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Chapter 02 - Production Possibilities, Opportunity Cost, and Economic Growth

1. The opportunity cost of an action is:
   a. the monetary payment the action required.
   b. the total time spent by all parties in carrying out the action.
   c. the value of the best opportunity that must be sacrificed in order to take the action.
   d. the cost of all alternative actions that could have been taken, added together.

ANSWER: c

2. The highest valued alternative that must be given up in order to choose an option is called the:
   a. opportunity cost.
   b. utility cost.
   c. scarcity expense.
   d. accounting cost.

ANSWER: a

3. Which of the following sayings best reflects the concept of opportunity cost?
   a. "You can't teach an old dog new tricks."
   b. "There is no such thing as a free lunch."
   c. "I have a baker's dozen."
   d. "There's no business like show business."

ANSWER: b

4. The opportunity cost to a city for using local tax revenues to construct a new park is the:
   a. best alternative foregone by building the park.
   b. dollar cost of constructing the new park.
   c. dollar cost of the old park.
   d. increased taxes necessary to pay for maintenance of the new park.

ANSWER: a

5. The opportunity cost of watching television is:
   a. all of the alternative programs that appear on other stations.
   b. zero because there is no money expenditure involved.
   c. the alternative use of the time foregone by watching the program.
   d. zero if it benefits you.

ANSWER: c

6. Tyler has $10 to spend on a Superman, Batman, or Wonder Woman T-shirt. Tyler buys the Wonder Woman T-shirt and the Batman shirt was a close second choice. What is the opportunity cost?
   a. The amount he spent, $10.
   b. Nothing, since he got his preferred choice.
   c. The Batman T-shirt.
   d. The Superman T-shirt.

ANSWER: c

7. The amount of a good that must be given up to produce another good is the concept of:

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a. scarcity.
b. specialization.
c. opportunity cost.
d. efficiency.

ANSWER: c

8. The opportunity cost of an activity refers to the:
a. amount of money the activity costs.
b. expected gains minus the expected costs of engaging in the activity.
c. expected gains of engaging in the activity.
d. next best thing that must be sacrificed in order to engage in the activity.

ANSWER: d

9. Mikki decides to work five hours the night before her economics exam. She earns an extra $75, but her exam score is 10 points lower than it would have been had she stayed home and studied. Her opportunity cost is the:
a. five hours she worked.
b. $75 she earned.
c. 10 points she lost on her exam.
d. time she could have spent watching television.

ANSWER: c

10. Why does the opportunity cost of your college education include money you could have earned working instead of going to college?
a. Because most people who don't go to college work instead.
b. Because the best alternative use of your time is working.
c. Because people should be productive members of society.
d. Because working a full time job takes as much time as going to college.

ANSWER: b

Exhibit 2-1 Production possibilities curve data

Consumption Goods	Capital Goods
10	0
9	1
7	2
4	3
0	4

11. In Exhibit 2-1, according to the information, the opportunity cost of producing a third unit of capital is:
a. 3 units of consumption goods.
b. 4 units of consumption goods.
c. 6 units of consumption goods.
d. 7 units of consumption goods.

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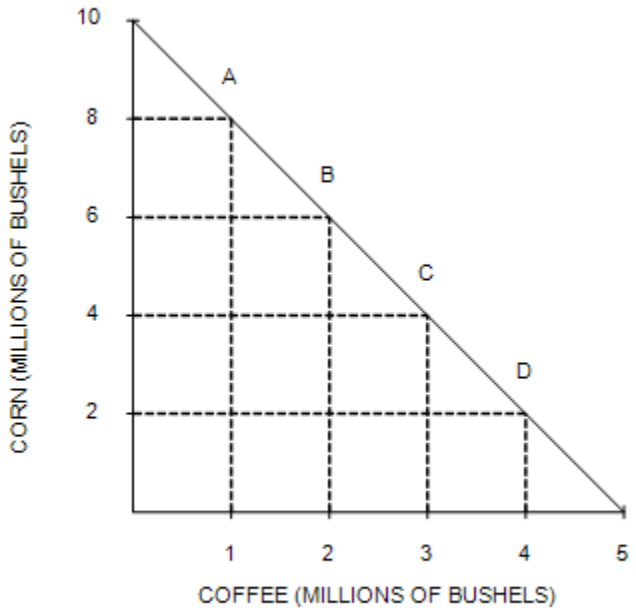
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ANSWER: a

12. In Exhibit 2-1, why is the opportunity cost of producing the fourth unit of capital 4 units of consumption goods but the opportunity cost of producing 4 units of capital 10 units of consumption goods?
    a. It isn't. The opportunity cost of the fourth unit and the opportunity cost of four units is the same.
    b. Because consumption goods are more valuable than capital goods.
    c. Because the opportunity cost of capital goods is constant while the opportunity cost of consumption goods is decreasing as this economy moves from more consumption goods to more capital goods.
    d. Because the opportunity cost of the fourth unit of capital is the amount of consumption goods that must be given up for this economy to move from three units of capital to four units of capital, but the opportunity cost of four units of capital is the amount of consumption goods that must be given up to go from zero units of capital to four units of capital.

ANSWER: d

Exhibit 2-2 Production possibilities curve



13. In Exhibit 2-2, the opportunity cost of coffee when moving from A to B is:
    a. 2 million bushels of corn.
    b. 6 million bushels of corn.
    c. 8 million bushels of corn.
    d. 14 million bushels of corn.

