Microeconomics (Canadian) 2nd edition Karlan Test Bank

SKU: 9781260066302-TEST-BANK

Chapter 02
Specialization and Exchange

Multiple Choice Questions

1. The invisible hand refers to:
A. the coordination that occurs from everyone working in his or her own self-interest.
B. the coordination that occurs from a government agency finding efficiencies.
C. the coordination that occurs from everyone working for the overall good of society.
D. the coordination that occurs from a government coordinating economic activity.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-01 The Origins of a T-Shirt

2. The concepts of specialization and gains from trade explain:
A. international trade.
B. why globalization has expanded recently.
C. consumer decisions.
D. both international trade and the choices individuals make.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-01 The Origins of a T-Shirt

Microeconomics (Canadian) 2nd edition Karlan Test Bank

3. The concept of the invisible hand was first introduced to economics by:
A. David Ricardo.
B. Adam Smith.
C. Thomas Malthus.
D. Milton Friedman.

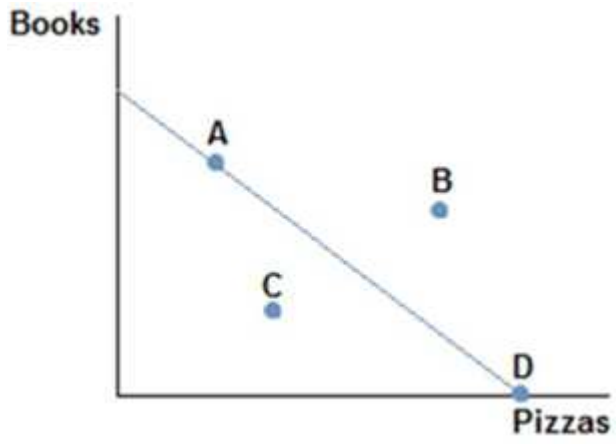
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-01 The Origins of a T-Shirt

4. A production possibilities frontier is a line or curve that:
A. shows all the possible combinations of outputs that can be produced using all available resources.
B. shows what can be produced when all available resources are not efficiently used.
C. shows the best combinations of outputs that can be produced using all available resources.
D. explains why societies make the choices they do.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-02 Production Possibilities

Microeconomics (Canadian) 2nd edition Karlan Test Bank

5. Consider the production possibilities frontier displayed in the figure shown. The fact that the line slopes downward displays which economic concept?

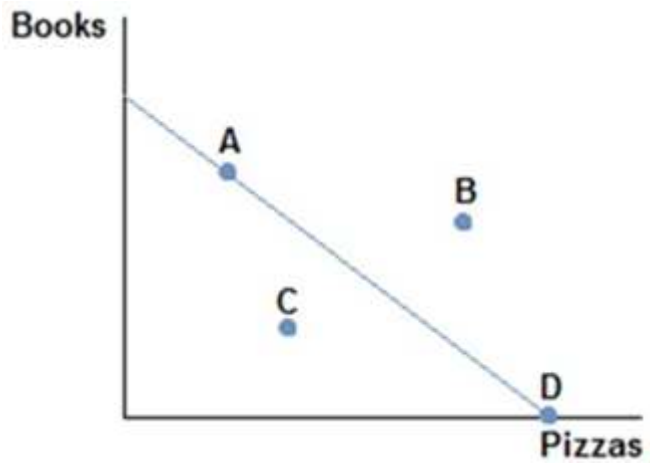


A. Production possibilities
B. Trade-offs
C. Specialization
D. Efficiency

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

6. Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve could choose to produce:

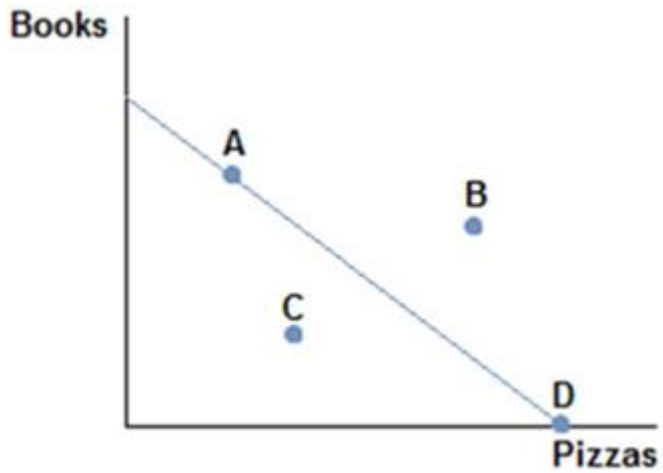


A. A, B, or D.
B. A, B, or C.
C. A, D, or C.
D. B, C, or D.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

7. Consider the production possibilities frontier displayed in the figure shown. Which points are efficient and attainable with existing resources?

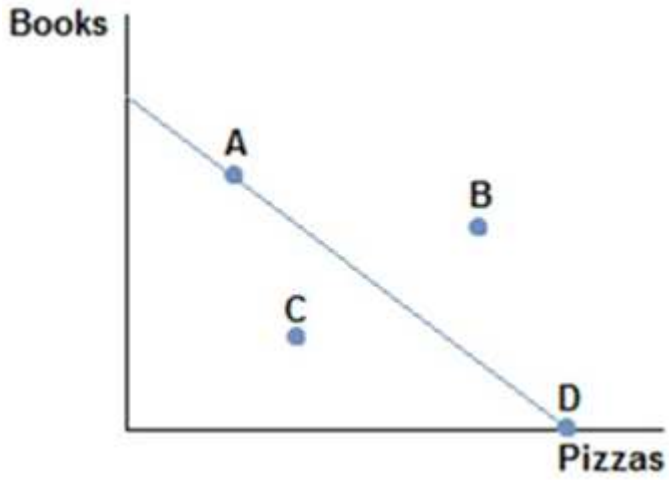


A. Only point B.
B. Only point A.
C. Points A and D.
D. Points A, C, and D.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

8. Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve:

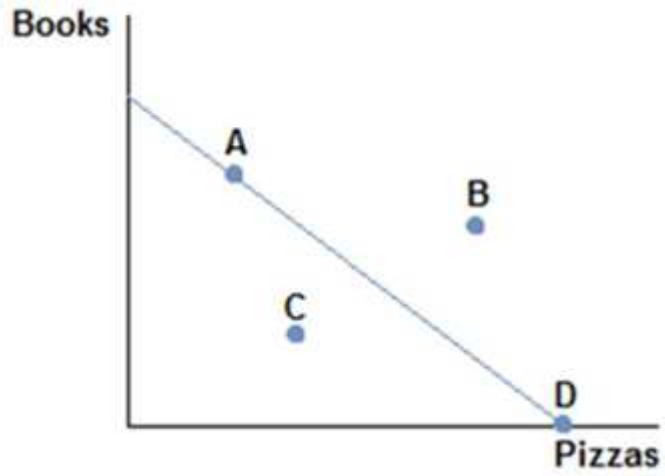


A. cannot obtain point B.
B. can only obtain point C.
C. can only obtain point D or point A.
D. cannot obtain point C.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

9. Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true?

