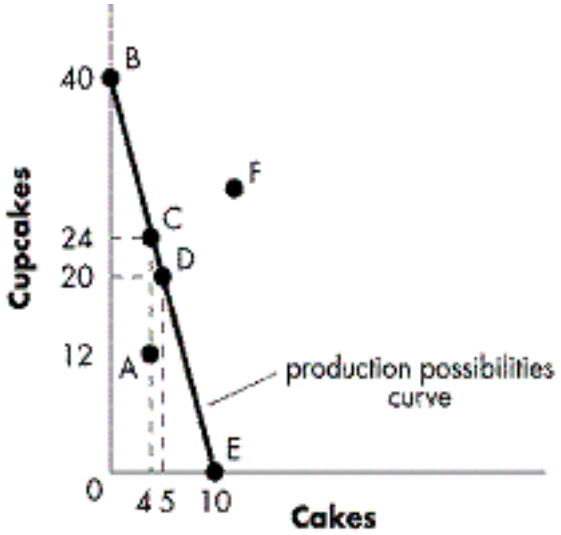


Figure 2-1??Refer to Figure 2-1. Which of the following statements best describes a movement from Point C to Point D?

A : The sacrifice of four cupcakes is required to obtain one cake.

B : The sacrifice of one cake is required to obtain four cupcakes.

C : Inputs are reallocated without affecting overall levels of production.

D : Unemployment increases.

Correct Answer : A

32 :

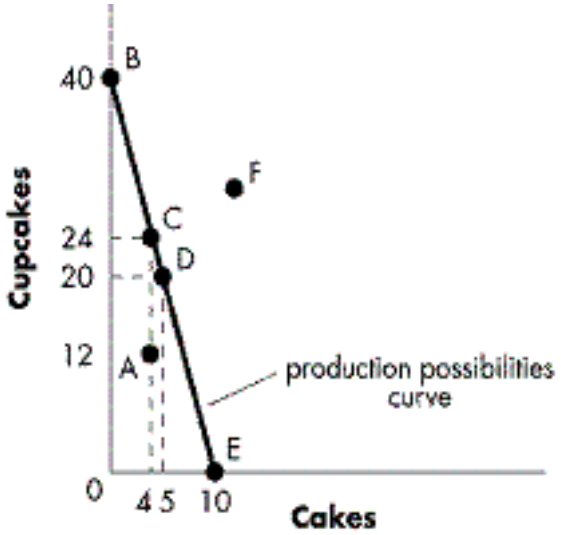


Figure 2-1??Refer to Figure 2-1. Which of the following statements about a movement from Point C to Point B is the most accurate?

A : Cakes are sacrificed to produce a greater quantity of cupcakes.

B : No sacrifice is involved, as the opportunity cost of production is zero everywhere along the production possibilities curve.

C : Cupcakes are sacrificed to produce a greater quantity of cakes.

D : The level of unemployment in the economy will increase.

Correct Answer : A

33 :

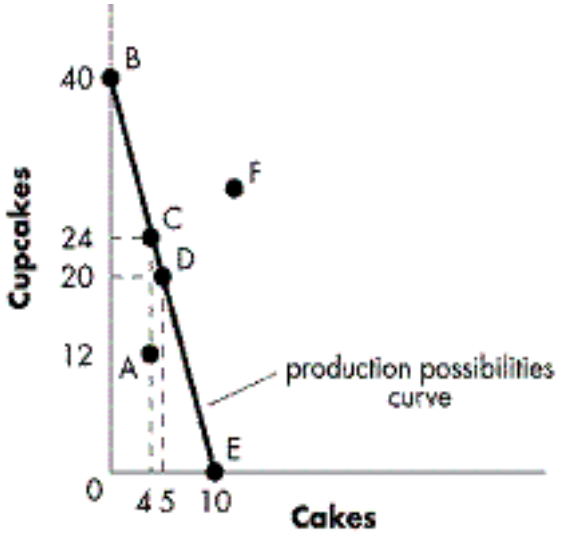


Figure 2-1??Refer to Figure 2-1. Which of the following statements is most accurate about a movement from Point A to Point C?

A : Cupcakes are sacrificed to produce a greater quantity of cakes.

B : The level of unemployment in the economy will increase.

C : No sacrifice of output is involved, as both more cupcakes and cakes can be produced if available resources are used more efficiently.

D : Cakes are sacrificed to produce a greater quantity of cupcakes.

Correct Answer : C

34 :

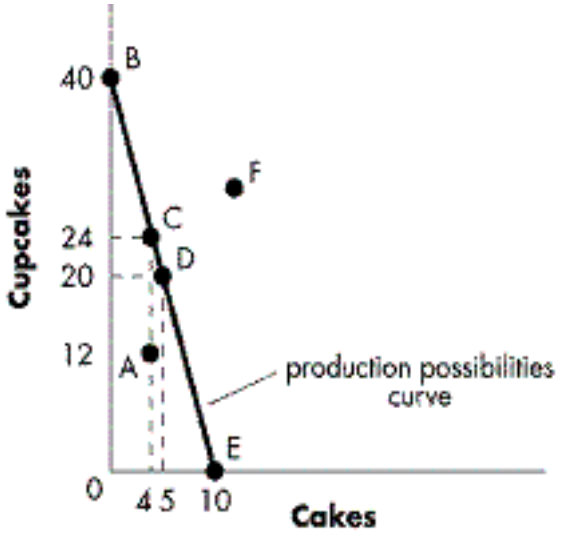


Figure 2-1??Refer to Figure 2-1. Which of the following statements is most accurate about a movement from Point D to Point A?

A : Cakes are sacrificed to produce a greater quantity of cupcakes.

B : Cupcakes are sacrificed to produce a greater quantity of cakes.

C : No sacrifice of output is involved, as the opportunity cost of production is zero everywhere along the production possibilities curve.

D : The level of unemployment in the economy will increase.

Correct Answer : D

35 : Which of the following is assumed when drawing an economy's one-year production possibilities curve?

A : a fixed quantity of resources and changing levels of technology

B : a fixed quantity of available resources and an unchanging level of technology

C : a continual increase in the productivity of resources

D : an unchanging level of technology and a changing quantity of resources

Correct Answer : B

36 : When will an economy's production possibility curve be a straight line?
A : when the opportunity cost of production of a good is constant as more of it is produced
B : when the opportunity cost of production of a good decreases as more of it is produced
C : when resources are not equally substitutable among productive tasks
D : when the economy experiences significant unemployment

Correct Answer : A

37 : Why is a production possibilities curve negatively sloped?
A : Along the curve, production of one good must be sacrificed to increase production of another good.
B : Unemployment increases as an economy moves down along the curve.
C : As the price falls, more goods are purchased.
D : Unemployment decreases as an economy moves down along the curve.

Correct Answer : A

38 : If additional units of output can be produced at constant opportunity cost, what will be the shape of the production possibilities curve?
A : positively sloped
B : a straight line with a negative slope
C : bowed inward toward the origin
D : bowed outward away from the origin

Correct Answer : B

39 : Which of the following movements illustrates an inefficient use of resources in relation to the production possibilities curve?
A : a movement off the curve in a southwest direction
B : a movement to the southeast along the curve
C : a movement to the northeast along the curve
D : a movement off the curve in a northeast direction

Correct Answer : A

40 : On a production possibilities curve, which of the following illustrates an excessive unemployment of resources?
A : an inward shift of the curve
B : a point inside the curve
C : a movement along the curve in a northwest direction
D : an outward shift of the curve

Correct Answer : B

41 : Where can an economy produce in terms of its production possibilities curve?
A : only on its production possibilities curve
B : at any point inside its production possibilities curve, but not on or outside the curve
C : at any point inside or outside its production possibilities curve
D : at any point on or inside its production possibilities curve, but not outside the curve

Correct Answer : D

42 :

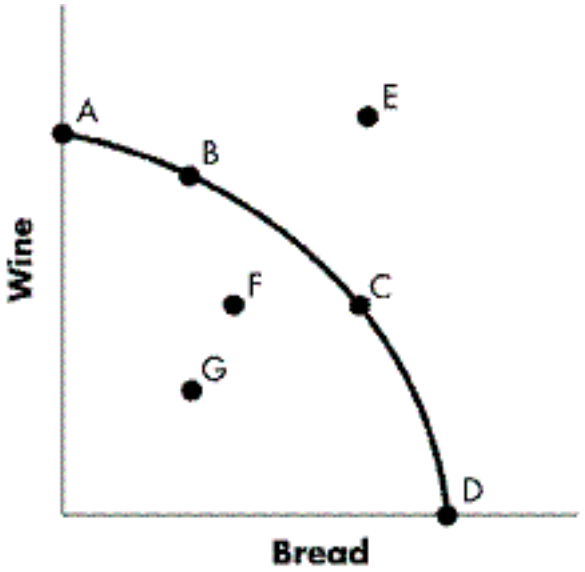


Figure 2-2?Refer to Figure 2-2. At which point is it currently NOT possible to produce?
A : Point D
B : Point E
C : Point F
D : Point G

Correct Answer : B

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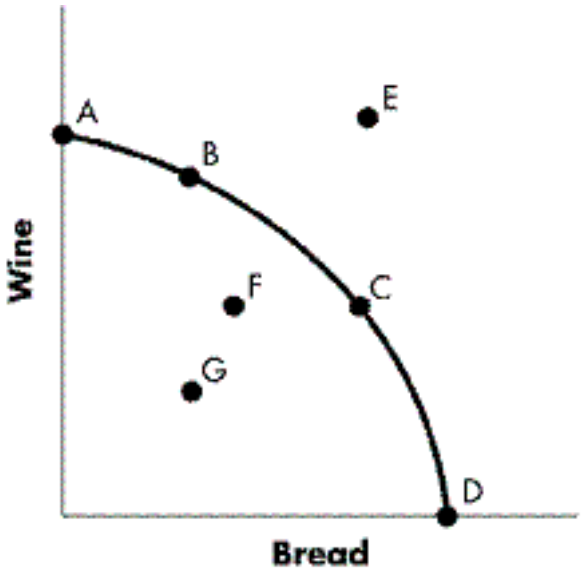


Figure 2-2?Refer to Figure 2-2. An economy is operating at full employment when workers in the wine industry are laid off. Which of the following movements would portray this change on the production possibilities curve?
A : a movement from B to A
B : a movement from B to G
C : a movement from C to F
D : a movement from G to F

Correct Answer : B

44 :

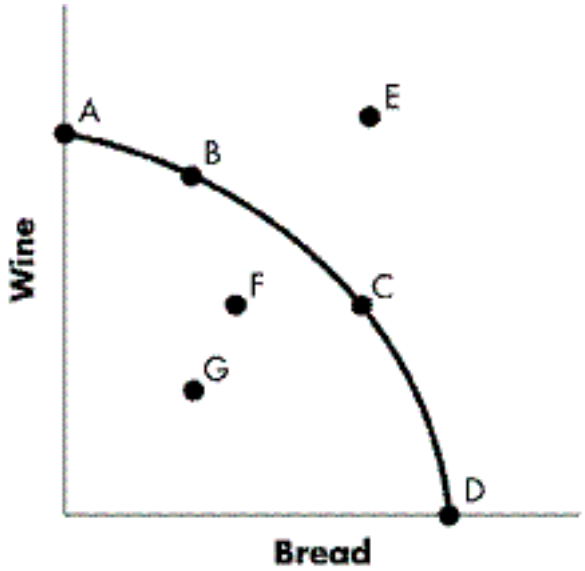


Figure 2-2?Refer to Figure 2-2. What is the most efficient point of production?
A : Point D
B : Point E
C : Point F
D : Point G