ANSWER: a

14. In Exhibit 2-2, the opportunity cost of coffee when moving from A to B is:

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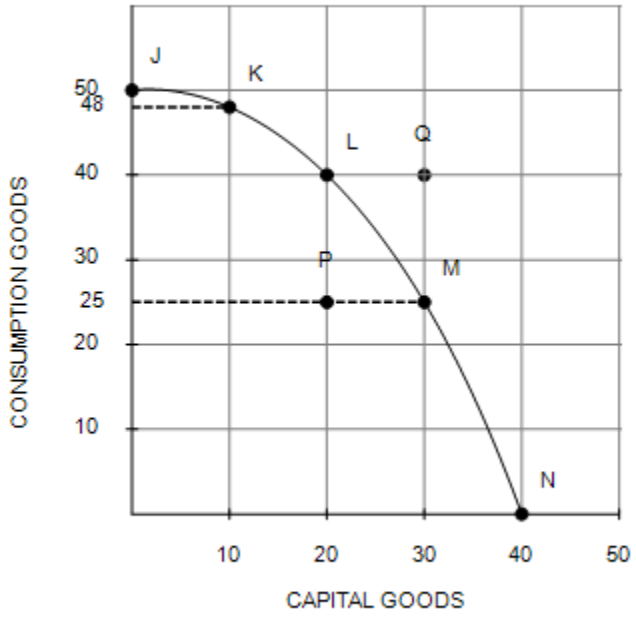
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a. the same as moving from A to C.
b. the same as moving from A to D.
c. the same as moving from B to D.
d. the same as moving from B to C.

ANSWER: d

Exhibit 2-15 Production possibilities curve



15. In Exhibit 2-15, if the economy moves from point L to point M, the opportunity cost of producing 10 more capital goods is:
a. 40 fewer consumption goods because at point L, 20 capital goods and 40 consumption goods are produced.
b. 25 fewer consumption goods because at point M, 30 capital goods and 25 consumption goods are produced.
c. 15 fewer consumption goods because to go from 20 capital goods to 30 capital goods, the economy must go from 40 consumption goods to 25 consumption goods.
d. 15 more consumption goods because to go from 30 capital goods to 20 capital goods, the economy must go from 25 consumption goods to 40 consumption goods.

ANSWER: c

16. Why are all costs really "opportunity costs"? What is an opportunity cost of attending class?

ANSWER: An opportunity cost is what must be given up in order to get something else. Although it is convenient to measure many costs in monetary terms, ultimately all costs (some of which cannot be easily measured in monetary terms) are opportunity costs because there is always something that must be given up in order to get something else. An opportunity cost of attending class is the best alternative use of the student's time.

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17. In economics, the term marginal refers to:
    a. the change or difference from a current situation.
    b. man-made resources as opposed to natural resources.
    c. the satisfaction a consumer receives from a good.
    d. holding everything else constant in the analysis.

ANSWER: a

18. According to marginal analysis, you should choose to do something if the extra benefit:
    a. is positive.
    b. outweighs the extra cost.
    c. exceeds the benefits of the previous time spent on the activity.
    d. will change the outcome.

ANSWER: b

19. A rational decision maker always chooses the option for which marginal benefit is:
    a. less than marginal cost.
    b. equal to marginal cost.
    c. unrelated to marginal cost.
    d. more than marginal cost.

ANSWER: d

20. A farmer is deciding whether or not to add fertilizer to his or her crops. If the farmer adds 1 pound of fertilizer per acre, the value of the resulting crops rises from $80 to $100 per acre. According to marginal analysis, the farmer should add fertilizer if it costs less than:
    a. $12.50 per pound.
    b. $20 per pound.
    c. $80 per pound.
    d. $100 per pound.

ANSWER: b

21. While waiting in line to buy a cheeseburger for $2 and a drink for 75 cents, Amir notices that the restaurant has a value meal containing a cheeseburger, drink, and French fries for $3. For Amir, the marginal cost of purchasing the French fries:
    a. would be zero.
    b. would be 25 cents.
    c. would be 50 cents.
    d. cannot be determined because the information about the price of the French fries is not provided.

ANSWER: b

22. When deciding whether to buy a second car, marginal analysis indicates that the purchaser should compare the:
    a. benefits expected from two cars with the cost of both.
    b. additional benefits expected from a second car with the cost of the two cars.
    c. dollar cost of the two cars with the potential income that the cars will generate.
    d. additional benefits of the second car with the additional cost of the second car.

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ANSWER: d

23. While waiting in line to buy one cheeseburger for $1.50 and a medium drink for $1.00, Sally notices that she could get a value meal that contains both the cheeseburger and medium drink and also a medium order of fries for $2.75. She thinks to herself, "Is it worth the extra 25 cents to get the medium fries?" To an economist, Sally's decision is an example of:

a. marginal analysis.
b. basing decisions on total, rather than marginal, value.
c. an unintended consequence.
d. the fallacy of composition.

ANSWER: a

24. While waiting in line to buy two tacos at 80 cents each and a medium drink for 90 cents, Jordan notices that the restaurant has a value meal containing three tacos and a medium drink all for $3. Jordan should purchase the value meal if:

a. his marginal cost exceeds his marginal benefit.
b. his marginal benefit of the third taco is greater than 50 cents.
c. his value of the third taco is less than 50 cents.
d. he has $3 in his wallet.

ANSWER: b

25. A local restaurant offers an "all you can eat" Sunday brunch for $12. Lee eats four servings, but leaves half of a fifth helping uneaten. Why?

a. Their marginal value of a serving of brunch has fallen below $12.
b. Their marginal value of a serving has fallen below $2.36 ($12 divided by 5 servings).
c. Their marginal value of food has fallen to zero.
d. The total value they place on brunch today exactly equals $12.

ANSWER: c

26. Which of the following is an example of an organization using marginal analysis?

a. A hotel manager calculating the average cost per guest for the past year.
b. A farmer hoping for rain.
c. A government official considering what effect an increase in military goods production will have on the production of consumer goods.
d. A business calculating economic profits.

ANSWER: c

27. Suppose a 50-seat bus is about to depart from Boston to New York with five empty seats. The total cost to the bus company of the trip is $1,000 and no services, food, or beverages are provided to passengers. Use marginal analysis to develop conditions under which the bus company would be willing to sell tickets for the five remaining seats.

a. The bus company would be willing to sell the five remaining tickets at a price of at least $20 each to cover the cost per seat of those passengers.
b. The bus company would be willing to sell the five remaining tickets at any price over $0 because there is no additional cost of five more passengers.
c. The bus company would not be willing to sell the five remaining tickets because it already covered the cost of the trip with the revenue from the 45 passengers on board.