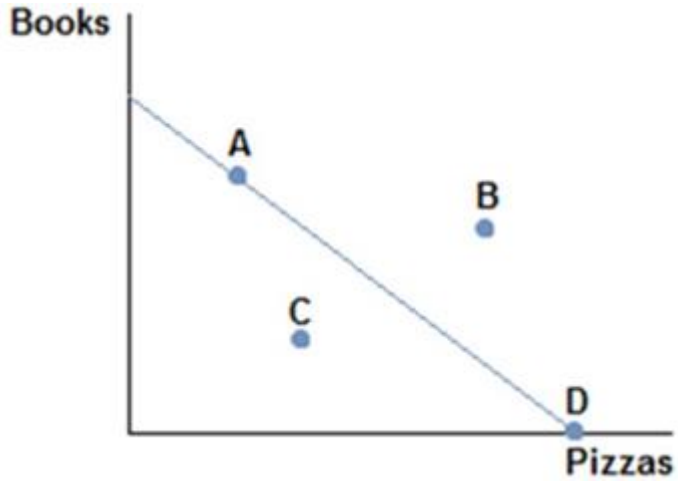


A. Producing at point D would be inefficient.
B. Producing at point C would be inefficient.
C. Producing at point B would be inefficient.
D. Producing at point A would be inefficient.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

10. Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true?



A. Producing at point A is the best choice, because some of both items are made.
B. Producing at point D would be inefficient, since no books would be produced.
C. Producing at point C is the best choice, because it's closest to the middle.
D. Producing at point B is impossible.

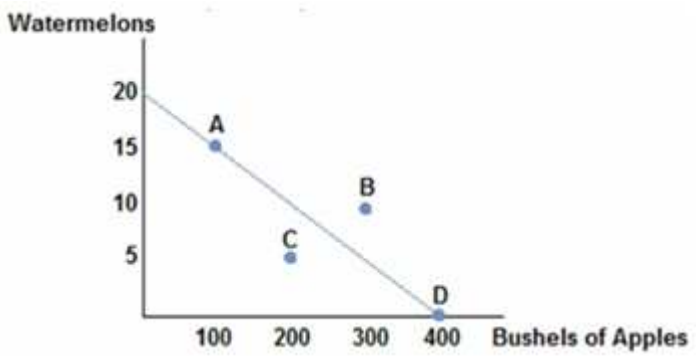
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

11. The slope of a production possibilities frontier measures:
A. the opportunity cost of producing one good in terms of the other good.
B. the trade-off inherent in the production of one good versus the other good.
C. how much of one good that must be given up in order to produce one of the other good.
D. All of these statements are true.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

12. Consider the production possibilities frontier displayed in the figure shown. A society will choose to produce:

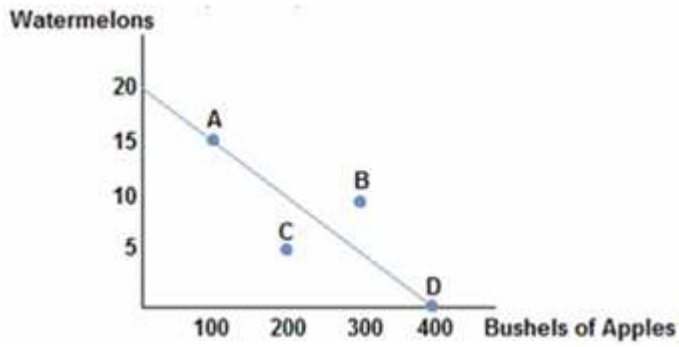


A. at point C because it is the safest.
B. at point D because it represents the most apples the society can produce.
C. at point A because it is always best to produce some of each good.
D. None of these statements are necessarily true.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

13. Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of a bushel of apples is:

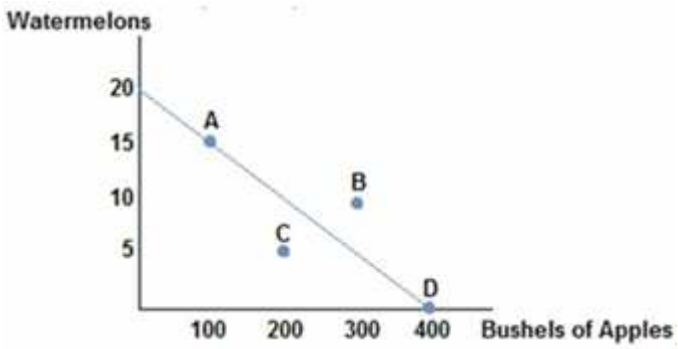


A. 3/20 watermelons.
B. 1/20 watermelons.
C. 1/40 watermelons.
D. 1/30 watermelons.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

14. Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of one watermelon is:

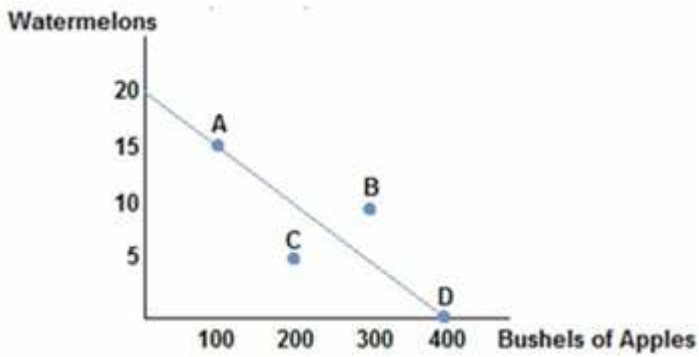


A. 10 bushels of apples.
B. 20 bushels of apples.
C. 30 bushels of apples.
D. 40 bushels of apples.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

15. Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 200 bushels of apples:

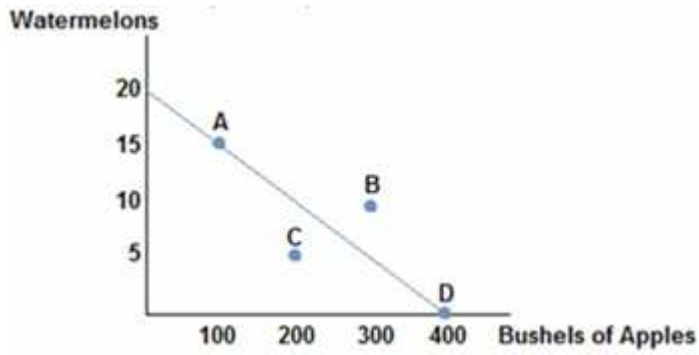


A. it can produce no more than 20 watermelons.
B. it can produce no more than 15 watermelons.
C. it can produce no more than 10 watermelons.
D. it can produce no more than 5 watermelons.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

16. Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could be produced?

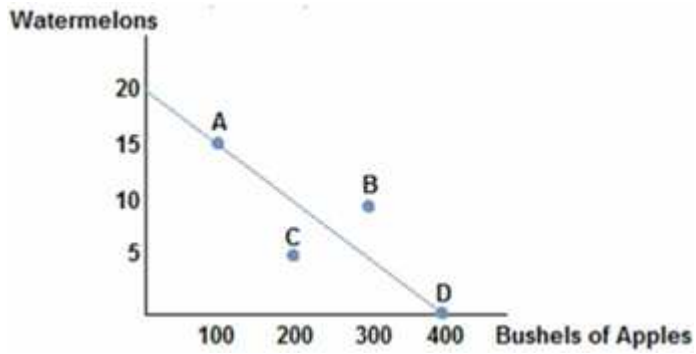


A. (20 watermelons, 400 bushels of apples)
B. (15 watermelons, 100 bushels of apples)
C. (10 watermelons, 300 bushels of apples)
D. (10 watermelons, 400 bushels of apples)

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

17. Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could not be produced?