Correct Answer : A

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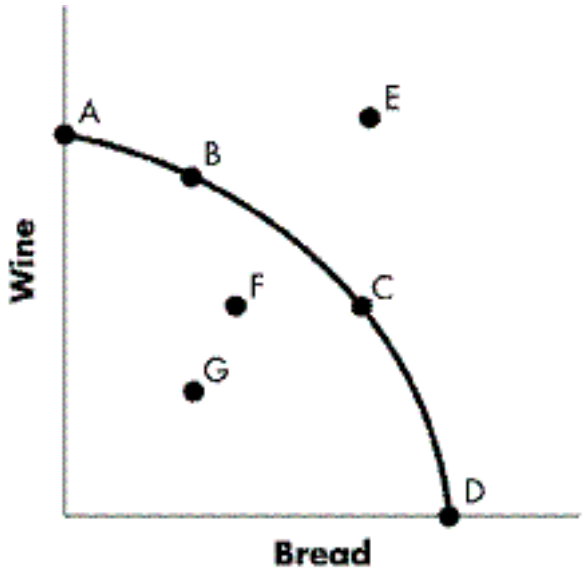


Figure 2-2?Refer to Figure 2-2. What is the most inefficient point of production?
A : Point D
B : Point E
C : Point F
D : Point G

Correct Answer : D

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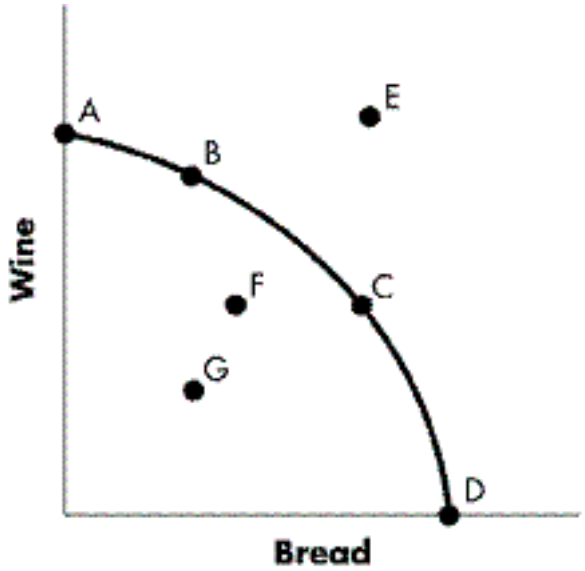


Figure 2-2?Refer to Figure 2-2. Which of the following statements about Point D is most accurate?

A : The economy is operating inefficiently at Point D.

B : Both wine and bread are produced at Point D.

C : Only wine is produced at Point D.

D : Only bread is produced at Point D.

Correct Answer : D

47 :

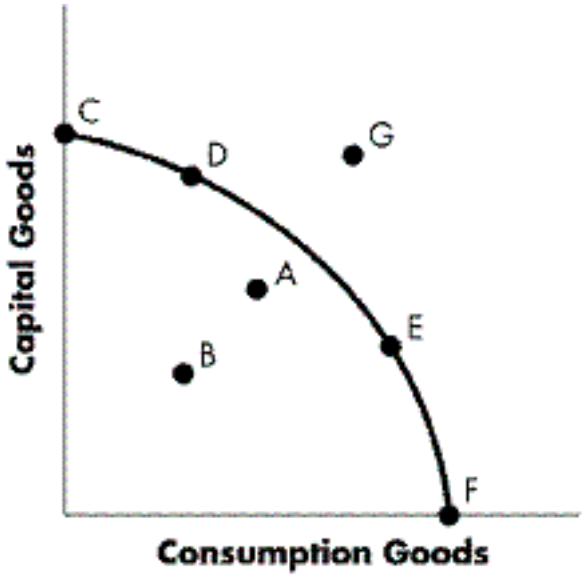


Figure 2-3?Refer to Figure 2-3. Which of the following movements will result in an increase in the quantity of both capital and consumption goods produced this period?

A : a movement from Point D to Point F

B : a movement from Point F to Point C

C : a movement from Point B to Point A

D : a movement from Point F to Point B

Correct Answer : C

48 :

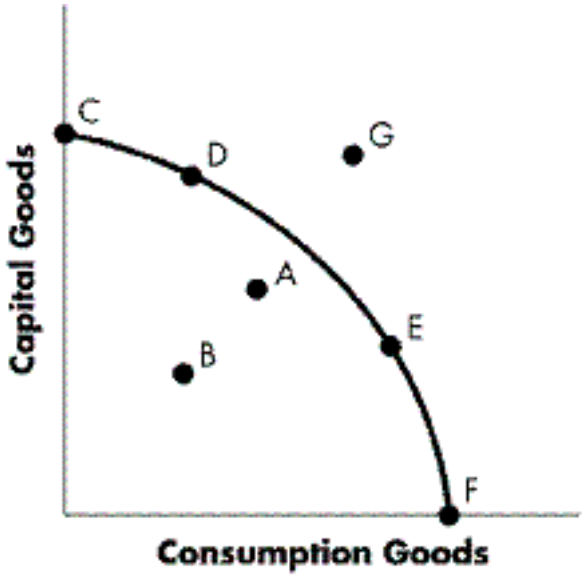


Figure 2-3?Refer to Figure 2-3. Which of the following movements will result in an increase in the production of consumption goods but a decrease in the production of capital goods this period?

A : a movement from Point D to Point E
B : a movement from Point A to Point B
C : a movement from Point G to Point D
D : a movement from Point B to Point A

Correct Answer : A

49 :

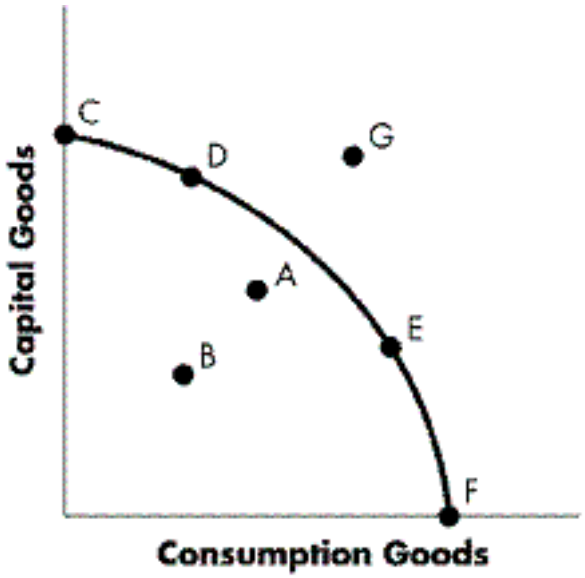


Figure 2-3?Refer to Figure 2-3. Which of the following movements will result in a decrease in the production of consumption goods but an increase in the production of capital goods this period?

A : a movement from Point B to Point A
B : a movement from Point E to Point C
C : a movement from Point G to Point D
D : a movement from Point A to Point B

Correct Answer : B

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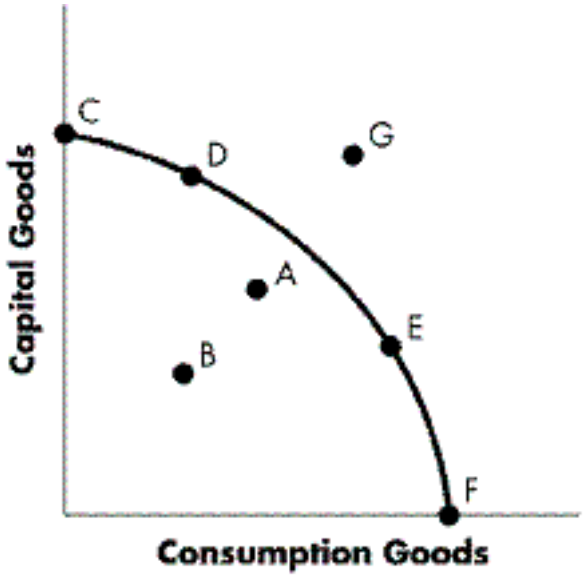


Figure 2-3?Refer to Figure 2-3. Currently, which point is impossible to achieve?

A : Point A

B : Point C

C : Point E

D : Point G

Correct Answer : D

51 :

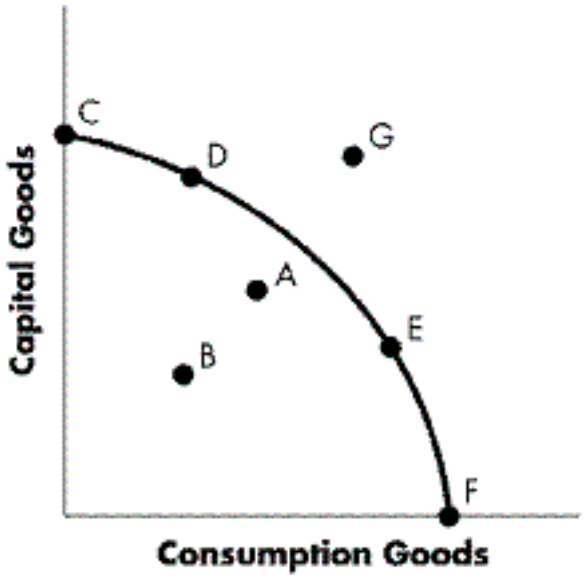


Figure 2-3?Refer to Figure 2-3. Which of the following points corresponds to an economy experiencing significant unemployment and/or producing inefficiently?

A : Point A

B : Point C

C : Point E

D : Point F

Correct Answer : A

52 :

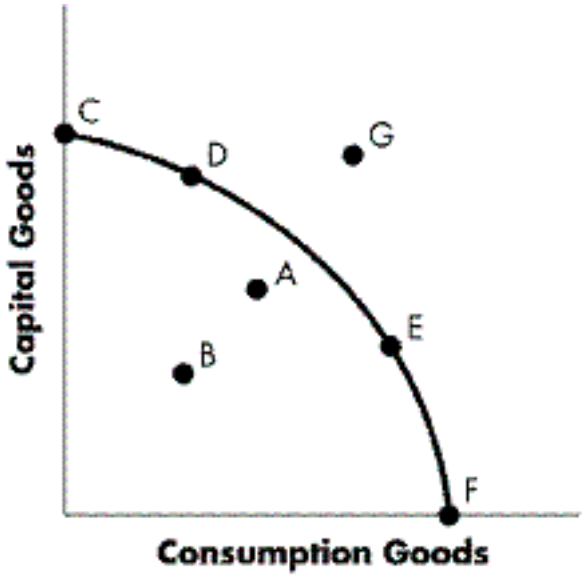


Figure 2-3?Refer to Figure 2-3. For this economy, what is the most preferred point to produce at?

A : Point A
B : Point B
C : Point D
D : Point G

Correct Answer : C

53 :

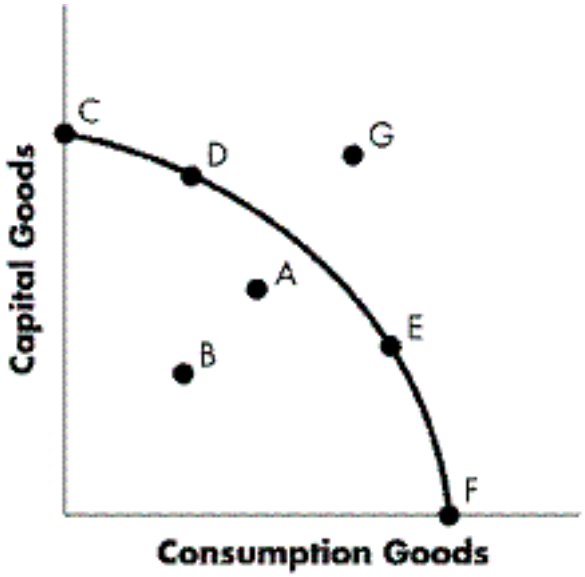


Figure 2-3?Refer to Figure 2-3. Which of the following statements about the movement from Point D to Point E is the most accurate?

A : It results in an increase in the production of both capital and consumption goods.
B : It results in an increase in the production of capital goods but a decrease in the production of consumption goods.
C : It does not change the level of output produced since both points are on the production possibilities curve.
D : It results in an increase in the production of consumption goods but a decrease in the production of capital goods.