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d. The bus company would be willing to sell the five remaining tickets at a price of at least $25 each because they need to make a profit on each passenger.

ANSWER: b

28. If an economy is operating at a point inside the production possibilities curve,
a. its resources are not being used efficiently.
b. opportunity costs are decreasing as more of one good is traded for the other good.
c. technology has improved.
d. there is full employment of all resources.

ANSWER: a

29. Which of the following most accurately summarizes the implications of an economy's production possibilities curve?
a. If all the resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
b. If all the resources of an economy are being used efficiently, it is generally possible to produce more of one good without having to sacrifice the production of other goods.
c. Over time, it is generally impossible for a country to expand its production of goods.
d. An economy will automatically move toward a point that lies outside of the production possibilities constraint unless proper government policy constrains production.

ANSWER: a

30. After the terrorist attacks on September 11, 2001, the United States began devoting substantial resources toward the War on Terrorism, homeland security, and relief efforts. As long as our resources were being used efficiently, the production possibilities curve would suggest that:
a. we will have to give up the production of other goods that could have been produced with these resources.
b. we will be able to produce the same amount of other goods as before.
c. the military spending will result in an outward shift in the production possibilities curve but that the relief effort will result in an offsetting inward shift.
d. we will be unable to devote the resources necessary toward these efforts unless there is an improvement in technology.

ANSWER: a

31. A point outside the production possibilities curve represents a combination of goods that is:
a. inefficient.
b. efficient.
c. unattainable.
d. attainable.

ANSWER: c

32. In Europe during the 14th century, the Bubonic Plague killed 24 million people or close to 37 percent of the population. How would this affect the production possibilities curves for the countries of Europe at that time?
a. The production possibilities curves for these countries would have shifted outward.
b. The production possibilities curves for these countries would have shifted inward.
c. The production possibilities curves for these countries would have been unaffected.
d. This would have been illustrated by a movement along the production possibilities curves for these countries,

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but it would not have shifted them.

ANSWER: b

33. Using a production possibilities curve, a technological advance that increases the amount of output for the same amount of inputs would be illustrated as a(n):

a. flattening of the curve.
b. movement from one point to another point along the curve.
c. outward shift of the curve.
d. movement from a point on the curve to a point inside the curve.

ANSWER: c

34. The production possibilities curve shows that:

a. some of one good must be given up to get more of another good in an economy that is operating efficiently.
b. no output combination is impossible.
c. an economy that is operating efficiently can have more of one good without giving up some of another good.
d. scarcity can be eliminated.

ANSWER: a

35. A production possibilities curve has "good X" on the horizontal axis and "good Y" on the vertical axis. On this diagram, the opportunity cost of good X, in terms of good Y, is represented by the:

a. distance to the curve from the horizontal axis.
b. distance to the curve from the vertical axis.
c. distance from the origin to the curve.
d. change in Y for each change in X along the curve.

ANSWER: d

36. A production possibilities curve shows the:

a. dollar costs of producing two different goods.
b. amounts of labor and capital needed to produce one good.
c. various combinations of goods that can be produced.
d. prices of different goods that are produced in an economy.

ANSWER: c

37. When the production possibilities curve is bowed out, resources are:

a. equally well-suited to production of both goods.
b. not being used efficiently.
c. not equally suited to the production of both types of goods.
d. increasing as more of one good is produced.

ANSWER: c

38. When an economy's resources are not fully employed, then it must be *true* that the:

a. production point is located outside and to the right of the production possibilities curve.
b. production point is located along the production possibilities curve.
c. production point is located inside and to the left of the production possibilities curve.

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d. production possibilities curve shifts to the left.

ANSWER: c

39. If an economy is producing at full employment, it means that:
a. there are idle resources in this economy.
b. the economy is producing along its production possibilities curve.
c. the economy is producing at a point that is to the left of the production possibilities curve.
d. the economy is producing at a point that is to the right of the production possibilities curve.

ANSWER: b

40. Which of the following would be *most* likely to cause the production possibilities curve for computers and education to shift outward?
a. A choice of more computers and less education.
b. A choice of more education and less computers.
c. A reduction in the labor force.
d. An increase in the quantity of resources.

ANSWER: d

41. Along a production possibilities curve showing capital and consumption goods production, which of the following pairs are being held fixed?
a. Unemployment and capital goods production.
b. Number of resources and technology.
c. Composition of the economy's output and number of resources.
d. Capital and consumption goods production.

ANSWER: b

Exhibit 2-3 Production possibilities curve data

	A	B	C	D	E
Capital Goods	0	1	2	3	4
Consumer Goods	20	18	14	8	0

42. According to the data given in Exhibit 2-3, the production of 1 unit of capital goods and 20 units of consumer goods:
a. is possible but would be inefficient.
b. may be a result of unemployment.
c. may be a result of unused natural resources.
d. is not feasible with current resources and technology.

ANSWER: d

Exhibit 2-4 Production possibilities curve data

	A	B	C	D	E
Capital Goods	0	10	20	30	40
Consumer Goods	200	180	140	80	0

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43. According to the data in Exhibit 2-4, a total output of 140 units of consumer goods and 10 units of capital goods would:

a. be unobtainable in this economy.

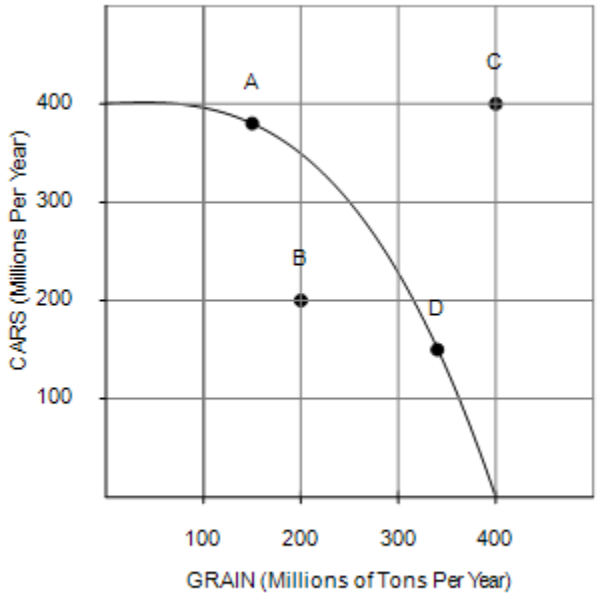
b. be an efficient way of using the economy's scarce resources.

c. result in the maximum use of the economy's labor force.

d. result in a less than maximum rate of growth for this economy.