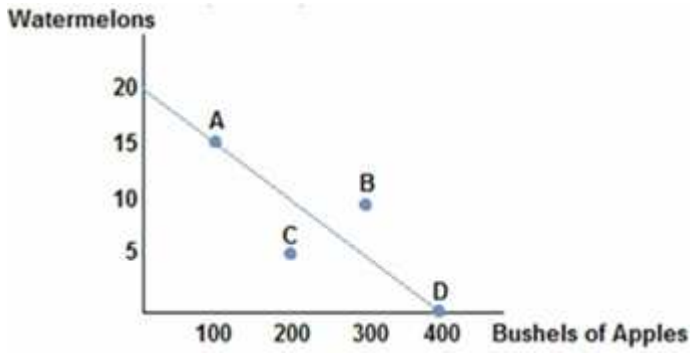


A. (20 watermelons, 400 bushels of apples)
B. (15 watermelons, 100 bushels of apples)
C. (10 watermelons, 150 bushels of apples)
D. (0 watermelons, 400 bushels of apples)

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

18. Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 15 watermelons:

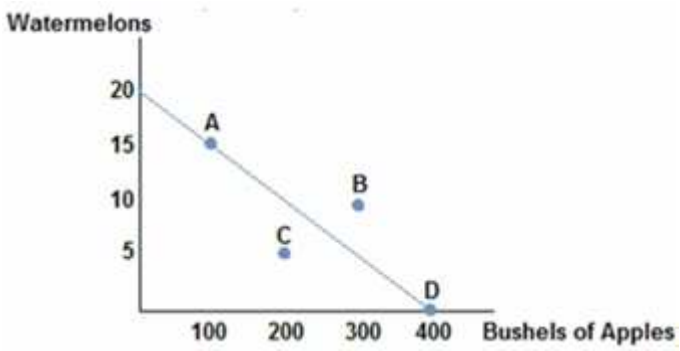


A. it can produce no more than 400 bushels of apples.
B. it can produce no more than 300 bushels of apples.
C. it can produce no more than 200 bushels of apples.
D. it can produce no more than 100 bushels of apples.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

19. Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true?

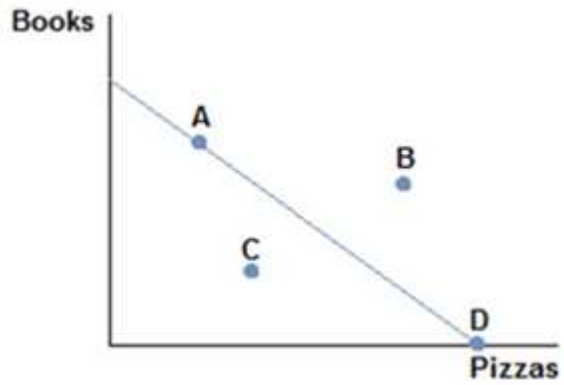


A. The opportunity cost of one watermelon will decrease as more watermelons are produced.
B. The opportunity cost of one watermelon is constant.
C. The opportunity cost of one watermelon will increase as more watermelons are produced.
D. The opportunity cost of one watermelon is very low at point C.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

20. Consider the production possibilities frontier displayed in the figure shown. If society is currently producing at point A, it could move to point D if:

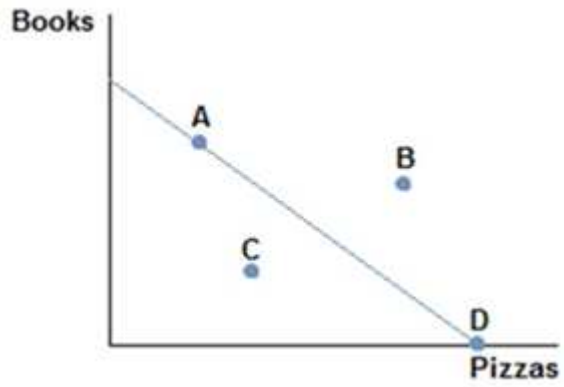


A. the cost of producing books were to increase.
B. the cost of producing pizzas were to increase.
C. all the resources were switched from printing books to the production of pizzas.
D. the society is no longer able to produce the quantity of books at point A.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

21. Consider the production possibilities frontier displayed in the figure shown. If society is currently producing at point D, it could move to point A if:

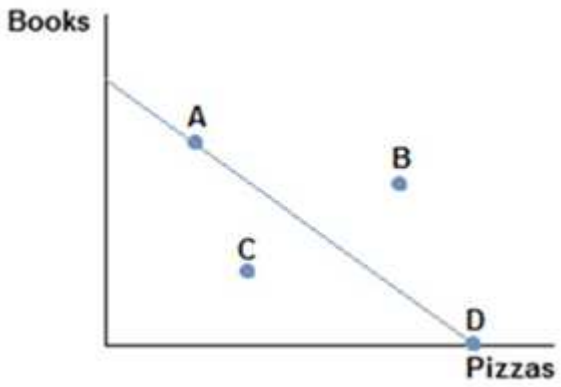


A. the cost of producing books were to decrease.
B. the cost of producing pizzas were to decrease.
C. some resources were switched from printing books to the production of pizzas.
D. there is an increase in resources used to produce books.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

22. Consider the production possibilities frontier displayed in the figure shown. Production at point B can be attained if:



A. the cost of producing books were to decrease.
B. the cost of producing pizzas were to decrease.
C. some resources were switched from printing books to the production of pizzas.
D. there is an increase in resources used to produce books and pizzas.

Blooms: Apply
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

23. If we consider the reality that each worker has different skills, then the production possibilities frontier:
A. would have a convex shape.
B. would have a concave shape.
C. would be a straight line.
D. would shift outward.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

24. If we consider the reality that each worker has different skills, then the production possibilities frontier:
A. would display a constant opportunity cost of a good as more of that good is produced.
B. would display a decreasing opportunity cost of a good as more of that good is produced.
C. would display an increasing opportunity cost of a good as more of that good is produced.
D. cannot be drawn, as too many variables would need to be taken into consideration.

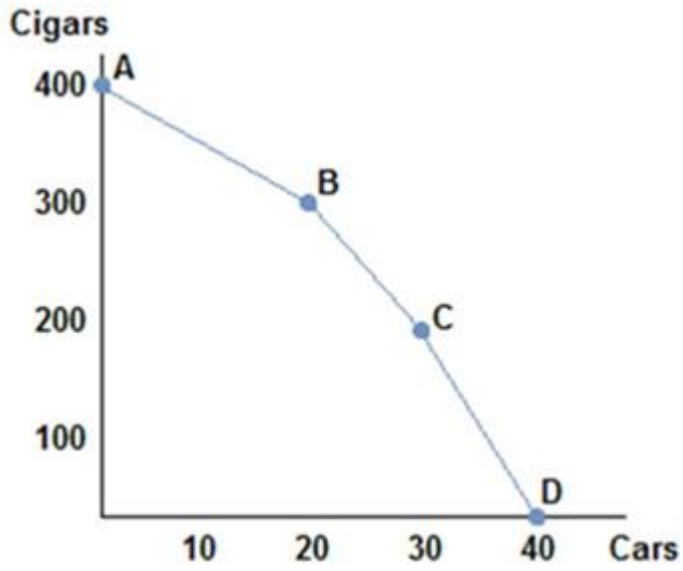
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

25. A realistic production possibilities curve:
A. is more concave than one assuming constant opportunity costs.
B. is more concave than one assuming increasing opportunity costs.
C. is more convex than one assuming constant opportunity costs.
D. is straighter than one assuming constant opportunity costs.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