Correct Answer : D

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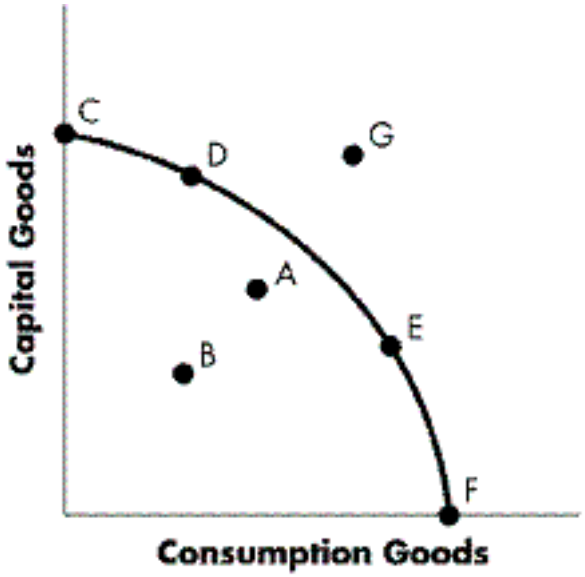


Figure 2-3?Refer to Figure 2-3. Comparatively, at which point is the opportunity cost of one more unit of a consumption good greater?

A : It is greater at Point C than at Point D.
B : It is greater at Point D than at Point E.
C : It is greater at Point E than at Point D.
D : It is greater at Point B than at Point A.

Correct Answer : C

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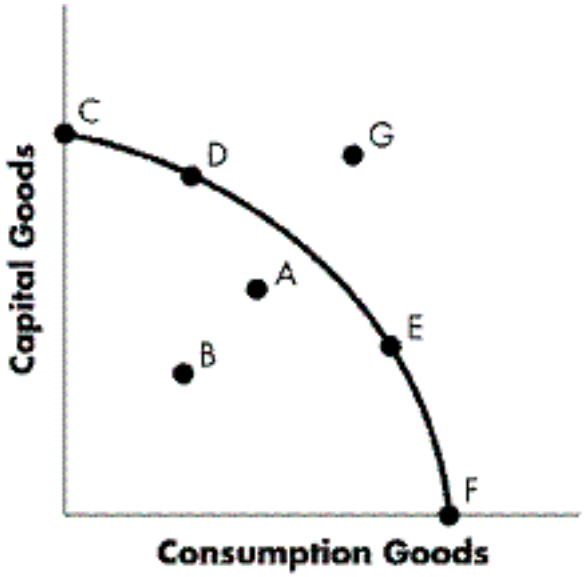


Figure 2-3?Refer to Figure 2-3. At which point is the opportunity cost of one more unit of a capital good greater?

A : It is greater at Point F than at Point E.
B : It is greater at Point D than at Point E.
C : It is greater at Point E than at Point D.
D : It is greater at Point B than at Point A.

Correct Answer : B

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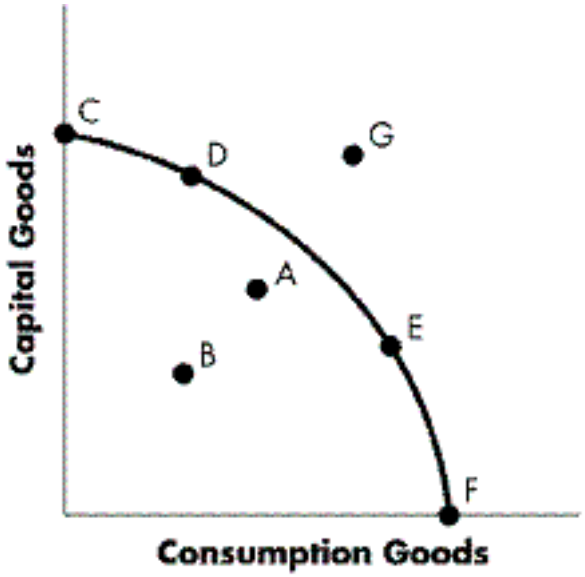


Figure 2-3?Refer to Figure 2-3. Considering only points on the frontier, at what point will the economy experience the least amount of economic growth over time (ceteris paribus)?

A : Point A
B : Point C
C : Point E
D : Point F

Correct Answer : D

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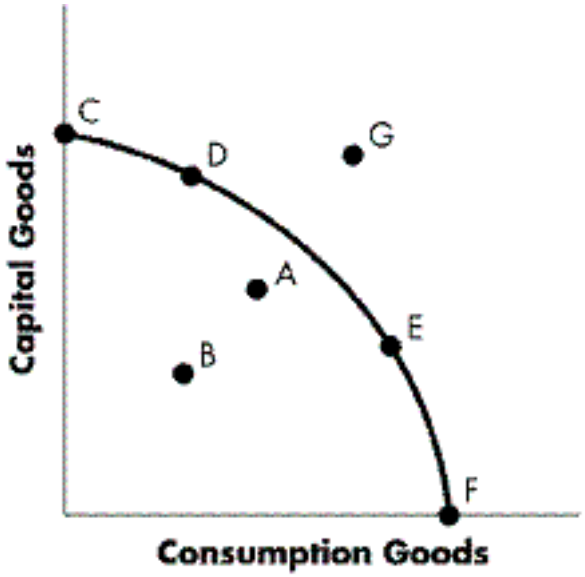


Figure 2-3?Refer to Figure 2-3. Other things being equal, where would the economy operate in order to achieve the greatest economic growth over time?

A : Point A
B : Point B
C : Point C
D : Point E

Correct Answer : C

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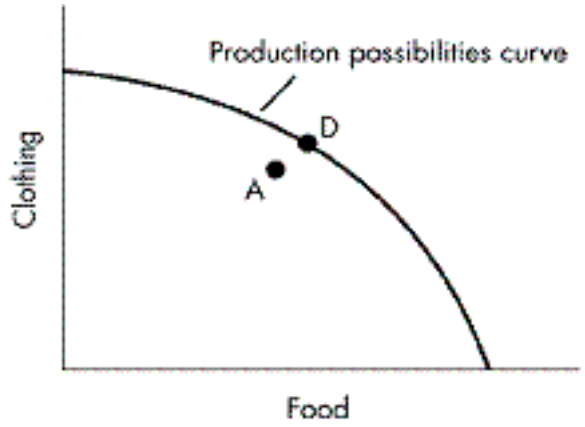


Figure 2-4??Refer to Figure 2-4. Which of the following best describes Point A?

A : It is efficient.

B : It is preferable to Point D.

C : It is inefficient.

D : It is unattainable.

Correct Answer : C

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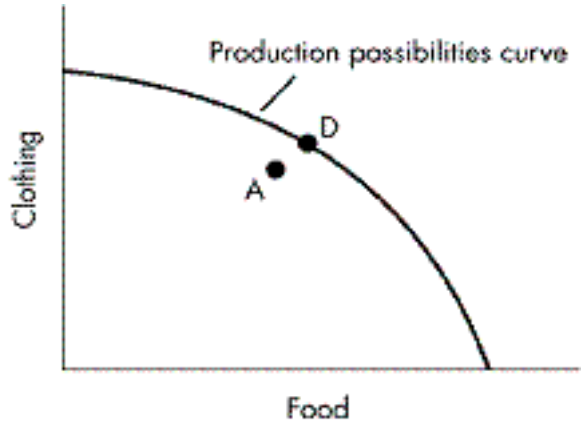


Figure 2-4??Refer to Figure 2-4. Which of the following best describes Point D?

A : It is inefficient.

B : It is beyond the societys productive capability.

C : It is unattainable.

D : It is preferable to Point A.

Correct Answer : D

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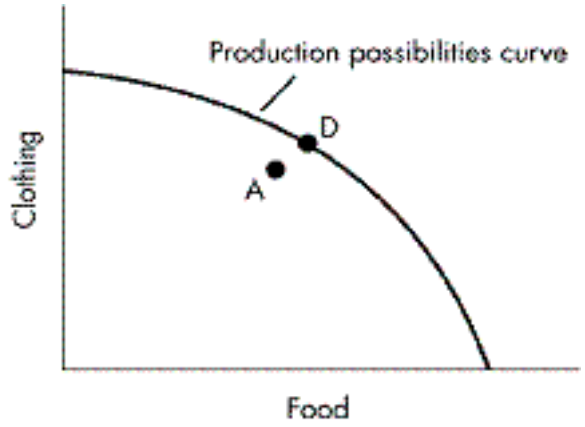


Figure 2-4??Refer to Figure 2-4. If the economy chooses to shift more of its resources into clothing, what will it have to give up?

A : smaller and smaller amounts of food per unit of added clothing as the quantity of clothing produced increases

B : nothing, since food and clothing are not substitutes

C : larger and larger amounts of food per unit of added clothing as the quantity of clothing produced increases
D : relatively equal amounts of food per unit of added clothing as the quantity of clothing produced increases

Correct Answer : C

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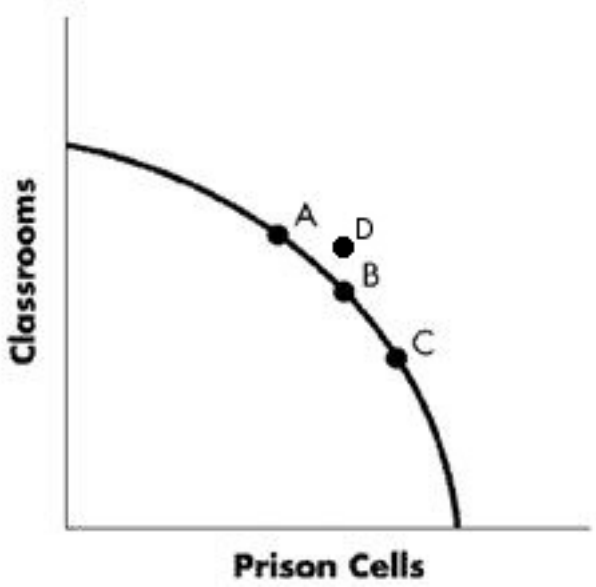


Figure 2-5??Refer to Figure 2-5. The diagram represents a trade-off in an economy between prison cells and classrooms. Which position represents the choice to allocate the greatest amount of resources to producing classrooms?
A : Point A
B : Point B
C : Point C
D : Point D

Correct Answer : A

62 :

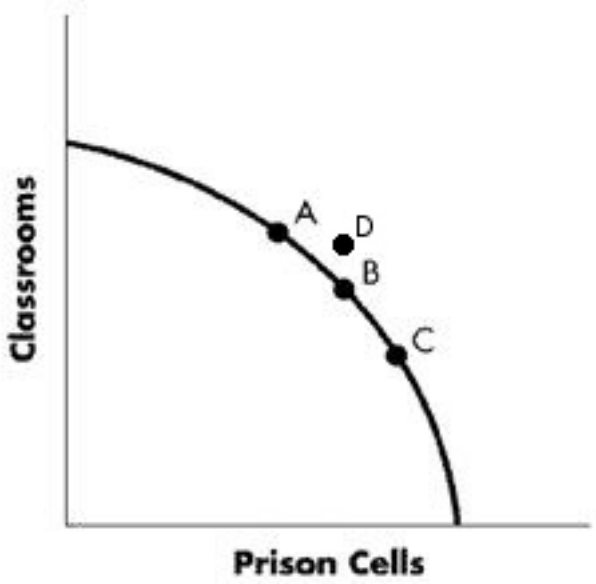


Figure 2-5??Refer to Figure 2-5. The diagram represents a trade-off in an economy between prison cells and classrooms. Which position represents the choice to allocate the greatest amount of resources to producing prison cells?
A : Point A
B : Point B
C : Point C
D : Point D

Correct Answer : C

63 :

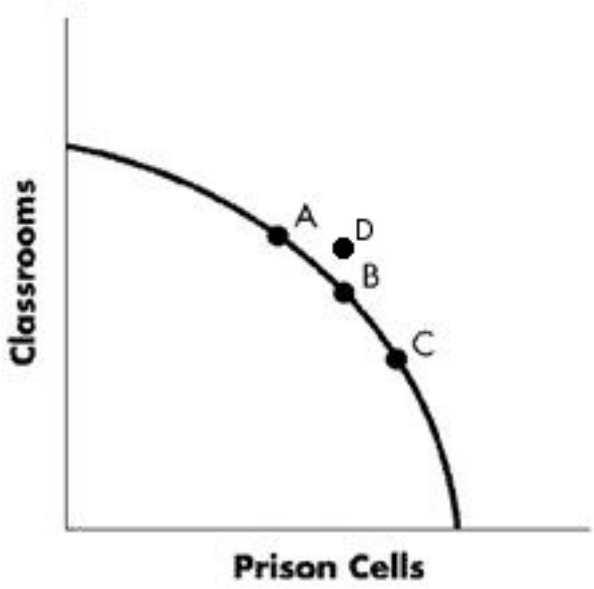


Figure 2-5??Refer to Figure 2-5. If the economy moves from Point A to Point C, what is the result?