ANSWER: d

Exhibit 2-7 Production possibilities curve



44. For the economy shown in Exhibit 2-7 to operate at point C, it must:

a. be willing to lower the price of grain.

b. use its given resources more efficiently than it would at point A.

c. experience resource unemployment.

d. experience an increase in its resources and/or an improvement in its technology.

ANSWER: d

Exhibit 2-9

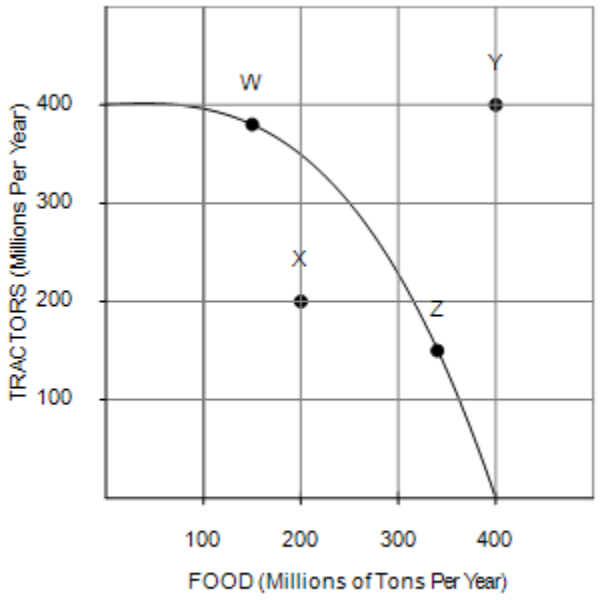
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45. If the economy represented in Exhibit 2-9 is operating at Point W:
    a. no tractor product must be forgone to produce more food in the current period.
    b. resources are not fully used.
    c. some tractor production must be forgone to produce more food in the current period.
    d. increased food production would be impossible.

ANSWER: c

46. Which of the following moves from one point to another in Exhibit 2-9 would represent an increase in economic efficiency?
    a. Z to W
    b. W to Y
    c. W to X
    d. X to W

ANSWER: d

Exhibit 2-10 Production possibilities curve data

	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumption goods	25	23	19	13	0

47. Suppose an economy is faced with the production possibilities table shown in Exhibit 2-10. As additional units of capital goods are being produced, the number of consumption goods produced must:
    a. increase because the production possibility table shows only the maximum efficiency points.
    b. increase because of the law of increasing costs.

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c. decrease because of the law of increasing costs.

d. decrease because of the finite nature of the resource base.

ANSWER: d

Exhibit 2-11 Production possibilities curves



48. In Exhibit 2-11, which of the following could have caused the production possibilities curve to shift from the one labeled B to the one labeled A?

a. A major natural disaster.

b. An increase in resources.

c. An advance in technology.

d. A decrease in unemployment.

ANSWER: a

Exhibit 2-12 Production possibilities curve

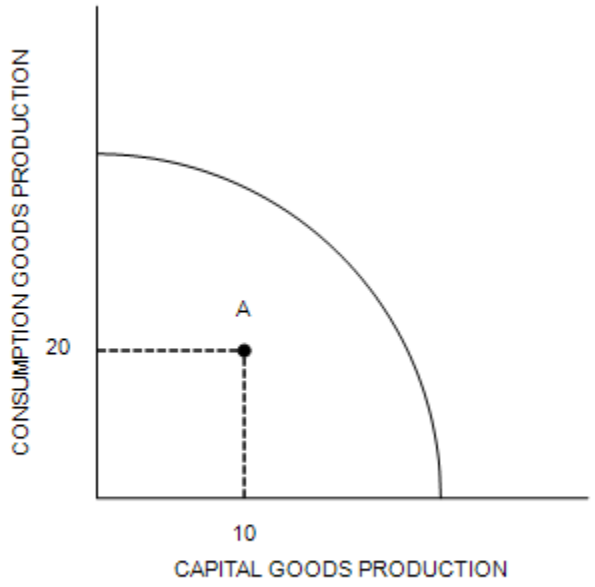
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49. In Exhibit 2-12, suppose an economy with the given production possibilities curve is currently located at point A in the figure. Which of the following statements is *false*?

a. This economy could produce more of both capital and consumption goods.
b. This economy is experiencing full employment.
c. This economy could produce more capital goods while holding fixed the number of consumption goods produced.
d. This economy could produce more consumption goods while holding fixed the number of capital goods produced.

ANSWER: b

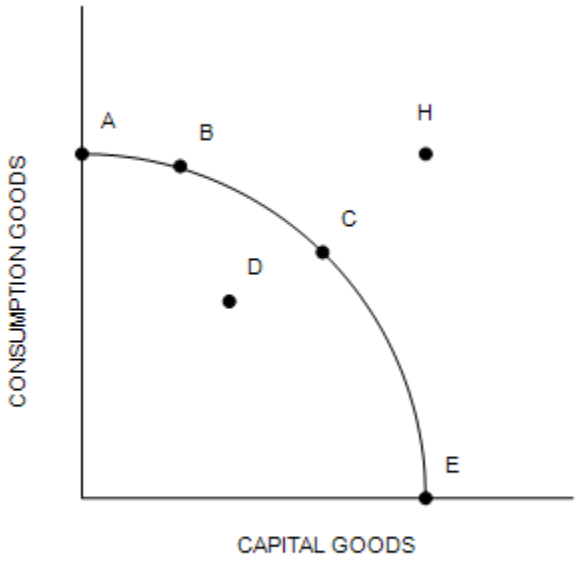
Exhibit 2-13 Production possibilities curve

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50. In Exhibit 2-13, in terms of efficiency:
    a. point A is preferred to point B.
    b. point A is preferred to point E.
    c. point A is preferred to point D.
    d. point B is preferred to point A.