26. Consider the production possibilities frontier in the figure shown. As more and more cars are produced:

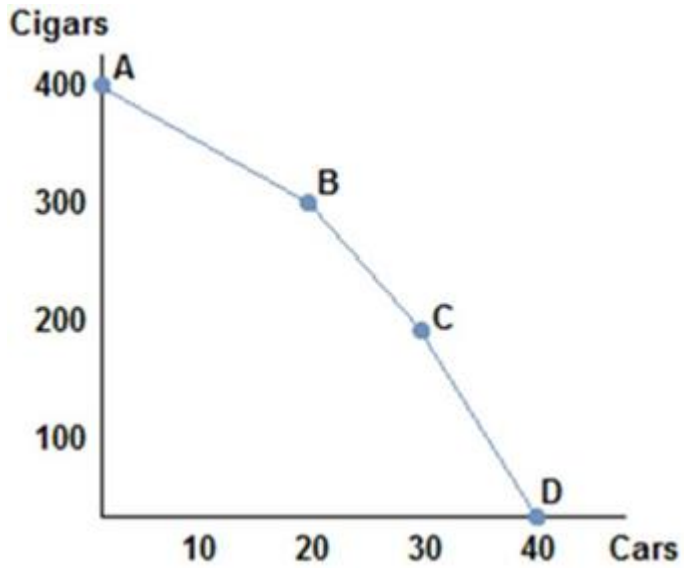


A. the opportunity cost of cars decreases.
B. the opportunity cost of cars stays the same.
C. the opportunity cost of cars increases.
D. the opportunity cost of cars decreases then increases.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

27. Consider the production possibilities frontier in the figure shown. As more and more cigars are produced:

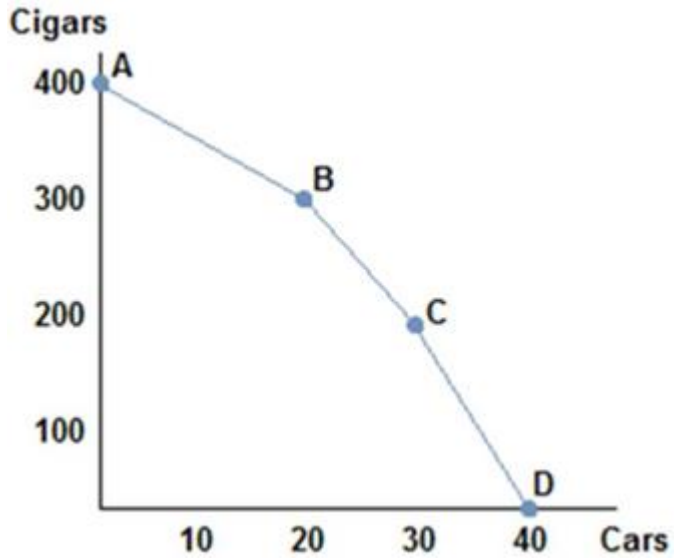


A. the opportunity cost of cars decreases.
B. the opportunity cost of cars stays the same.
C. the opportunity cost of cars increases.
D. the opportunity cost of cars decreases then increases.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

28. Consider the production possibilities frontier in the figure shown. The opportunity cost of moving from point A to point B:

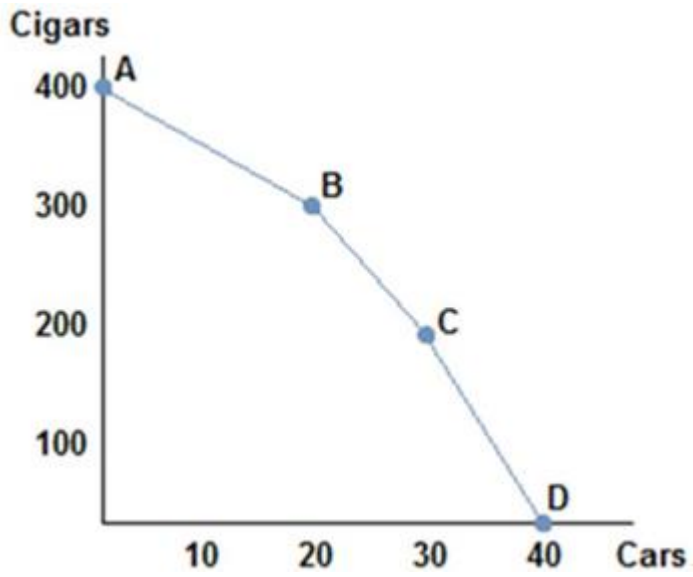


A. is 5 cars per cigar.
B. is 10 cars per cigar.
C. is 5 cigars per car.
D. is 10 cigars per car.

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

29. Consider the production possibilities frontier in the figure shown. The opportunity cost of cars when moving from point B to point C:



A. is greater than the opportunity cost of cars when moving from point A to point B.
B. is less than the opportunity cost of cars when moving from point A to point B.
C. is greater than the opportunity cost of cars when moving between any other two points.
D. None of these statements are true.

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

30. Choosing to produce at any point within a production possibilities frontier:
A. is inefficient, meaning the society would not be using all its available resources in their best possible uses.
B. is efficient, meaning the society would be using all its available resources in their best possible uses.
C. is unobtainable, meaning the society cannot produce that combination of goods.
D. is efficient, meaning the society would be using all its available resources, though not in their best uses.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

31. The production possibilities frontier:
A. can show all possible combinations of goods but not tell us which combination society should choose.
B. can show all possible combinations of goods and which society should choose.
C. cannot show all possible combinations of goods because society is typically inefficient.
D. can show us which possible combinations of goods society should choose but cannot tell us which points will be inefficient.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

32. If society were to experience an increase in its available resources:
A. its production possibilities frontier would shift out.
B. its production possibilities frontier would shift in.
C. its production possibilities frontier would not move, but society could change its production choice.
D. its production possibilities frontier would become convex.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

33. The world price of crude oil increased from just $30 per barrel in 2016 to $75 per barrel in 2018. As a producer of oil, what effect did this change have on Canada's production possibilities frontier?
A. Inward shift
B. Outward shift
C. A movement along
D. No change

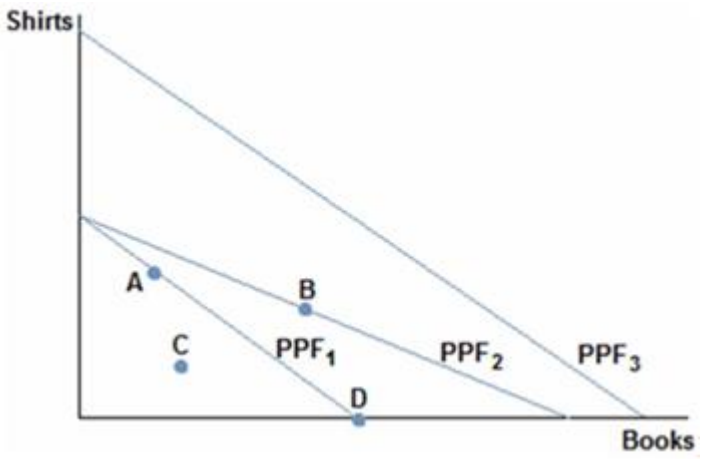
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

34. Suppose a wildfire destroys many millions of hectares of valuable Canadian forest. The effect on the Canadian economy would be best illustrated by:
A. an inward shift of its production possibilities frontier.
B. an outward shift of its production possibilities frontier.
C. a movement along its production possibilities frontier.
D. a clockwise rotation of its production possibilities frontier.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

35. Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_2?

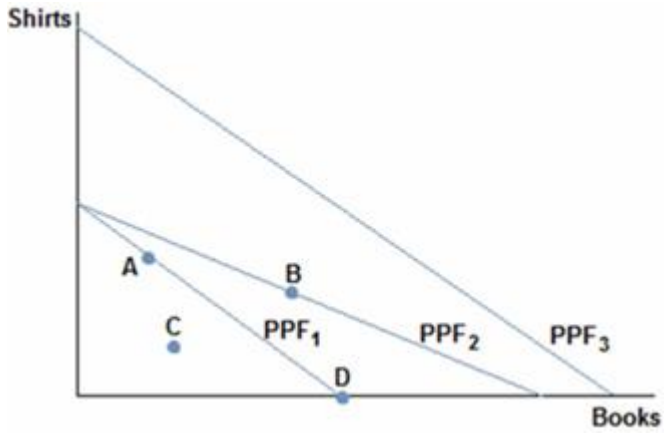


A. More workers
B. Better printing press technology
C. A desire to read more books
D. Better sewing technology

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

36. Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_3?