A : There is no net change in the number of prison cells and classrooms, as all points on the frontier are equally efficient.

B : More prison cells are created.

C : It sacrifices an increasing quantity of classrooms per prison cell produced the further the movement toward Point A.

D : More classrooms are created.

Correct Answer : B

64 :

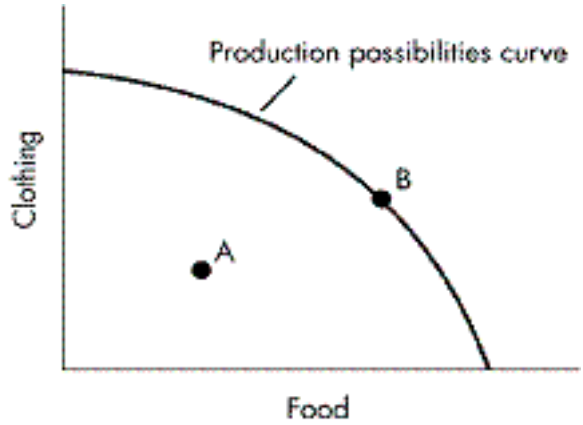


Figure 2-6??Refer to Figure 2-6. What does Point A indicate about how the economy is using its resources?

A : It is not using its resources efficiently.

B : It is using its resources efficiently to produce both food and clothing.

C : It is using its resources efficiently while producing food but no clothing.

D : It is using its resources efficiently while producing clothing but no food.

Correct Answer : A

65 :

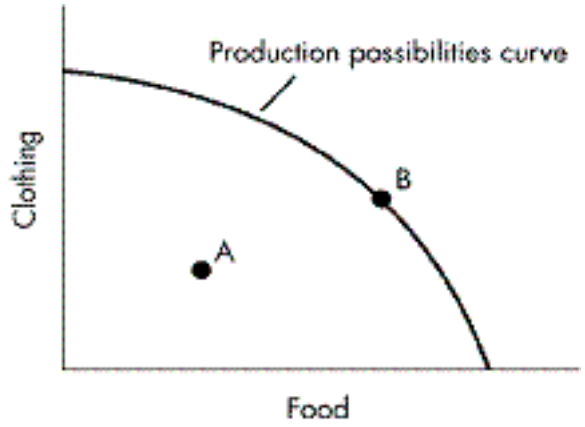


Figure 2-6??Refer to Figure 2-6. What does Point B indicate about how the economy is using its resources?

A : It is using its resources efficiently while producing food but no clothing.
B : It is using its resources efficiently to produce both food and clothing.
C : It is not using its resources efficiently.
D : It is using its resources efficiently while producing clothing but no food.

Correct Answer : B

66 :

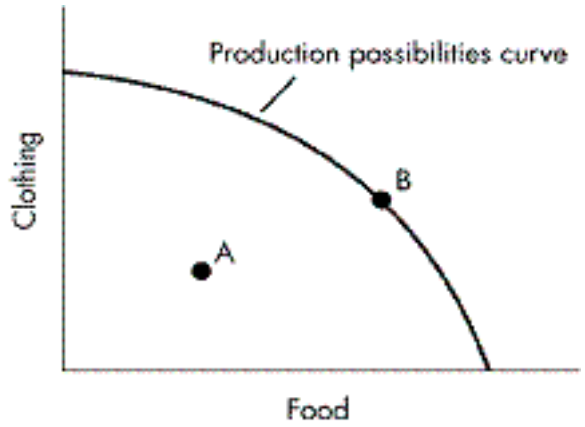


Figure 2-6??Refer to Figure 2-6. What happens in the economy when production moves from Point B to Point A?

A : The economy increases production of clothing, but not food.
B : The economy operates at its productive capacity once it reaches Point B.
C : The economy increases production of food, but not clothing.
D : The economy is using its resources inefficiently to produce both food and clothing.

Correct Answer : D

67 : Any point not on the production possibilities curve cannot be optimal. What reasoning supports this statement?

A : Operating inside the curve means sacrificing economic growth for current consumption, and economic growth is always a goal worth pursuing.
B : Operating inside the curve leads to inflation, which can be very costly.
C : Operating inside the curve is inefficient and represents wasted resources.
D : A point inside the curve implies that society is not facing up to the problem of scarcity.

Correct Answer : C

68 : When resources are not being used efficiently, which aspect does social concern tend to focus on?

A : labour issues

B : a factory operating below full capacity
C : price levels of scarce goods
D : unemployed machinery

Correct Answer : A

69 : Which of the following accounts for the largest share of production costs?
A : utilities
B : labour costs
C : taxes
D : raw materials

Correct Answer : B

70 : What is the main reason economists are concerned about the problem of idle or unemployed resources?
A : Government benefits paid to unemployed workers put stress on the federal budget.
B : High rates of crime are related to high rates of unemployed resources.
C : High rates of inflation are caused by idle land, labour, and capital resources.
D : Unemployed resources mean less production and a lower standard of living for the nation.

Correct Answer : D

71 : Which statement best describes the effect of unemployed resources in the economy?
A : An economy with many unemployed workers and idle factories is not operating efficiently.
B : A large amount of unemployed resources will shift the production possibilities curve outward.
C : Idle factories represent unemployed labour resources.
D : Idle farms represent unemployed capital resources.

Correct Answer : A

72 : How does an economist define efficiency?
A : the creation of a surplus using available resources
B : the maximization of revenue from available resources
C : the maximization of output from available resources
D : the maximization of inputs using available resources

Correct Answer : C

73 : Which of the following best illustrates inefficiency?
A : producing outside the production possibilities curve
B : limiting economic growth by reducing capital spending
C : high levels of unemployment of labour and other resources
D : forgoing civilian goods in order to produce more military goods

Correct Answer : C

74 : If an economy is operating inside its production possibilities curve for books and toys, which of the following best illustrates what is happening in the economy?
A : Production of toys and books can both increase.
B : All resources are being used efficiently.
C : Production of toys can increase only by sacrificing the production of books.
D : Scarcity does not exist.

Correct Answer : A

75 : Which of the following best describes when an economy may be operating at a point inside the production possibilities curve?
A : when production resources are being used efficiently
B : when a substantial amount of machinery is idle
C : when a substantial amount of labour is employed
D : when technological progress enables the economy to produce quantities of output otherwise unattainable

Correct Answer : B

76 : What occurs with a movement in a southeast direction along a production possibilities curve?
A : a reduction in unemployment
B : an increase in the production of one good with a decrease in production of the other
C : an increase in the production of both goods
D : an increase in unemployment

Correct Answer : B

77 :

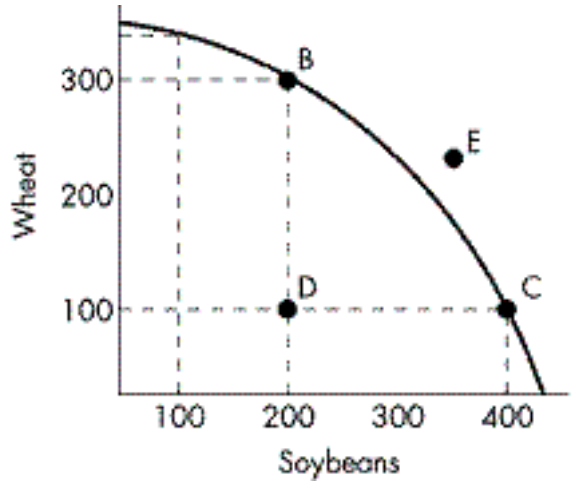


Figure 2-7??Refer to Figure 2-7. What would an economy need to do to move from Point C to Point E at a given point in time?
A : Sacrifice wheat in favour of more soybeans.
B : Sacrifice soybeans in favour of more wheat.
C : Stop wasting resources.
D : Increase the productive capabilities of the economy.

Correct Answer : D

78 :

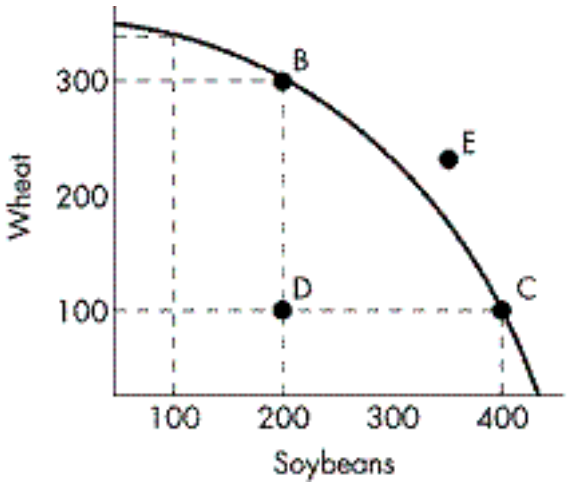


Figure 2-7??Refer to Figure 2-7. Assume the economy is operating at Point D. What is the opportunity cost of moving to Point C?

A : about 200 units of wheat

B : about 200 units of soybeans

C : zero

D : infinite, as Point B cannot be produced at any cost

Correct Answer : C

79 :

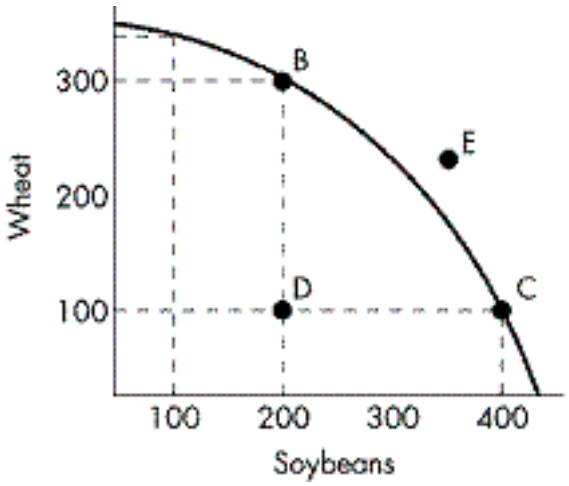


Figure 2-7??Refer to Figure 2-7. In order to move from Point D to Point B, what will the economy have to give up?

A : nothing

B : 100 units of wheat

C : 200 units of wheat

D : 200 units of soybeans

Correct Answer : A

80 :

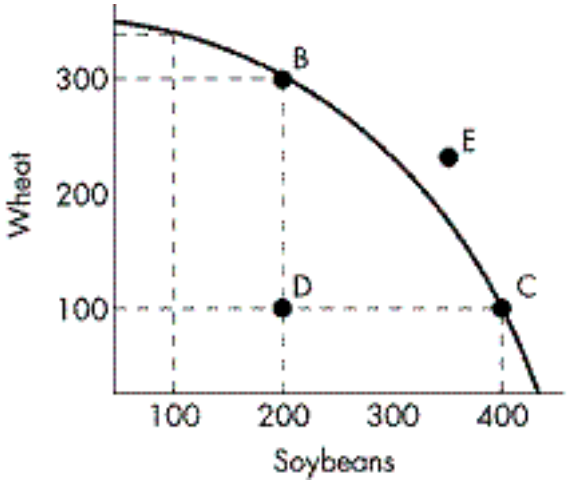


Figure 2-7??Refer to Figure 2-7. In order to move from Point C to Point B, what will the economy have to give up?