ANSWER: c

51. In Exhibit 2-13, point H is:
    a. achievable with today's resource base.
    b. not achievable today because the economy has not achieved full employment.
    c. not achievable today because the economy is not at its maximum point of efficiency.
    d. not achievable today because of inadequate production capacity.

ANSWER: d

Exhibit 2-11 Production possibilities curves

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52. In Exhibit 2-11, which of the following explains this economy's movement from point E to point F?
    a. The rate of unemployment in this economy would have increased.
    b. Consumption goods production has increased, but capital goods production has decreased.
    c. The economy has decreased unemployment, but some degree of unemployment still exists.
    d. The economy has achieved full employment.

ANSWER: d

Exhibit 2-16

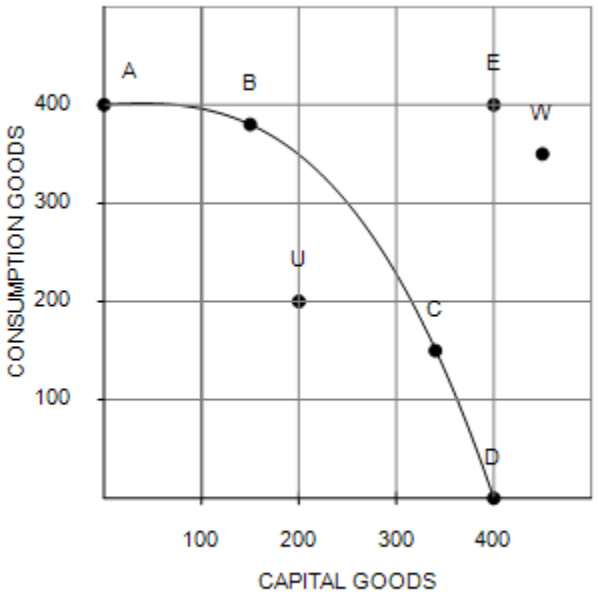
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53. From the information in Exhibit 2-16, which of the following points on the production possibilities curve are attainable with the resources and technology currently available?

a. A, B, C, E
b. A, B, C, D, W
c. E, U, W
d. A, B, C, D, U

ANSWER: d

54. Draw a graph of a production possibilities curve with consumption goods and capital goods that displays the law of increasing opportunity costs. What do points on, inside and outside the curve represent? What does a rightward shift of the curve represent? How is economic growth expressed in terms of the production possibilities model?

ANSWER: The production possibilities curve will bow out from the origin. A point on the curve represents efficiency. A point inside represents inefficiency. A point outside the curve is currently unattainable (it is a combination of production we cannot currently produce given our limited resources and technology; although that point may be attainable if we acquire more resources, technology, or generally increase our production possibilities). A rightward shift in the curve represents an increase in production possibilities. Because economic growth means an increase in a nation's production possibilities over time, then it is expressed as a rightward shift of the production possibilities curve.

Exhibit 2-8 Production possibilities curve data

	A	B	C	D	E	F
Capital goods	15	14	12	9	5	0
Consumer goods	0	2	4	6	8	10

55. As shown in Exhibit 2-8, the concept of increasing opportunity costs is reflected in the fact that:

a. the quantity of consumer goods produced can never be zero.

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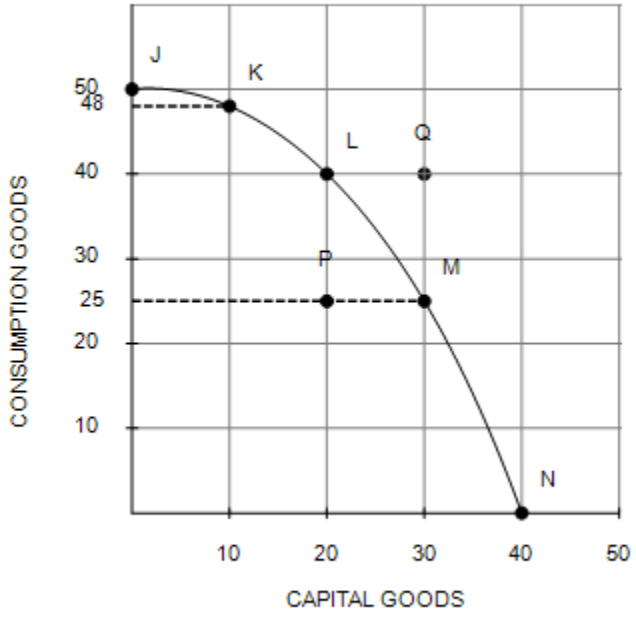
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b. the labor force in the economy is homogeneous.
c. greater amounts of capital goods must be sacrificed to produce each additional 2 units of consumer goods.
d. a graph of the production data is a downward-sloping straight line.

ANSWER: c

Exhibit 2-15 Production possibilities curve



56. In Exhibit 2-15, the shape of the production possibilities curve demonstrates:
a. changing prices.
b. economic growth.
c. decreases in resources.
d. the law of increasing opportunity costs.