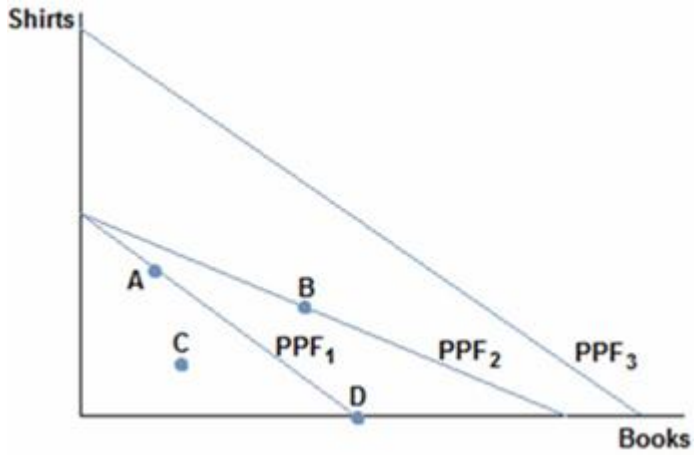


A. More workers
B. Better printing press technology
C. A desire to read more books
D. Better sewing technology

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

37. Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_3 to PPF_1?



A. A tornado
B. More workers
C. A desire to read more books
D. Better sewing technology

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

38. An increase in productivity as a result of a new technology would cause the production possibilities frontier to:
A. shift in.
B. shift out.
C. not move until society chooses to move it.
D. become more meaningful in policy decisions.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

39. Hurricane Katrina destroyed much of New Orleans and other parts of the South. Which of the following statements is true?
A. The hurricane caused New Orleans' production possibilities to shift inwards.
B. The hurricane caused New Orleans' production possibilities to increase, since it created a lot of work to rebuild the city and surrounding areas.
C. The hurricane caused New Orleans' production possibilities frontier to shift outwards.
D. None of these statements are true.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

40. Trade:
A. increases total production, which can benefit every nation involved.
B. increases total production, which benefits only the wealthier nation.
C. decreases total production across nations but increases production in some nations.
D. decreases total production across nations but benefits every nation because they are individually more productive.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

41. Trade:
A. only benefits the stronger nation.
B. only benefits the weaker nation.
C. can benefit everyone involved.
D. can only benefit one party of the trade, but we cannot say which without more information.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

42. Trade:
A. involves a winner and a loser.
B. often hurts both parties in the long run.
C. is a zero-sum proposition.
D. can benefit both parties.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

43. Canada has an absolute advantage over Mexico in the production of cars if:
A. more resources are required in Canada to produce a given quantity of cars than in Mexico.
B. a given amount of resources in Canada produces more cars than the same amount of resources in Mexico.
C. relative to Mexico, more cars can be produced in Canada with fewer resources.
D. relative to Mexico, fewer cars can be produced in Canada with fewer resources.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

44. If a wealthy nation such as Canada trades with a poorer, less developed nation like Cambodia, then it is likely true that:
A. Canada is taking advantage of Cambodia and is the only beneficiary to the trade.
B. Cambodia is pressured to enter trade and not benefiting at all.
C. both Canada and Cambodia can benefit from trading.
D. Canada is being charitable and not benefiting from the trade at all.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

45. Suppose that, given the same number of workers, Canada can produce five times as many computers or 10 times as many airplanes as Mexico. Which of the following statements is true?
A. Canada has an absolute advantage in the production of computers, and Mexico has an absolute advantage in the production of airplanes.
B. Canada has an absolute advantage in the production of airplanes, and Mexico has an absolute advantage in the production of computers.
C. Canada has an absolute advantage in the production of both airplanes and computers.
D. Mexico has an absolute advantage in the production of both airplanes and computers.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

46. Suppose that, given the same number of workers, Canada can produce two times as many TVs or 20 times as many potatoes as Chile. Which of the following statements is true?
A. Chile should trade with Canada for potatoes because Canada has an absolute advantage in the production of potatoes.
B. Chile should trade with Canada for TVs because Canada has an absolute advantage in the production of potatoes.
C. Canada can benefit from trading TVs but not potatoes with Chile.
D. None of these statements is necessarily true.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

47. If a country possesses the absolute advantage in the production of one good:
A. then it must also possess the absolute advantage in the production of the other good.
B. then it must also possess the comparative advantage in the production of that good.
C. then it must also possess the comparative advantage in the production of the other good.
D. it can produce more of that good given the same resources.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

48. Suppose that only two goods are produced in an economy. If a country possesses the comparative advantage in the production of one good:
A. then it must also possess the comparative advantage in the production of the other good.
B. then it must also possess the absolute advantage in the production of that good.
C. then it cannot also possess the comparative advantage in the production of the other good.
D. then it cannot also possess the absolute advantage in the production of that good.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

49. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?
A. Canada has the absolute advantage in the production of both shoes and apples.
B. The U.S. has the absolute advantage in the production of both shoes and apples.
C. Canada has the absolute advantage in the production of shoes and the U.S. has the absolute advantage in the production of apples.
D. The U.S. has the absolute advantage in the production of shoes and Canada has the absolute advantage in the production of apples.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

50. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?
A. Canada has an absolute advantage and a comparative advantage in the production of shoes.
B. Canada has an absolute advantage and a comparative advantage in the production of apples.
C. Canada has an absolute advantage in the production of both goods and a comparative advantage in the production of neither good.
D. Canada has an absolute advantage in the production of both goods and a comparative advantage in the production of both goods.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

51. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?
A. Canada has a comparative advantage in the production of shoes.
B. The U.S. has a comparative advantage in the production of shoes.
C. Comparative advantage doesn't exist in this scenario.
D. Both countries have a comparative advantage in the production of shoes.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

52. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. Canada should:
A. produce both goods, since they have an absolute advantage in both goods, and not trade.
B. produce only shoes, since they have a comparative advantage in the production of shoes, and not trade.
C. produce apples, since they have a comparative advantage in the production of apples, and not trade.
D. produce apples, since they have a comparative advantage in the production of apples, and trade for shoes.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

53. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of one pair of shoes for Canada is _____, while the opportunity cost of one pair of shoes for the U.S. is _____.
A. 5 apples; 2 apples
B. $^{1}/_{5}$ apple; ½ apple
C. 2,000 apples; 200 apples
D. 100 apples; 20 apples

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

54. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for Canada is:
A. 5 apples for each pair of shoes.
B. 5 pairs of shoes for each apple.
C. $^1/_5$ apple for each pair of shoes.
D. 1 pair of shoes for every 2 apples.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

55. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for the U.S. is:
A. 2 apples for each pair of shoes.
B. 2 pairs of shoes for each apple.
C. ½ apple for each pair of shoes.
D. ½ pair of shoes for every 2 apples.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

56. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of a pair of shoes is _____ for Canada than the U.S., so the U.S. has the _____ advantage in shoe production.
A. higher; comparative
B. lower; comparative
C. higher; absolute
D. lower; absolute

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

57. Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. An American worker, on the other hand, can produce 10 pairs of shoes or grow 20 apples per day. The U.S. has the _____ opportunity cost of a pair of shoes than Canada, so: _____.
A. higher; the U.S. should specialize in shoe production
B. lower; the U.S. should specialize in apple production
C. higher; the U.S. should specialize in apple production
D. lower; the U.S. should specialize in shoe production

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

58. Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. The opportunity cost of one pair of gloves is:
A. 6 radishes for Canada and 2 radishes for Bangladesh.
B. 60 radishes for Canada and 20 radishes for Bangladesh.
C. 1/6 radishes for Canada and ½ radishes for Bangladesh.
D. 6,000 radishes for Canada and 2,000 radishes for Bangladesh.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

59. Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concept of absolute advantage, which of the following statements is true?
A. Canada has the absolute advantage in the production of both gloves and radishes.
B. Canada does not have the absolute advantage in the production of either gloves or radishes.
C. Canada has the absolute advantage in the production of gloves, but not radishes.
D. Canada has the absolute advantage in the production of radishes, but not gloves.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

60. Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of absolute and comparative advantage, we can say that:
A. Canada has the comparative advantage in the production of both gloves and radishes.
B. Canada has the comparative advantage in neither the production of gloves nor radishes.
C. Canada has the comparative advantage in the production of gloves only.
D. Canada has the comparative advantage in the production of radishes only.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

61. Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of advantage and trade, we can say that:
A. the opportunity cost of one pair of gloves is lower for Canada than Bangladesh, therefore Canada has a comparative advantage in glove production.
B. the opportunity cost of one pair of gloves is higher for Canada than Bangladesh, therefore Canada has a comparative advantage in radish production.
C. the opportunity cost of one pair of gloves is the same for both Canada and Bangladesh, therefore no comparative advantage exists.
D. the opportunity cost of one pair of gloves is the same for both Canada and Bangladesh, therefore they both have the comparative advantage in glove production.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

62. Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Bangladeshi worker, on the other hand, can produce 100 pairs of gloves or grow 200 radishes per day. Which of the following statements is true?
A. Bangladesh should specialize in glove production since it possesses the comparative advantage in glove production.
B. Bangladesh should specialize in radish production since it possesses the comparative advantage in radish production.
C. Bangladesh should only produce gloves since it has the absolute advantage in glove production.
D. Bangladesh should only produce radishes since it has the absolute advantage in radish production.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

63. Suppose a Canadian worker can make 100 chairs or catch 1,000 fish per day. A Chilean worker, on the other hand, can produce 40 chairs or catch 400 fish per day. Which of the following statements is true?
A. Canada has the comparative advantage in chair production.
B. Chile has the comparative advantage in chair production.
C. Both Canada and Chile have a comparative advantage in chair production.
D. Neither Canada nor Chile has a comparative advantage in chair production.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

64. Suppose a Canadian worker can make 100 chairs or catch 1000 fish per day. A Chilean worker, on the other hand, can produce 40 chairs or catch 400 fish per day. Canada possesses a(n) _____ advantage in chair production, but not a(n) _____ advantage in fish production.
A. absolute; comparative
B. comparative; absolute
C. absolute; absolute
D. comparative; comparative

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

65. Suppose a Canadian worker can make 100 chairs or catch 900 fish per day. A Chilean worker, on the other hand, can make 40 chairs or catch 400 fish per day. Canada has an absolute advantage in the production of both fish and chairs. This means that:
A. Canada should produce both goods and not trade with Chile.
B. Canada should produce only fish and trade with Chile to get chairs.
C. Canada should take advantage of Chile by trading with them.
D. Canada can produce more fish and chairs than Chile given the same number of workers.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

66. When a producer has the ability to produce a good or service at a lower opportunity cost than others, economists say the producer:
A. has an absolute advantage at producing that good.
B. has a comparative advantage at producing that good.
C. has no reason to trade with others.
D. is efficient.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

67. When a producer has a comparative advantage in producing a good, it means the producer:
A. can produce more of that good than others with the same number of workers.
B. has the ability to produce the good at a lower opportunity cost than others.
C. has no reason to trade with others.
D. is efficient.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

68. When a producer has an absolute advantage at producing a good, it means the producer:
A. can produce more of that good than others with the same number of workers.
B. has the ability to produce a good or service at a lower opportunity cost than others.
C. has no reason to trade with others.
D. is less efficient than other producers.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

69. When a producer is acting efficiently:
A. it is producing at a point on its production possibilities frontier.
B. it is producing at a point on or under its production possibilities frontier.
C. it is producing only one good.
D. it is producing the good in which it has an absolute advantage.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

70. When a country is acting efficiently:
A. it is producing at a point that lies below its production possibilities frontier.
B. it is getting the maximum output by using all its available resources.
C. it has unemployed workers.
D. it can reach a point beyond its production possibilities frontier.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-04 Choosing Among Production Possibilities

Microeconomics (Canadian) 2nd edition Karlan Test Bank

71. Canada and the U.S. trade hockey skates and apple pie. If Canada has an absolute and a comparative advantage in the production of apple pie, then:
A. The U.S. must have the comparative advantage in the production of skates.
B. The U.S. must have the absolute advantage in the production of skates.
C. The U.S. must have the absolute and comparative advantage in the production of skates.
D. Canada must have the comparative advantage in the production of skates, too.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

72. Which of the following statements about absolute and comparative advantage is true?
A. A country may have a comparative advantage but not an absolute advantage in the production of a good.
B. A country may have an absolute advantage but not a comparative advantage in the production of a good
C. A country may have the absolute advantage in the production of all goods.
D. All of these statements are true.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

73. If two countries each produce wheat and T-shirts, the country with the lower opportunity cost for T-shirts (in terms of wheat) will also have:
A. a comparative advantage in the production of wheat.
B. a comparative advantage in the production of T-shirts.
C. an absolute advantage in the production of wheat.
D. an absolute advantage in the production of T-shirts.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

74. If two countries each produce wheat and T-shirts, the country with the higher opportunity cost for T-shirts (in terms of wheat) will also have:
A. a comparative advantage in the production of wheat.
B. a comparative advantage in the production of T-shirts.
C. an absolute advantage in the production of wheat.
D. an absolute advantage in the production of T-shirts.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

75. A country that specializes:
A. spends all of its resources producing a particular good.
B. spends all of its resources producing those goods it has an absolute advantage in producing.
C. spends all of its resources producing only what other countries need.
D. spends all of its resources producing what it can make more of than anyone else.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

76. When two countries specialize and trade with one another:
A. total production remains unchanged, but consumption rises.
B. total production increases, but only if comparative advantage exists.
C. total production may increase, depending on trade relations.
D. total production and consumption remain unchanged.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

77. People choose to specialize because:
A. it can lead to more consumption than being self-sufficient.
B. it can lead to consumption beyond the production possibilities frontier.
C. it allows people to acquire goods at a lower opportunity cost.
D. All of these statements are true.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

78. The improvement in outcomes that occurs when specialized producers exchange goods and services is called:
A. the gains from trade.
B. absolute advantage.
C. comparative advantage.
D. specialization.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

79. People will choose to specialize and trade if:
A. they can acquire the goods they want at a lower cost than it would cost them to make the goods themselves.
B. they can acquire the goods they want at a higher cost than it would cost them to make the goods themselves.
C. they can acquire the goods they want from someone who is willing to trade with them.
D. they can acquire the goods they want from a capitalistic system of exchange.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

80. People often choose to specialize and trade because:
A. it allows them to enjoy more goods than they can create on their own.
B. they can consume a bundle of goods beyond their own production possibilities.
C. it allows them to get to a point beyond their own production possibilities frontier.
D. All of these statements are true.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

81. Two countries will choose to specialize and trade only if:
A. the terms of trade fall between their opportunity costs for producing the goods on their own.
B. the opportunity costs are the same for the two nations.
C. the opportunity costs are astronomically high for producing the goods on their own.
D. one country possesses the absolute advantage in both goods, but the comparative advantage in only one good.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

82. When a country loses its comparative advantage in the production of a good:
A. it should stop trading and become self-sufficient.
B. it will gain the comparative advantage in the production of another good.
C. it will become a loser in trade in the long run.
D. it will still have the absolute advantage in the production of the good.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

83. If France can produce either cheese or wine or some combination of those two products, then:
A. France should produce the one it is more efficient at producing.
B. France should produce the one for which it has a comparative advantage.
C. France should produce the one for which it has a higher opportunity cost.
D. France should remain self-sufficient if it has absolute advantage in the production of both.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

84. If Spain can produce either tapas or soccer balls or some combination of those two products, then:
A. Spain should produce the good it has an absolute advantage in producing.
B. Spain should produce the good it has a comparative advantage in producing.
C. Spain should remain self-sufficient if it can produce both efficiently.
D. Spain should trade only if it possesses absolute advantage in the production of both goods.