A : 100 units of wheat

B : 200 units of wheat

C : 200 units of soybeans

D : 300 units of soybeans

Correct Answer : C

81 :

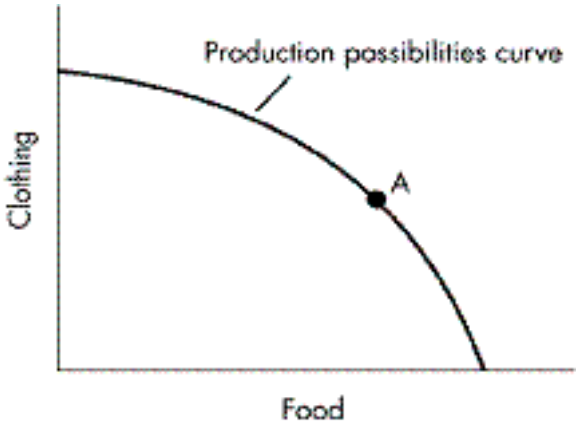


Figure 2-8?Refer to Figure 2-8. If an economy operates at Point A on the production possibilities curve, then which of the following statements is most accurate?

A : It cannot increase its output of clothing.

B : It cannot simultaneously increase its output of both food and clothing.

C : It cannot increase its output of food.

D : It is using its resources inefficiently.

Correct Answer : B

82 :

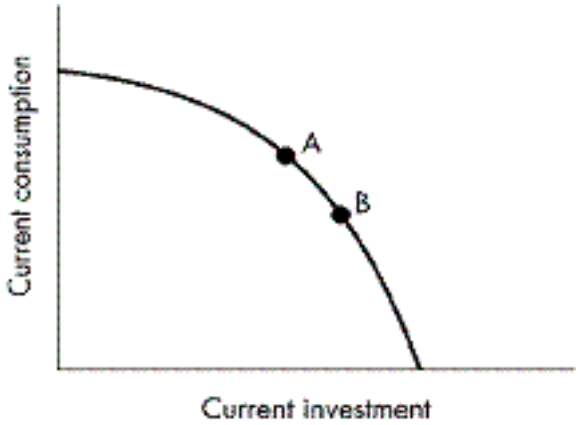


Figure 2-9??Refer to Figure 2-9. If Points A and B indicate consumption and investment for two

different economies, other things held constant, which of the following statements about the growth of the economies is most accurate?
A : How fast either economy grows is uncertain since growth is not influenced by either consumption or investment.
B : Economy B will grow more rapidly.
C : The two economies will grow at the same rate because they are on the same production possibilities curve.
D : Economy A will grow more rapidly.

Correct Answer : B

83 :

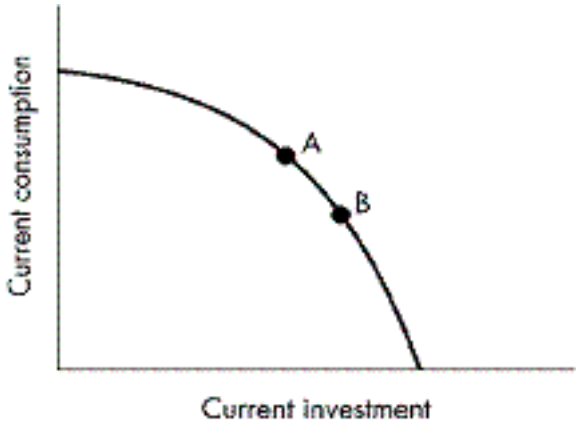


Figure 2-9??Refer to Figure 2-9. Societies choose between the level of current consumption and current investment. What is occurring if a society moves from Point B to Point A?
A : The economy is producing a lower overall level of output.
B : Society is opting for more consumption in the current time period.
C : Society is sacrificing present consumption for economic growth in the future.
D : There is no change in consumption or investment, simply a change in the allocation of resources. An equal amount of consumption and investment occurs anywhere along the production possibilities curve.

Correct Answer : B

84 : An economy is producing two goods, wine and cheese, and is currently operating efficiently. Under what circumstances can this economy produce more wine?
A : if it increases the price of wine
B : if it produces fewer cheese
C : if it increases the price of cheese
D : if more of the economys resources become idle

Correct Answer : B

85 : Which of the following does the production possibilities curve illustrate?
A : the minimum quantities of output that can be produced using available resources
B : the minimum quantity of two resources necessary to produce a given level of output
C : when resources are currently being used efficiently, it is possible to increase production of one good only by sacrificing some of another good
D : when resources are currently being used inefficiently, it is possible to increase production of one good only by sacrificing some of another good

Correct Answer : C

86 : When resources are used efficiently, what is the only way you can produce more of one good, ceteris paribus?
A : by charging a lower price for the good

B : by producing less of another good
C : by charging a higher price for the good
D : by printing more money so you can buy more goods

Correct Answer : B

87 : Which of the following movements illustrates the concept of opportunity cost?
A : a movement along the production possibilities curve as production of one good falls in order to increase production of another.
B : a movement from the interior of the production possibilities curve to the frontier
C : a movement from the production possibilities curve to its interior
D : a movement from a point on the production possibilities curve to the northeast

Correct Answer : A

88 : Which statement best describes why an economy's production possibility curve is "bowed" outward?
A : The opportunity cost of production of a good is constant as more of it is produced.
B : Some resources are more substitutable among productive tasks than others.
C : The opportunity cost of production of a good decreases as more of it is produced.
D : Resources cannot be substituted between productive tasks.

Correct Answer : B

89 : What does the law of increasing opportunity costs imply about a production possibilities curve?
A : A production possibilities curve will be upward sloping.
B : A production possibilities curve will be a straight line.
C : A production possibilities curve will be bowed inward toward the origin.
D : A production possibilities curve will be bowed outward away from the origin.

Correct Answer : D

90 : How does the fact that resources are NOT equally substitutable across uses affect the production possibilities curve?
A : The production possibilities curve will be a straight line.
B : The production possibilities curve will be bowed inward.
C : The production possibilities curve will be positively sloped.
D : The production possibilities curve will be bowed outward.

Correct Answer : D

91 : Why is a production possibilities curve negatively sloped?
A : Resources are wasted as you move along the curve.
B : The price of a good falls as you move down along the curve.
C : Once on the frontier, it is possible to increase production of one good only by reducing production of the other.
D : It is not possible to adjust production decisions once an economy operates on the curve.

Correct Answer : C

92 : When does the law of increasing opportunity costs apply?
A : when management is disorganized and production is inefficient
B : when resources are free

C : when resources are not equally adaptive among potential productive uses
D : when market forces do not lead to equality between price and opportunity cost

Correct Answer : C

93 : What law leads to the concavity (bowed-out shape) of the production possibilities curve?
A : the law of demand
B : the law of increasing opportunity cost
C : the law of supply
D : the law of complimentary goods

Correct Answer : B

94 : Which of the following best describes what occurs along a bowed-out production possibilities curve?
A : The opportunity cost of production of a good rises as its output increases.
B : Resources can be transferred from one productive activity to another without requiring a sacrifice.
C : The opportunity cost of production of a good is zero.
D : The opportunity cost of production of a good falls as its output increases.

Correct Answer : A

95 : Which of the following distinguishes a "straight-line" production possibilities curve from one that is "bowed out"?
A : A straight-line production possibilities curve is upward sloping, whereas a bowed production possibilities curve is not.
B : A straight-line production possibilities curve exhibits decreasing opportunity costs, whereas a bowed production possibilities curve does not.
C : A straight-line production possibilities curve exhibits increasing opportunity costs, whereas a bowed production possibilities curve does not.
D : A straight-line production possibilities curve exhibits constant opportunity costs, whereas a bowed production possibilities curve does not.

Correct Answer : D

96 : A production possibilities curve is concave to the origin. What happens to the opportunity cost of production of the good on the X-axis as we move down along the curve?
A : It first decreases, then increases.
B : It decreases.
C : It increases.
D : It remains constant.

Correct Answer : C

97 : Which of the following is illustrated by a production possibilities curve that is "bowed out" or concave to the origin?
A : a trade-off in which the opportunity cost of a good is constant at all levels of production
B : a trade-off in which the opportunity cost of a good decreases with the level of its production
C : the fallacy of composition
D : a trade-off in which the opportunity cost of a good increases with the level of its production

Correct Answer : D

98 : Mia must prepare for exams in both psychology and anthropology this week. Assume that the production possibilities curve showing the trade-off between exam scores in psychology and anthropology is concave toward the origin. As Mia moves along the curve spending more of her time studying for anthropology, what is the effect on the opportunity cost of an hour of preparation for anthropology?
A : It first increases, then decreases.
B : It decreases.
C : It increases.
D : It remains constant.

Correct Answer : C

99 : Consider a production possibilities curve for an economy producing food and clothing. Under what circumstances is it possible to increase the production of food without sacrificing clothing?
A : when the production possibilities curve shifts outward due to decreased immigration (which reduces the labour force)
B : when the economy moves from one point on the production possibilities curve to another point on the curve
C : when the economy moves from a point outside the production possibilities curve to a point inside the curve
D : when the production possibilities curve shifts outward due to technological progress

Correct Answer : D

100 : The leader of a federal political party made the following campaign promise: "My administration will increase national defence without requiring sacrifices elsewhere in the economy." Under what circumstance can the promise be kept?
A : if the production possibilities frontier shifts outward due to an improvement in technology
B : if the economy moves from a point on the production possibilities curve toward a point inside the production possibilities curve
C : if the production possibilities curve shifts inward due to better education and worker training
D : if the economy moves along the production possibilities in the direction of a greater quantity of defence

Correct Answer : A

101 : Which of the following would NOT be a factor that determines the position and shape of a society's production possibilities curve?
A : the level of technology of the society
B : the skills of the workforce
C : the average wage rate of that society
D : the physical resources of that society

Correct Answer : C

102 : How is a technological advance that increases the productivity of all inputs best illustrated on the production possibilities curve?
A : as a flattening of the production possibilities curve
B : as an outward shift of the production possibilities curve
C : as a movement along the production possibilities curve
D : as an inward shift of the production possibilities curve

Correct Answer : B

103 : In terms of the production possibilities curve, what movement would illustrate an increase

in the unemployment rate from 8 percent to 12 percent?
A : a movement from a point interior to the production possibilities curve to one closer to the origin
B : a movement from a point on the production possibilities curve to an interior point
C : a movement to the northwest from one point along the production possibilities curve to another
D : a movement from an interior point to a point on the production possibilities curve

Correct Answer : A

104 : In terms of the production possibilities curve, how can a decrease in the unemployment rate from 11 percent to 7 percent be illustrated?
A : as an inward shift of the production possibilities curve
B : as a movement from a point outside the production possibilities curve to a point farther from the production possibilities curve
C : as an outward shift of the production possibilities curve
D : as a movement from a point inside the production possibilities curve to a point closer to the production possibilities curve

Correct Answer : D

105 : Assume the economy moves from a situation with full employment to one in which the unemployment rate is higher. How is this shift be portrayed on the production possibilities curve?
A : as an outward shift of the curve
B : as an inward shift of the curve
C : as a movement from a point on the curve to a point inside the curve
D : as a movement from a point inside the curve to a point closer to the curve

Correct Answer : C

106 : A disease such as Ebola spreads throughout the population of an economy, causing death and disability. How are the effects of such as disease portrayed on the production possibilities curve?
A : as a movement from a point on the curve to the northeast
B : as a movement along the curve to the southeast
C : as an outward shift of the curve
D : as an inward shift of the curve

Correct Answer : D

107 : Which of the following will NOT shift the production possibilities curve in an inward direction?
A : a sharp increase in the unemployment rate
B : destruction of property and people by a devastating war
C : a decrease in the capital stock
D : contamination of land due to a nuclear meltdown

Correct Answer : A

108 : Which of the following will NOT shift the production possibilities curve outward?
A : the discovery of significant oil reserves off the coast of Newfoundland
B : a decrease in capacity utilization of existing factories
C : an improvement in robot technology, which increases the efficiency of inputs
D : additions to the stock of physical capital