ANSWER: d

Exhibit 2-2 Production possibilities curve

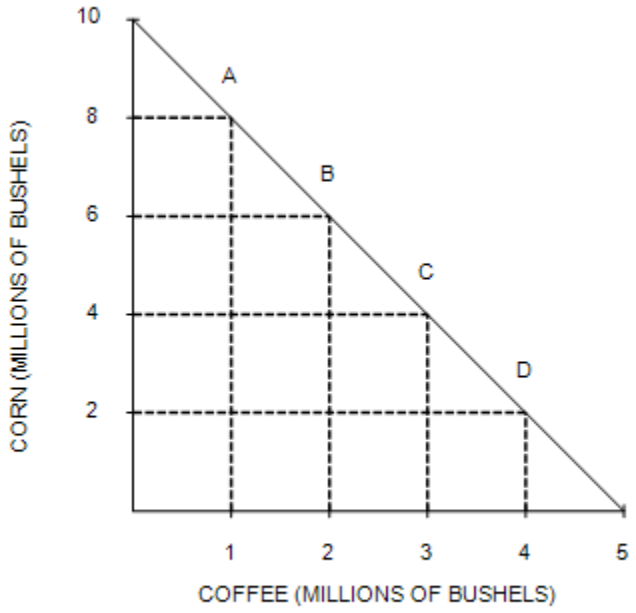
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57. In Exhibit 2-2, the slope of the production possibilities curve indicates that the opportunity cost of:
    a. coffee is constant.
    b. coffee is increasing.
    c. coffee is decreasing.
    d. corn is increasing.

ANSWER: a

58. The production possibility curve is bowed outward from the origin because of:
    a. the law of increasing opportunity costs.
    b. the finite nature of the resource base.
    c. inefficiency.
    d. unemployment.

ANSWER: a

59. As production of a good increases, opportunity costs rise because:
    a. there will be more inefficiency.
    b. people always prefer having more goods.
    c. of inflationary pressures.
    d. workers are not equally suited to all tasks.

ANSWER: d

60. The law of increasing opportunity costs causes the production possibilities curve to:

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a. be a straight line.
b. slope upwards.
c. have a bowed-out shape.
d. shift inward.

ANSWER: c

Exhibit 2-6 Production possibilities curve data

	A	B	C	D	E	F
Capital Goods	150	140	120	90	50	0
Consumer Goods	0	20	40	60	80	100

61. In Exhibit 2-6, the concept of increasing opportunity costs is represented by the fact that:
a. the quantity of capital goods produced must be less than 150.
b. the quantity of consumer goods is constant for each change in the quantity of capital goods produced.
c. greater amounts of capital goods must be sacrificed to produce each additional unit of consumer goods.
d. the amount of consumer goods produced must be greater than zero.

ANSWER: c

62. When the opportunity cost of producing carrots increases as more carrots are produced, then:
a. no more carrots will be produced.
b. resources are equally suited to the production of carrots and to other goods.
c. the production possibilities curve is a straight line.
d. the law of increasing opportunity costs is present.

ANSWER: d

63. The law of increasing opportunity costs indicates that the opportunity cost of producing a good:
a. is proportional to the production of the good.
b. is constant to the production of the good.
c. increases as more of the good is produced.
d. decreases as more of the good is produced.

ANSWER: c

64. If an economy could produce 0 capital goods and 200 consumption goods, or 10 capital goods and 180 consumption goods with full employment, construct two additional full employment production options that would exhibit the law of increasing opportunity costs.
a. 20 capital goods and 160 consumption goods; 30 capital goods and 140 consumption goods
b. 0 capital goods and 220 consumption goods; 10 capital goods and 210 consumption goods
c. 20 capital goods and 140 consumption goods; 30 capital goods and 80 consumption goods
d. 40 capital goods and 140 consumption goods; 50 capital goods and 120 consumption goods

ANSWER: c

Exhibit 2-15 Production possibilities curve

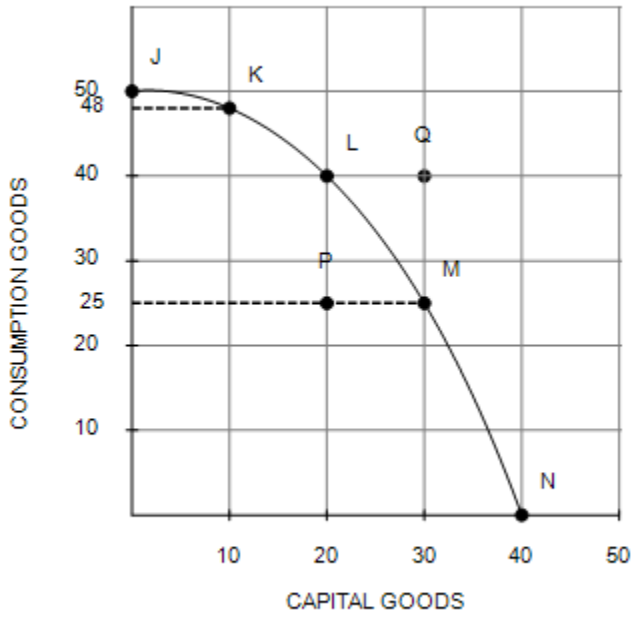
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65. In Exhibit 2-15, evidence of the law of increasing opportunity costs is:
    a. to get the first 10 capital goods, economy has to give up 2 consumption goods but to get the next 10 capital goods, the economy has to give up 8 consumption goods.
    b. the downward slope of the production possibilities curve.
    c. the amount of capital goods increases by 10 units as the economy moves from point J to point K to point L to point M to point N.
    d. the amount of capital goods increases by 10 units as the economy moves from point L to point Q.

ANSWER: a

Exhibit 2-11 Production possibilities curves

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66. In Exhibit 2-11, which of the following could have caused the production possibilities curve of an economy to shift from the one labeled A to the one labeled B?
a. A major natural disaster
b. An increase in consumption goods production this year
c. An advance in technology
d. An increase in unemployment

ANSWER: c

67. Adding more resources causes:
a. downward movement along a production possibilities curve.
b. the production possibilities curve to shift in.
c. upward movement along a production possibilities curve.
d. the production possibilities curve to shift out.

ANSWER: d

68. If an economy keeps increasing its capital stock, then over time its production possibilities curve will:
a. not move.
b. shift to the left.
c. shift to the right.
d. disappear because scarcity ceases to exist.

ANSWER: c

69. An analysis of production possibilities curves indicates that the reason why underdeveloped nations have difficulties

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increasing their economic growth rates is because:

a. low population growth rates mean fewer workers to produce food and other necessities.
b. their production possibilities curves shift in when resources are increased.
c. the opportunity cost of shifting resources from consumption goods to capital goods is relatively low.
d. they must cut back their already relatively low consumption levels to increase capital production.