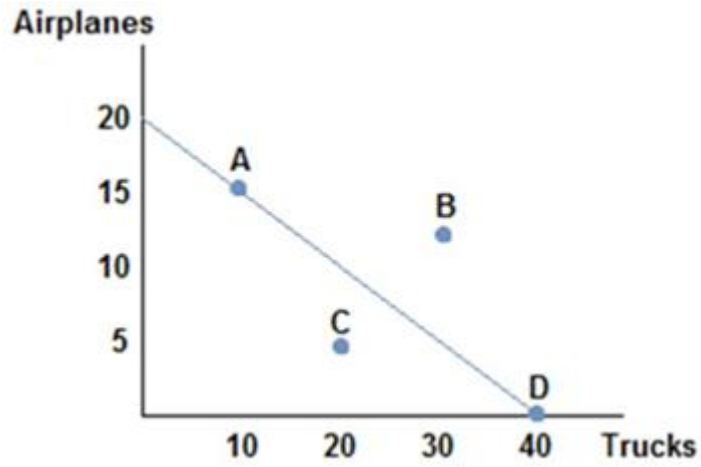
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

85. Assume that the opportunity cost for Germany to produce a jet is 50 cars. Some possible combinations of output for Germany could be:
A. (1,000 jets, 5,000 cars) and (900 jets, 10,000 cars).
B. (1,000 jets, 5,000 cars) and (900 jets, 15,000 cars).
C. (2,500 jets, 2,000 cars) and (2,300 jets, 20,000 cars).
D. (2,500 jets, 2,000 cars) and (2,300 jets, 3,000 cars).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

86. Suppose the figure shown represents the production possibilities frontier for Country A. Country B offers to trade four trucks for every airplane. Assuming Country A specializes in airplane production, which of the following combinations of goods could Country A consume?

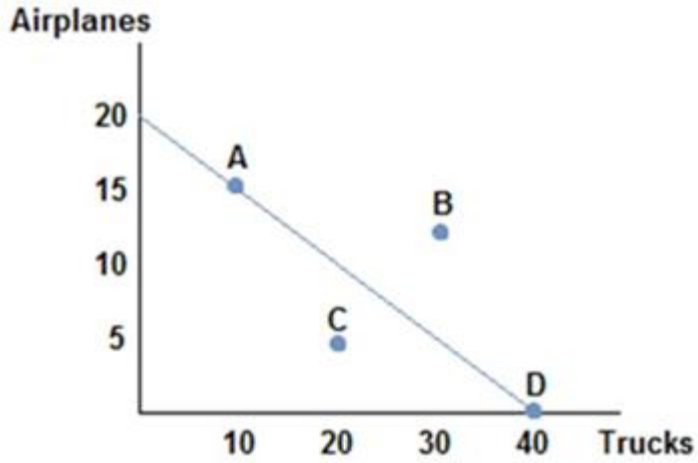


A. (15 airplanes, 20 trucks)
B. (10 airplanes, 20 trucks)
C. (10 airplanes, 30 trucks)
D. (5 airplanes, 20 trucks)

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

Microeconomics (Canadian) 2nd edition Karlan Test Bank

87. Suppose the figure shown represents the production possibilities frontier for Country A. Which of the following combinations of goods could Country A consume in the absence of trade?



A. (15 airplanes, 15 trucks)
B. (10 airplanes, 25 trucks)
C. (10 airplanes, 30 trucks)
D. (5 airplanes, 30 trucks)

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

88. Suppose England has a comparative advantage over Canada in producing tea. If this is true, then:
A. England should produce more tea than it wants and sell the rest to Canada.
B. England should produce a small amount of tea and buy the rest of the tea it wants from Canada.
C. England should not produce tea and should instead buy it all from Canada.
D. Canada has nothing to gain from buying tea from England.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

Microeconomics (Canadian) 2nd edition Karlan Test Bank

89. The existence of any gains from trade relies on:
A. comparative advantage.
B. absolute advantage.
C. both absolute and comparative advantage.
D. tariffs.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

90. A country's newest ruler has decided the country will become self-sufficient and cease trade with the rest of the world. The likely outcome of this action will be that the country's citizens will be:
A. forced to consume less than before if they possessed a comparative advantage in the production of a good.
B. better off than before if they possess an absolute advantage in the production of a good.
C. better off than before only if they have the absolute advantage in the production of most goods they consume.
D. better off than before only if they have the comparative advantage in the goods they consume.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

91. Economic theory states that losing comparative advantage in one good means creating a comparative advantage in another. This suggests that:
A. those who experience the transition may find it difficult in the short run.
B. it can be seen as a success in the long run.
C. outsourcing can be good overall for a society.
D. All of these statements are true.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

Microeconomics (Canadian) 2nd edition Karlan Test Bank

92. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A. (1,000 iPods, 500 tablets).
B. (500 iPods, 500 tablets).
C. (500 iPods, 250 tablets).
D. (750 iPods, 150 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

93. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A. (500 iPods, 500 tablets).
B. (500 iPods, 400 tablets).
C. (500 iPods, 300 tablets).
D. (500 iPods, 200 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

94. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could not make would be:
A. (500 iPods, 150 tablets).
B. (500 iPods, 200 tablets).
C. (500 iPods, 250 tablets).
D. (500 iPods, 300 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

95. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A would be working efficiently if it produced:
A. (500 iPods, 100 tablets).
B. (500 iPods, 150 tablets).
C. (500 iPods, 200 tablets).
D. (500 iPods, 250 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

96. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A. (400 iPods, 2,000 tablets).
B. (300 iPods, 500 tablets).
C. (200 iPods, 1,500 tablets).
D. (100 iPods, 2,000 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

97. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A. (400 iPods, 2,000 tablets).
B. (200 iPods, 1,500 tablets).
C. (300 iPods, 450 tablets).
D. (400 iPods, 1 tablet).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

98. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could not make would be:
A. (400 iPods, 250 tablets).
B. (300 iPods, 500 tablets).
C. (200 iPods, 750 tablets).
D. (100 iPods, 1,000 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

99. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B would be working efficiently if they were producing:
A. (200 iPods, 1,750 tablets).
B. (200 iPods, 1,500 tablets).
C. (200 iPods, 1,000 tablets).
D. (200 iPods, 750 tablets).

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

100. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the comparative advantage in the production of:
A. iPods only.
B. tablets only.
C. both iPods and tablets.
D. neither iPods nor tablets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-08 Comparative Advantage

101. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A has the absolute advantage in the production of:
A. iPods only.
B. tablets only.
C. both iPods and tablets.
D. neither iPods nor tablets.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

102. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the _____ advantage in the production of tablets, which2. means they should specialize in _____.