Correct Answer : B

109 : What change can we expect in terms of the production possibilities curve approximately two decades after a "baby boom"?
A : an outward shift of the production possibilities curve along both axes
B : an inward shift of the production possibilities curve
C : production to change from an interior point to a point along the production possibilities curve
D : a movement along the production possibilities curve from one point to another

Correct Answer : A

110 :

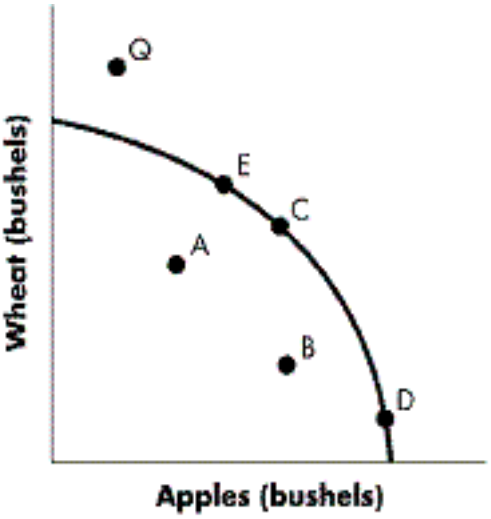


Figure 2-10?Refer to Figure 2-10. What movement along the production possibilities curve best illustrates the notion "To get more apples, we have to give up wheat"?
A : a movement from Point B to Point C
B : a movement from Point C to Point D
C : a movement from Point A to Point B
D : a movement from Point B to Point E

Correct Answer : B

111 :

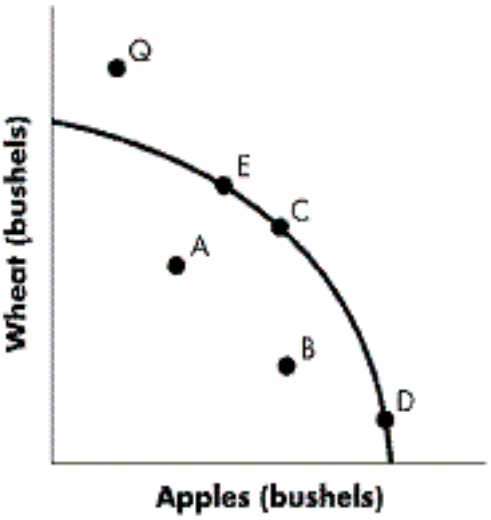


Figure 2-10?Refer to Figure 2-10. Which of the following could make Point Q attainable?
A : technological innovations in the production of apples only
B : a transfer of available resources from apple to wheat production
C : an increase in the land available for agriculture use
D : policies encouraging full employment of resources

Correct Answer : C

112 : Which of the following best describes economic growth?
A : It will shift the production possibilities curve to the left.
B : It will eventually eliminate scarcity.
C : It often results from improved technology.
D : It is likely to be determined by uncontrollable factors, such as the climate.

Correct Answer : C

113 : Which of the following would most likely shift the production possibilities curve inward?
A : an increase in the production of capital goods
B : an increase in the number of hours factories are in use
C : technological progress
D : a decrease in the average number of hours worked per week

Correct Answer : D

114 : Which of the following would mostly likely shift the production possibilities curve in an outward direction?
A : a movement along the curve sacrificing capital goods for consumption goods
B : advances in medicine that reduce the incidence of disease and lengthen productive life spans
C : an increase in the price of goods and services
D : a decrease in the current rate of unemployment

Correct Answer : B

115 : How can economic growth be illustrated?
A : by an inward shift of the production possibilities curve
B : by a movement from a point on the production possibilities curve to a point inside the production possibilities curve
C : by an outward shift of the production possibilities curve
D : by a movement along the production possibilities curve

Correct Answer : C

116 : Which one of the following will NOT cause the production possibilities curve to shift outward?
A : skilled labour is being under utilized
B : innovative technology for better business communications
C : the building of a new solar panel factory
D : increased trade partnerships with Asian countries

Correct Answer : A

117 : Which of the following will cause the production possibilities curve to shift outward?
A : increased numbers of unemployed in the current period
B : more people are graduating from post-secondary schools
C : lower investment in research and development
D : closing down of car assembly plants

Correct Answer : B

118 : A new government policy makes post-secondary education mandatory. What will be the effect in terms of the production possibilities curve?
A : It will move the economy from a point on the production possibilities curve to a point inside the production possibilities curve.
B : It will shift the production possibilities curve inward.
C : It will move the economy from a point inside the production possibilities curve to a point on the production possibilities curve.
D : It will shift the production possibilities curve outward.

Correct Answer : D

119 : Which of the following will shift a production possibilities curve outward?
A : an increase in wages
B : a decrease in available labour and capital
C : a decrease in the price of oil
D : an increase in funding for entrepreneurs

Correct Answer : D

120 : A devastating flood destroys 10 percent of the infrastructure in Winnipeg. What is the result in terms of Winnipeg's production possibilities curve?
A : Winnipeg moves in a southeast direction along its production possibilities curve.
B : Winnipeg's production possibility curve shifts inward.
C : Winnipeg's production possibility curve shifts outward.
D : Winnipeg moves in a northwest direction along its production possibilities curve.

Correct Answer : B

121 :

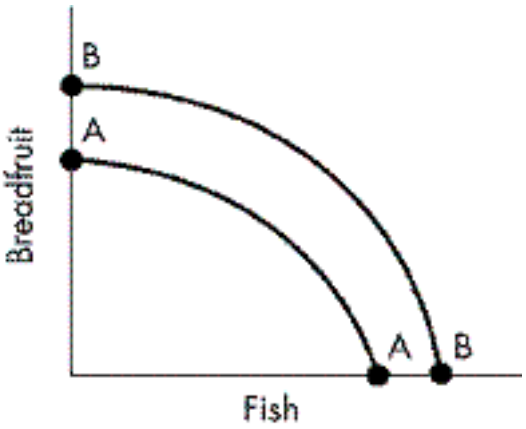


Figure 2-11??Refer to Figure 2-11. Which of the following would most likely cause the production possibilities curve for breadfruit and fish to shift from AA to BB?
A : a decrease in the production of fish over breadfruit
B : a reduction in the size of the available labour force
C : an increase in the stock of capital
D : an increase in the production of fish over breadfruit

Correct Answer : C

122 : Which of the following will shift the production possibilities curve outward?
A : an increase in the capacity utilization of existing factories
B : a decrease in the market price of goods
C : an increase in the stock of capital due to the sacrifice of current consumption
D : an increase in the unemployment rate

Correct Answer : C

123 : Which statement does NOT accurately describe economic growth?
A : It shifts the production possibility curve outwards.
B : It eliminates scarcity.
C : People are better off.
D : People still face trade offs.

Correct Answer : B

124 : If the economy of Guatemala is growing slower than the economy of Belize, which of the following is most likely?
A : Compared with Guatemala, Belize spends more on capital goods and forgoes a greater proportion of investment.
B : Belizes current rate of investment is higher than that of Guatemala.
C : Guatemalas current level of investment is lower than that of Belize.
D : Compared with Belize, Guatemala forgoes a greater proportion of consumption goods in favour of capital investment.

Correct Answer : A

125 : Is increased capital spending the only way for an economy to expand its production possibilities curve?
A : Yes, more capital investment is the only way to expand production possibilities.
B : Yes, although increased production of capital clearly increases the opportunity cost.
C : No, an economy can also grow by reallocating more resources toward the production of consumption goods.
D : No, an economy can also expand by invention and innovation.

Correct Answer : D

126 : A consulting firm is advising its government clients that their economies really do NOT need to sacrifice consumption goods today in order to grow. Which of the following options would make it possible for clients to experience growth without making sacrifices?
A : increasing current consumption and reducing the quantity of capital goods produced
B : receiving gifts of capital or technological innovations
C : reducing consumption today in order to increase future consumption
D : reducing food production in order to increase the production of hydroelectric dams

Correct Answer : B

127 : When more resources in an economy are devoted to the production of capital goods, what happens to the production possibilities curve?
A : It is unchanged from period to period.
B : In the current period, it shifts inward, but shifts outward in the future.
C : It shifts inward.
D : It shifts outward in the future.

Correct Answer : D

128 :

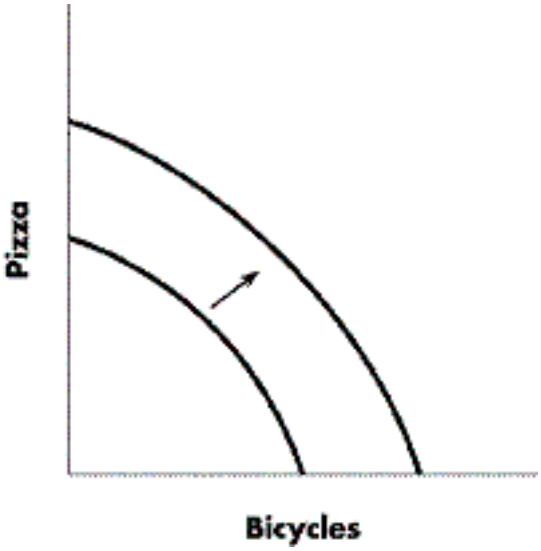


Figure 2-12?Refer to Figure 2-12. Which of the following is a possible explanation for the shift of the production possibilities curve illustrated above?
A : an increase in the number of idle factories
B : a technological advance that affects both pizza and bicycle production
C : a decrease in the quantity of labour available due to emigration
D : a technological advance that affects only bicycle production

Correct Answer : B

129 : What will result in an economy experiencing greater economic growth in the long run?
A : an increase in manufacturing wages
B : an investment in capital goods
C : more production of consumer durable goods
D : a focus on the production of consumption goods

Correct Answer : B

130 : Which statement best describes the Canadian economy in terms of investment and growth as compared to the Chinese economy?
A : Canada's investment in capital goods is double that of China's, resulting in higher economic growth than that of China.
B : China's consumption expenditure is five times what is spent on investment resulting in higher economic growth rates than Canada.
C : Canada's consumption expenditure is nearly three times what is spent on investment resulting in lower economic growth than China.
D : Canada's consumption expenditures and investment spending are equal to what is occurring in China but Canada's economic growth is slightly higher.

Correct Answer : C

131 : What is the term for the "place" that buyers and sellers come together?
A : a barter exchange
B : a market
C : a swap shop
D : a switch and go

Correct Answer : B

132 : Which of the following is NOT an example of a market?

A : a restaurant
B : the Toronto Stock exchange
C : a garage sale
D : a free outdoor music festival

Correct Answer : D

133 : Ceteris paribus, which of the following statements describes the markets when transportation costs are high, relative to selling prices?
A : There are numerous markets that are geographically limited.
B : There are few markets that are geographically limited.
C : There are numerous markets that are global in scope.
D : There are few markets that are global in scope.

Correct Answer : A

134 : In a market system, how are decisions made regarding the allocation of resources?
A : by individuals and firms interacting in markets coordinated by market prices
B : by central planning boards in each industry
C : by a lottery system
D : by large conglomerates working cooperatively with the government

Correct Answer : A

135 : In markets, how is information about the relative value of resources communicated?
A : through unions
B : through planning committees
C : through prices
D : through government agencies

Correct Answer : C

136 : Which of the following is NOT a characteristic of competitive markets?
A : numerous sellers
B : fixed market prices
C : numerous buyers
D : similar products

Correct Answer : B

137 : Which term refers to when the economy gets the most out of its scarce resources?
A : positive economics
B : competition
C : market allocation
D : efficiency

Correct Answer : D

138 : In a competitive market, how are prices determined?
A : by the interaction of many buyers and many sellers
B : by the interaction of many buyers with the largest seller
C : by the government, who sets the prices that sellers can charge
D : by the largest buyer, who sets the price that all firms sell at

Correct Answer : A

139 : In a market economy, what group decides the amount of a good that is produced?
A : buyers and sellers
B : producers and input suppliers
C : all consumers
D : producers and government planning committees

Correct Answer : A

140 : Prices communicate information about relative availability of products. What does a decrease in the price of sweaters signal to consumers and producers?
A : that consumers are stocking up on sweaters because of the predictions of a cold winter
B : that consumers are buying more sweaters than before
C : that sweaters are relatively less abundant than before
D : that sweaters are relatively more abundant than before

Correct Answer : D

141 : In a market, what conveys the most information?
A : advertising
B : opportunity costs
C : prices
D : accounting ledgers

Correct Answer : C

142 : What kind of right is the ownership of such things as land, houses, and cars?
A : a normative right
B : an opportunity right
C : a market right
D : a property right

Correct Answer : D

143 : Who ensures that property rights are protected and enforced?
A : the banking system
B : the legal system
C : the property owners
D : the stock market

Correct Answer : B

144 : Which of the following is NOT an example of intellectual property?
A : a patent
B : a trademark
C : a copyright
D : a school

Correct Answer : D

145 : Which of the following would NOT be included under intellectual property rights?