ANSWER: d

70. Technological innovations will cause:

a. the production possibilities curve to stay the same.
b. the production possibilities curve to shift to the left.
c. the production possibilities curve to shift to the right.
d. an economy to operate below its production possibilities curve.

ANSWER: c

71. Which of the following causes the production possibilities curve to shift to the right?

a. a famine
b. a war
c. the depletion of oil reserves
d. the development of a new technology that improves productivity

ANSWER: d

72. Which would be *least likely* to cause the production possibilities curve to shift to the right?

a. an increase in the labor force
b. improved methods of production
c. an increase in the education and training of the labor force
d. a decrease in unemployment

ANSWER: d

73. On a production possibilities curve diagram, greater entrepreneurship:

a. causes the curve to shift outward.
b. keeps the economy on the curve.
c. prevents movement along the curve.
d. keeps the economy at the corners of the curve.

ANSWER: a

74. The production possibilities curve for the nation of Economania shifts to the right. This could have been caused by:

a. a decrease in Economania's capital stock.
b. technological innovation in the production of Economania goods.
c. high unemployment in Economania the previous time period.
d. Economania producing all consumer goods in the previous period.

ANSWER: b

75. The production possibilities curve for the nation of Economagic shifts to the left. This could have been caused by:

a. an increase in Economagic's labor supply.

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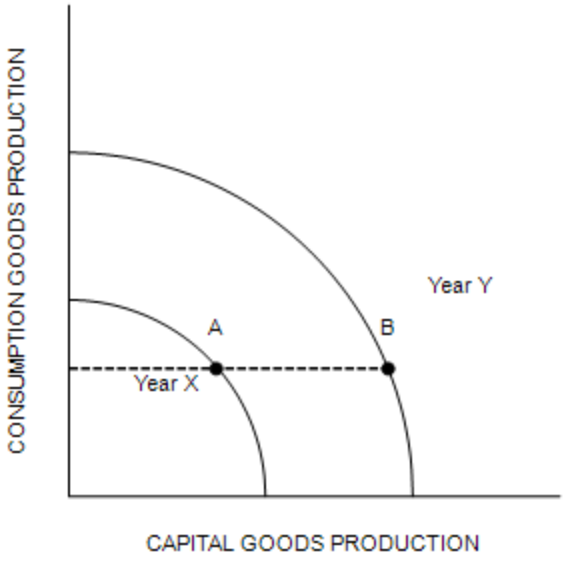
b. innovation in the production of goods in Economagic.
c. a war that destroyed some of Economagic's resource base.
d. unemployment among Economagic's workers.

ANSWER: c

76. Economic growth may be represented by a(n):
a. leftward shift of a production possibilities curve.
b. outward shift of a production possibilities curve.
c. movement along a production possibilities curve.
d. production possibilities curve that remains fixed.

ANSWER: b

Exhibit 2-18 Production possibilities curves



77. In Exhibit 2-18, a country is located at point A on its Year X production possibilities curve. In Year Y this same country is located at point B on its Year Y production possibilities curve. Which of the following could have brought about this outward shift in production possibilities curves?
a. More efficient production in Year X.
b. A natural disaster in Year X which leads to a destruction of resources.
c. Higher unemployment in Year X.
d. An advance in technology occurred in Year X.

ANSWER: d

78. In Exhibit 2-18, the production possibilities curves for a country are shown for Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This country:

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a. is producing the same number of capital goods in both years.
b. is producing the same number of consumption goods in both years.
c. has shown no growth between Year X and Year Y.
d. has higher unemployment in Year X than in Year Y.

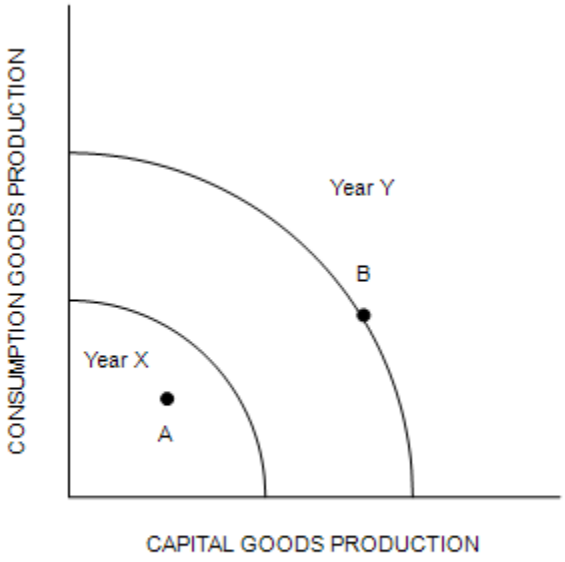
ANSWER: b

79. In Exhibit 2-18, the production possibilities curves for a country are shown for Year X and Year Y. Suppose this country was located at point A in Year X and point B in Year Y. This economy:

a. is worse off in Year Y than in Year X.
b. has stagnated production in this two-year period.
c. is more efficient in Year Y than in Year X.
d. has shown growth between these two years.

ANSWER: d

Exhibit 2-19 Production possibilities curves



80. In Exhibit 2-19, the production possibilities curves for a country are shown for Year X and Year Y. Suppose this country was located at point A in Year X and would like to get to point B in Year Y. Construct a plan for this country to activate in Year X to achieve this growth.

a. Eliminate unemployment, improve production technology, and acquire additional resources.
b. Produce more consumption goods, eliminate unemployment, and reduce inefficiency.
c. Reduce inefficiency, shift energy sources, and hold technology fixed.
d. It is impossible for this country to achieve point B in Year Y.

ANSWER: a

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81. What can a nation do to increase its economic growth? Why is economic growth among the major national economic goals of all countries?

ANSWER: A nation must increase its production possibilities in order to experience economic growth. Ingredients for economic growth include capital accumulation, investment in the labor force to increase productivity, investment in technology, and promoting the entrepreneurial spirit. Economic growth is a major national economic goal of all nations because it increases the average absolute standard of living for the nation.