A : a new Lady Gaga song playing on the radio
B : the Apple corporate headquarters
C : a patent for a new chemotherapy drug
D : the Nike symbol

Correct Answer : B

146 : Which of the following is generally NOT a result of well-defined intellectual property rights?
A : government controls
B : economic growth
C : innovation
D : investment

Correct Answer : A

147 : Which term describes a situation where the economy fails to allocate resources efficiently on its own?
A : resource misallocation
B : market failure
C : market costs
D : inopportune costs

Correct Answer : B

148 : Which of the following statements best describes the effects of price controls?
A : They always lower the price.
B : They efficiently allocate resources.
C : They always benefit those that the price is trying to help.
D : They distort market prices.

Correct Answer : D

149 : In a market system, which of the following is a symptom of market failure?
A : competition
B : scarcity of resources
C : falling prices
D : air pollution

Correct Answer : D

150 : The degree of equality is examined by looking at the trade-off between what two things?
A : price and output
B : productive efficiency and allocation
C : revenue and cost
D : price and production allocation

Correct Answer : B

151 : What is the circular flow of economic activity a model of?
A : the interaction among taxes, prices, and profits
B : the influence of government on business behaviour
C : the role of unions and government in the economy
D : the movement of goods, services, and payments between households and firms

Correct Answer : D

152 : Which of the following best characterizes the circular flow of income?
A : Businesses buy resources from the government, and households buy goods and services from businesses.
B : Businesses buy resources from households, and households use the money from the sale of resources to buy goods and services from businesses.
C : Households buy factors of production from businesses, and businesses buy goods and services from households.
D : The government purchases resources from businesses and households and then sells goods and services to businesses and households.

Correct Answer : B

153 : Which statement best characterizes the circular flow model?
A : Businesses receive revenue from households in exchange for providing inputs and use that revenue to buy goods and services from households.
B : Households receive income from governments in exchange for providing inputs and use that income to buy goods and services from businesses.
C : Households receive revenue for selling goods and services to businesses and use that revenue to buy inputs from businesses.
D : Businesses receive income from households in exchange for providing goods and services and use that income to buy inputs from households.

Correct Answer : A

154 : In the circular flow model, in what forms do households receive income?
A : wages, rent, interest, and profits
B : wages and rent while firms receive interest and profits
C : wages, rent, and interest while firms receive profits
D : wages while firms receive rent, interest, and profits

Correct Answer : A

155 : Which of the following is NOT a resource exchanged in the factor markets?
A : land
B : wages
C : entrepreneurship
D : capital

Correct Answer : B

156 : Which of the following is NOT a payment made to households in exchange for the use of factors of production?
A : taxes
B : salaries
C : profits
D : interest

Correct Answer : A

157 : Capital, entrepreneurship, land, and labour are needed to produce goods and services. What are the respective payments for each of these factors of production?

A : profits, interest, rent, and wages and salaries
B : interest, profits, rent, and wages and salaries
C : interest, profits, wages and salaries, and rent
D : profits, rent, wages and salaries, and interest

Correct Answer : B

158 : In what market is land bought and sold?
A : the services market
B : the goods market
C : the stock market
D : the factor market

Correct Answer : D

159 :

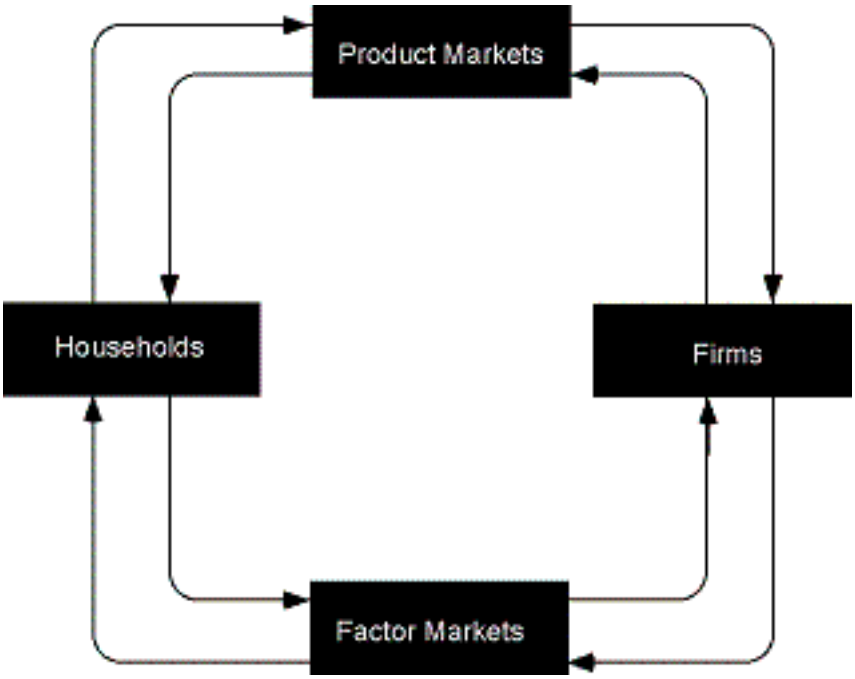


Figure 2-13?Refer to Figure 2-13. Which of the following statements is most accurate about goods and services?
A : They are purchased by households in the factor market.
B : They flow in a clockwise direction.
C : They are sold by businesses in the factor market.
D : They flow in a counterclockwise direction.

Correct Answer : D

160 :

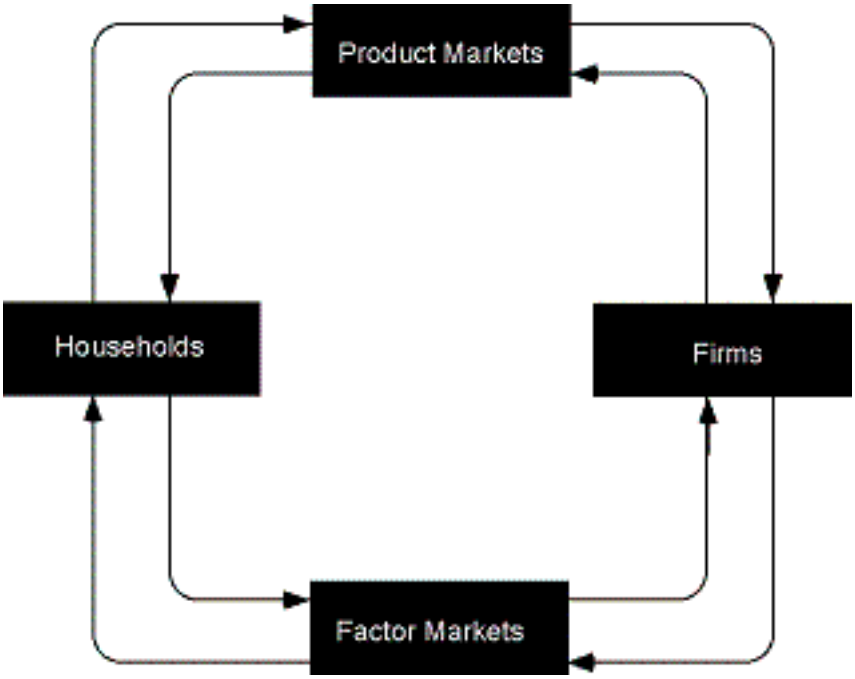


Figure 2-13?Refer to Figure 2-13. Which of the followings statements is most accurate about payments for goods and services?

A : They are received by households in the factor market.
B : They are received by firms in the factor market.
C : They flow in a clockwise direction.
D : They flow in a counterclockwise direction.

Correct Answer : C

161 :

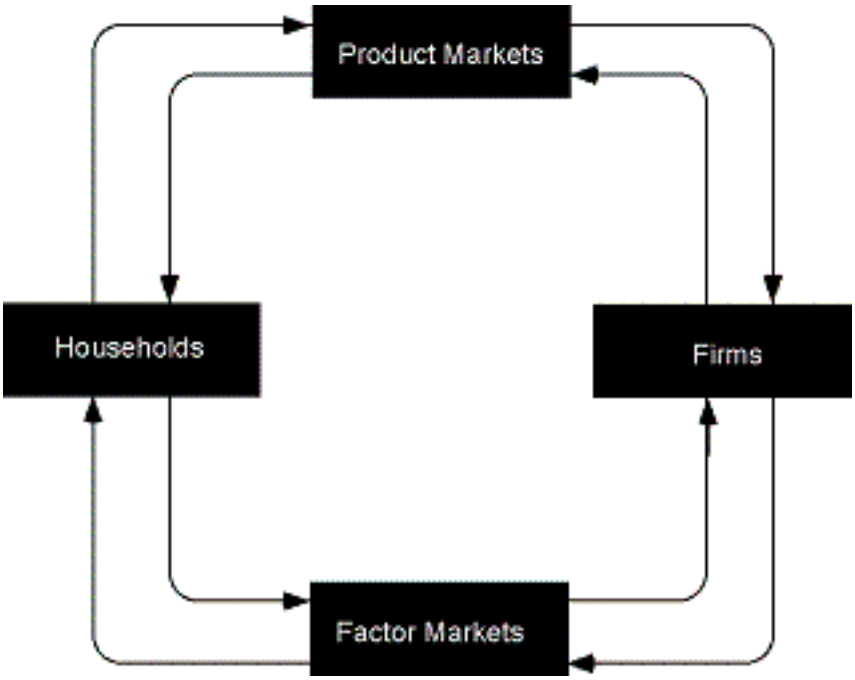


Figure 2-13?Refer to Figure 2-13. What is represented by the arrow from the product markets to the firms?

A : revenue
B : goods and services sold
C : money income
D : wages, rent interest, and profits

Correct Answer : A

162 :

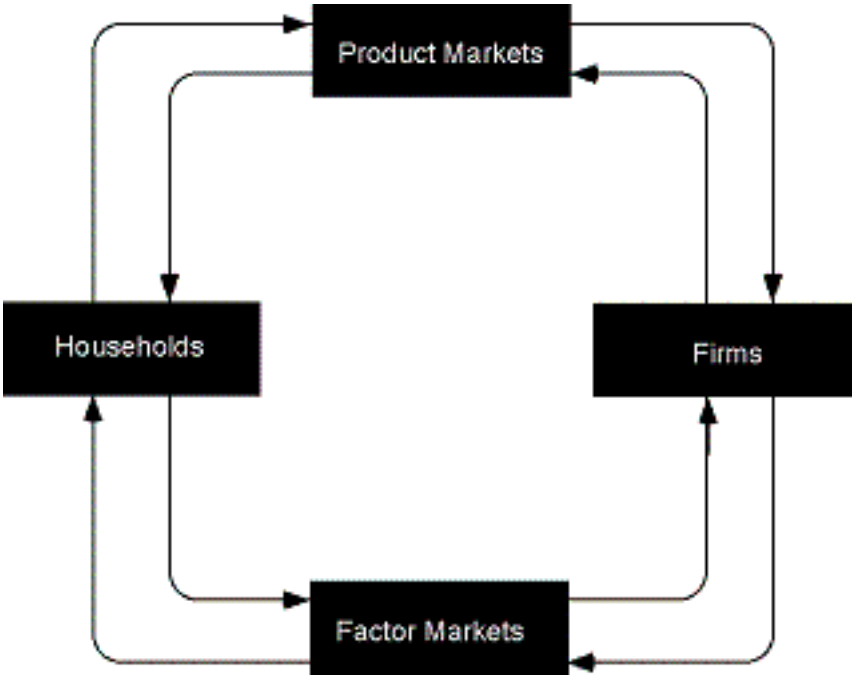


Figure 2-13?Refer to Figure 2-13. What is represented by the arrow from the firms to the product markets?

A : money income
B : goods and services sold
C : revenue
D : wages, rent interest, and profits

Correct Answer : B

163 :

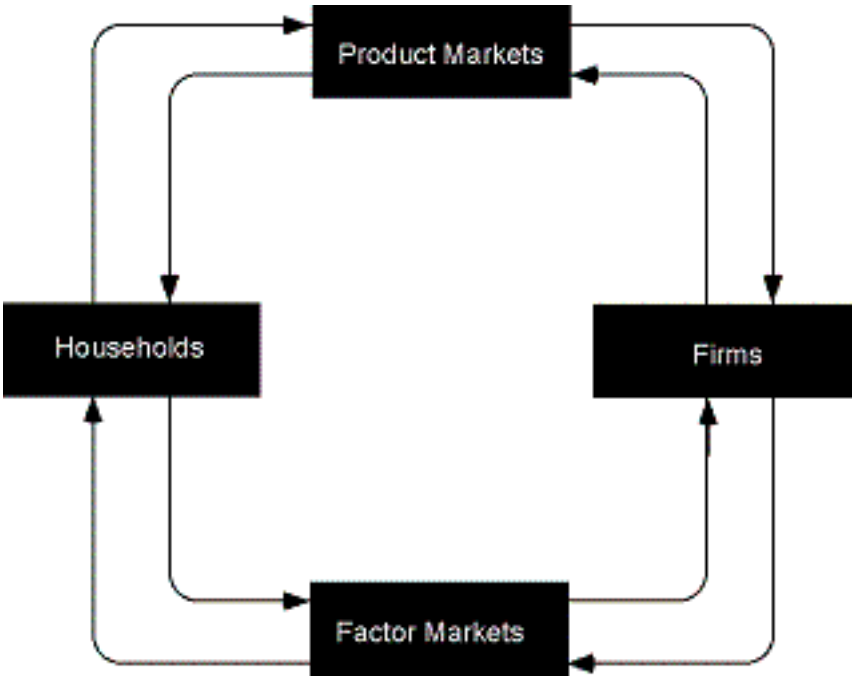


Figure 2-13?Refer to Figure 2-13. What is represented by the arrow from the factor markets to the households?

A : wages, rent interest, and profits
B : revenue
C : money income
D : goods and services sold

Correct Answer : C

164 :

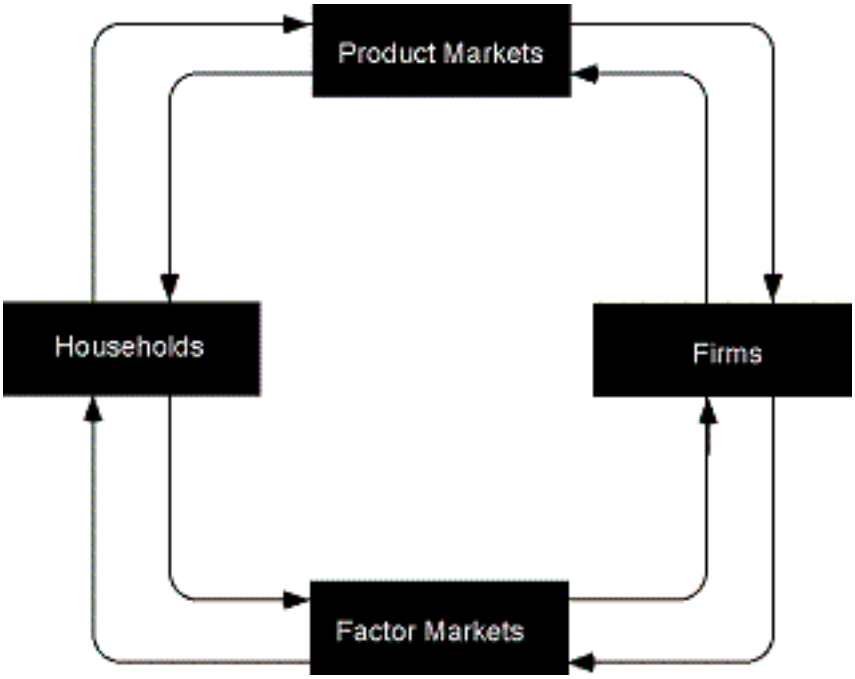


Figure 2-13?Refer to Figure 2-13. What is represented by the arrow from the firms to the factor markets?

A : wages, rent interest, and profits
B : goods and services sold
C : money income
D : revenue

Correct Answer : A

ESSAY

165 : Draw a picture of a production possibilities curve. Identify each axis as measuring either guns or butter. Select and label Point A, which is beyond the economy's ability to produce; Point B, which represents an inefficient level of production; Point C, an efficient combination of output in which more guns are produced than units of butter; and Point D, an efficient production point in which more units of butter are produced than guns. Be sure to label each clearly.

Correct Answer : Diagrams will vary. A correct diagram should look something like the following:

166 : How can we measure the opportunity cost of producing a good? Using a bowed outward production possibilities curve between ice cream and hammers, identify graphically the opportunity cost of obtaining an additional hammer.

Correct Answer : Diagrams will vary. A correct diagram should look something like the following:The opportunity cost of a hammer is the quantity of ice cream that must be sacrificed in order to produce an additional hammer. For example, moving from Point A to Point B in the above diagram, we can see that 3 litres of ice cream are sacrificed to produce one additional hammer.

167 : Explain how each of the following could discourage economic growth:a. The government closes all of the schools so that more people will be available for work.b. The country fears military invasion and spends half of its income on military goods.

Correct Answer : Economic growth depends on a country's willingness to sacrifice current

consumption and invest in physical and/or human capital goods. Expanding the country's capital stock or improving the quality of its labour force allows it to produce more goods and services. Closing all of the schools will mean sacrificing investment in human capital in favour of current consumption. Likewise, choosing to spend half of available income on military goods will leave fewer resources for investment in non-military physical or human capital.

168 : Individuals who live outside of urban areas continue to build their houses and businesses farther and farther out, spreading into farming communities and uninhabited areas. What are the trade-offs involved in allowing this type of community expansion?

Correct Answer : As development expands, animals, farmers, and suburban dwellers compete for limited land resources. Interested parties argue with deep conviction about which use of land is more important. Economics can help assess the respective costs of the decisions and trade-offs, but ultimately normative judgments must be made (through political and other means) as to how the land is best utilized.

169 : Illustrate a production possibilities curve for automobiles and breakfast cereal that is bowed outward. Show what is likely to happen to the production possibilities curve as a result of a devastating war on a country's home soil.

Correct Answer : The production possibilities curve is likely to shift inward when economic resources are destroyed during a war.

170 :

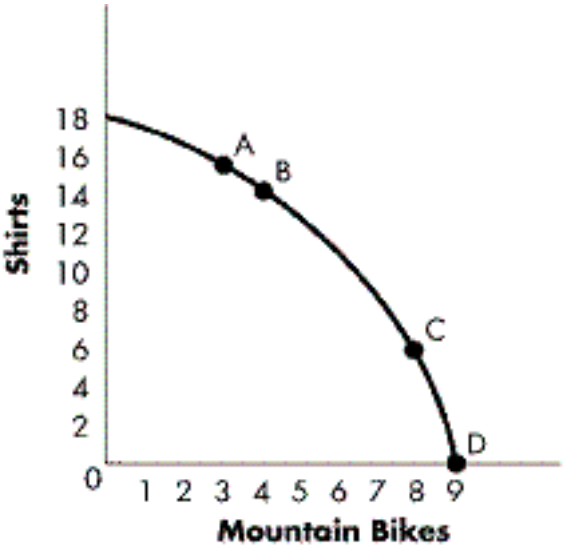


Figure 2-14?Refer to Figure 2-14. Moving from Point A to Point B, what is the opportunity cost of producing a mountain bike?

Correct Answer : Two shirts.

171 :

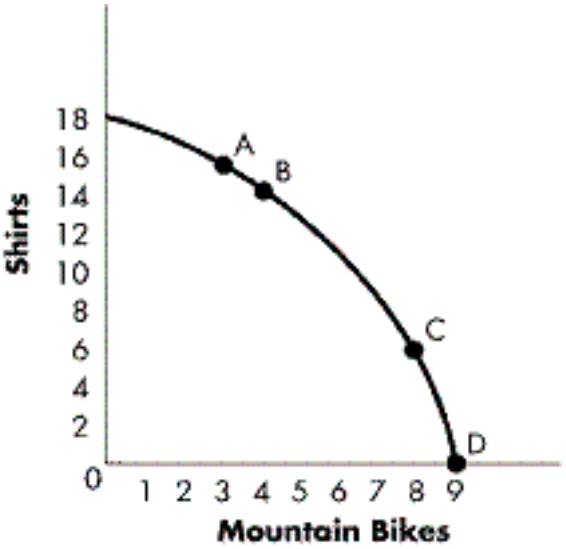


Figure 2-14?Refer to Figure 2-14. Moving from Point C to Point D, what is the opportunity cost of producing a mountain bike?

Correct Answer : Six shirts.

172 :

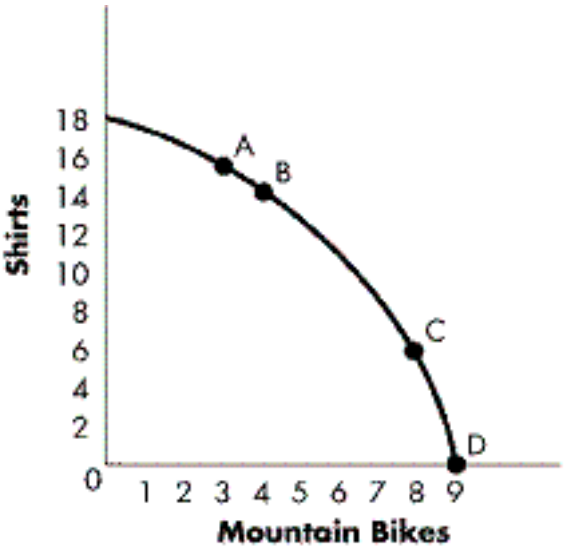


Figure 2-14?Refer to the figure. Why is the opportunity cost of producing a mountain bike different when moving from Point A to Point B than when moving from Point C to Point D along the production possibilities curve?

Correct Answer : Some resources are more substitutable across productive tasks than are others. In moving from Point A to Point B, resources that are useful for producing bikes but less useful for producing shirts can be reallocated from shirt manufacturing toward bike manufacturing. Further increases in mountain bike production, such as the movement from Point C to Point D, can be obtained only by reallocating resources that are less well suited for bike production away from the production of shirts. As a result, the opportunity cost (in terms of the number of shirts sacrificed) increases as mountain bike production increases.

173 : Prices communicate information about the relative value of resources in the marketplace. Which of the following would cause the value of oranges to rise and, hence, the price of oranges to rise?a. A freeze wipes out half of the Florida citrus groves.b. Orange juice is shown to reduce blood cholesterol levels.c. The price of grape, cranberry, and pineapple juice falls dramatically.

Correct Answer : a) and b) would result in higher orange prices. The freeze in some orange

groves would cause the price of the remaining oranges to increase. A stronger preference for orange juice would likely result once the cholesterol-reducing health benefits of orange juice become known, increasing the price of orange juice. A reduction in the price of substitute juices would decrease the price of oranges (as consumers switch to alternative fruit sources).

174 : How do price controls undermine the market as a communication device?

Correct Answer : The imposition of price controls (which restrict prices above or below market clearing prices) sends incorrect signals to both consumers and producers about the true market prices.