82. Compare two economies A and B that start out with identical production possibilities curves. Economy A chooses an efficient point with 6 consumption goods and 3 capital goods, while economy B also chooses an efficient point, but with 4 consumption goods and 5 capital goods. In the future we can predict:

a. economy A will operate inefficiently.

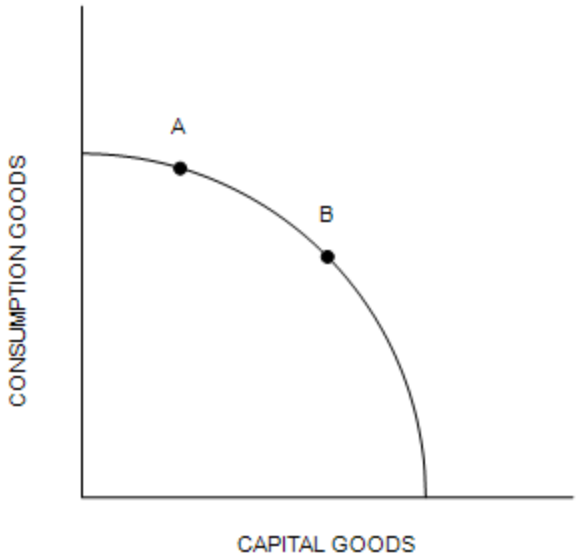
b. economy B will operate inefficiently.

c. economy A and economy B will grow equally fast.

d. economy B will grow faster than economy A.

ANSWER: d

Exhibit 2-17 Production possibilities curve



83. In Exhibit 2-17, if countries A and B currently have the same production possibilities curve (PPC) as given in the figure, but this year country A locates at point A on its PPC and country B locates at point B on its PPC, then country A:

a. is more efficient than country B.

b. will grow at a faster rate than country B.

c. will grow at a slower rate than country B.

d. is producing more capital goods than country B.

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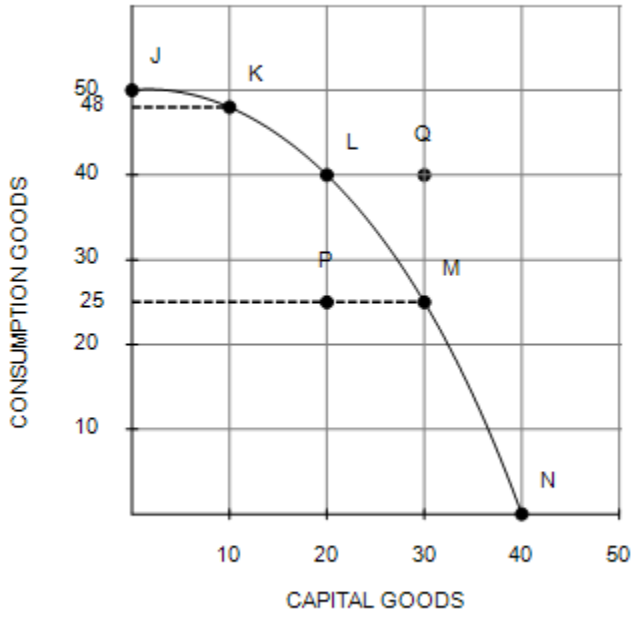
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ANSWER: c

Exhibit 2-15 Production possibilities curve



84. In Exhibit 2-15, the economy will experience the *most* future economic growth if it chooses what point now?
a. J
b. K
c. M
d. N

ANSWER: d

85. With time, which one of the following strategies would *most* likely result in an outward shift in the production possibilities curve of an economy?
a. passage of legislation reducing the workweek to 30 hours
b. instituting a tax policy encouraging consumption at the expense of investment
c. instituting a tax policy encouraging investment at the expense of consumption
d. an increase in the marginal income tax rate, which would reduce the work effort of individuals

ANSWER: c

86. Which of the following is *true*?
a. The production possibilities curve indicates that it will be impossible to expand total output with the passage of time.
b. As long as resources are scarce, output cannot be increased.

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c. The size of the economic pie is fixed, and therefore, if one individual has more income, others must have less.
d. Over time, the output of goods and services can be increased through human ingenuity and discovery of better ways of doing things.

ANSWER: d

87. In economics, investment refers to the process of accumulating:
a. capital goods.
b. consumer goods.
c. money.
d. stocks and bonds.

ANSWER: a

88. The process through which an economy's production possibilities curve shifts outward is:
a. full-employment management.
b. investment.
c. resource renewal.
d. out-resourcing.

ANSWER: b

89. A nation can accelerate its economic growth by:
a. reducing the number of immigrants allowed into the country.
b. adding to its stock of capital.
c. printing more money.
d. imposing tariffs and quotas on imported goods.

ANSWER: b

Exhibit 2-4 Production possibilities curve data

	A	B	C	D	E
Capital Goods	0	10	20	30	40
Consumer Goods	200	180	140	80	0

90. In Exhibit 2-4, if the economy chooses production possibility D rather than production possibility B, it can expect:
a. less growth in the future because it will use up its consumer goods.
b. more growth in the future because of the accumulation of capital.
c. the same amount of growth in the future but with a lower standard of living.
d. the same amount of growth in the future but with a higher standard of living.

ANSWER: b

91. Given the possible strategies listed below, design the best plan for increasing the country's future standard of living.
i. build new factories
ii. print money

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iii. develop new production technology
iv. sacrifice consumer goods for capital formation
v. produce only enough capital goods to replenish depreciation

a. i, ii, and iii only
b. i, iii, and iv only
c. ii, iv, and v only
d. i, ii, iii, iv, and v

ANSWER: b

Exhibit 2-4 Production possibilities curve data

	A	B	C	D	E
Capital Goods	0	10	20	30	40
Consumer Goods	200	180	140	80	0

92. In Exhibit 2-4, choose the best production combination if the only goal of the economy is investment.

a. A
b. C
c. E
d. All production combinations represent the same level of investment because all are efficient.

ANSWER: c

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