A. comparative; tablets
B. absolute; tablets
C. comparative; iPods
D. absolute; iPods

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-11 Gains from Trade

103. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. We can say:

A. Country B now possesses the absolute advantage in the production of both goods.
B. Country B now possesses the absolute advantage in tablets only.
C. Country B now has the comparative advantage in iPod production.
D. Country B has no need to trade now.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-06 Absolute and Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

104. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. Which of the following statements is now true?
A. Country B's production possibilities curve has rotated out from the x-axis.
B. Country B's production possibilities curve has shifted straight out.
C. Country B's production possibilities curve has shifted straight in.
D. Country B's production possibilities are now more limited because of crowding.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-05 Shifting the Production Possibilities Frontier

105. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true?
A. Country B should produce tablets and Country A should produce iPods, and they could benefit from trade.
B. Country B should produce iPods and Country A should produce tablets, and they could benefit from trade.
C. Neither country can benefit from trade since no comparative advantage exists.
D. Because Country B has the absolute advantage in producing tablets, they should specialize in the production of tablets.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

Microeconomics (Canadian) 2nd edition Karlan Test Bank

106. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true?
A. The opportunity cost of 1 iPod in Country A is 2 tablets.
B. The opportunity cost of 1 tablet in Country A is 2 iPods.
C. The opportunity cost of tablets is lower in Country A than Country B.
D. The opportunity cost of 1 iPod in Country B is 2 tablets.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-03 Drawing the Production Possibilities Frontier

107. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of producing one tomato in Country A is:
A. 100 bananas.
B. 20 bananas.
C. 5 bananas.
D. 4 bananas.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

108. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of producing one tomato in Country B is:
A. 108 bananas.
B. 18 bananas.
C. 6 bananas.
D. 3 bananas.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

109. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of producing one tomato is:
A. lower in Country A than Country B.
B. higher in Country A than Country B.
C. the same in both countries.
D. impossible to calculate without more information.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

110. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Suppose that a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has:
A. an absolute advantage in the production of bananas, but not tomatoes.
B. an absolute advantage in the production of both bananas and tomatoes.
C. an absolute advantage in the production of tomatoes, but not bananas.
D. an absolute advantage in neither good.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

111. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country A could produce are:
A. (5,000 bananas, 1,000 tomatoes) and (1,000 bananas, 5,000 tomatoes)
B. (5,000 bananas, 0 tomatoes) and (2,500 bananas, 500 tomatoes)
C. (2,500 bananas, 500 tomatoes) and (1,250 bananas, 800 tomatoes)
D. (2,500 bananas, 750 tomatoes) and (1,250 bananas, 750 tomatoes)

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

112. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country B could produce are:
A. (7,200 bananas, 2,400 tomatoes) and (3,600 bananas, 1,200 tomatoes)
B. (7,200 bananas, 0 tomatoes) and (4,000 bananas, 1,200 tomatoes)
C. (3,600 bananas, 1,200 tomatoes) and (1,800 bananas, 1,600 tomatoes)
D. (1,800 bananas, 1,800 tomatoes) and (900 bananas, 2,200 tomatoes)

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

113. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country B, the trade-off to producing one tomato is:
A. 2 bananas.
B. 3 bananas.
C. 4 bananas.
D. 5 bananas.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

114. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country A, the trade-off of producing one tomato is:
A. 2 bananas.
B. 3 bananas.
C. 4 bananas.
D. 5 bananas.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-09 Why Trade?

115. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country A should specialize in _____ because they possess the _____ in the production of that good.
A. bananas; comparative advantage
B. tomatoes; comparative advantage
C. bananas; absolute advantage
D. tomatoes; absolute advantage

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-07 Absolute Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

116. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country B will benefit from trade if they:
A. specialize in bananas because they have a comparative advantage in banana production.
B. specialize in tomatoes because their opportunity cost of tomatoes is higher than Country A's.
C. specialize in tomatoes because their opportunity cost of tomatoes is lower than Country A's.
D. specialize in bananas because they have an absolute advantage in banana production.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-07 Absolute Advantage

117. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country B decides to specialize in tomatoes, and Country A specializes in bananas. What terms of trade would both countries agree to?
A. One tomato for one banana
B. One tomato for two bananas
C. One tomato for four bananas
D. One tomato for six bananas

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

118. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country A would find acceptable are:
A. Country A will give no more than 5 bananas for each tomato.
B. Country A will give no less than 5 bananas for each tomato.
C. Country A will give no more than 1 tomato for every 5 bananas.
D. Country A will give no less than 1 tomato for every 5 bananas.

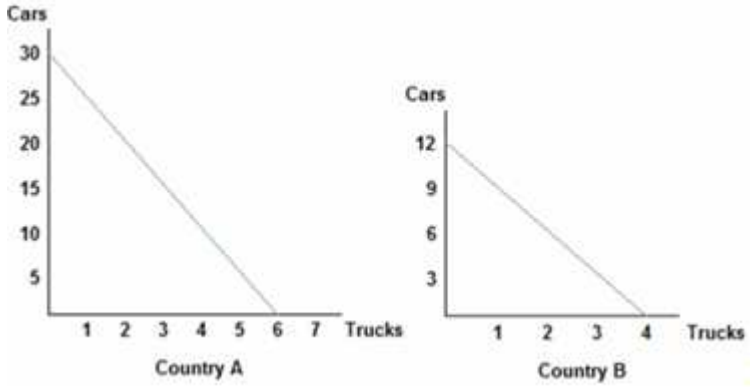
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-09 Why Trade?

119. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country B would find acceptable are:
A. Country B will accept no more than 3 bananas for each tomato.
B. Country B will accept no less than 3 bananas for each tomato.
C. Country B will accept no more than 1 tomato for every 3 bananas.
D. Country B will accept no less than 1 tomato for every 3 bananas.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

120. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements is true?

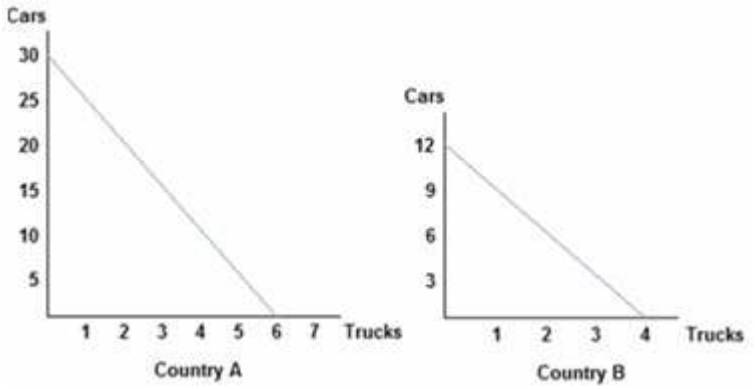


A. The opportunity cost of a truck in Country A is 30 cars.
B. The opportunity cost of a truck in Country A is 6 trucks.
C. The opportunity cost of a truck in Country A is 5 cars.
D. The opportunity cost of a truck in Country A is 3 cars.

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

121. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements is true?

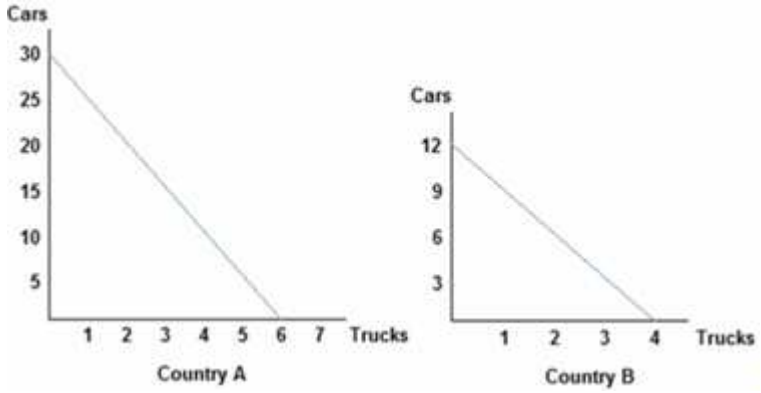


A. The opportunity cost of a truck in Country B is 12 cars.
B. The opportunity cost of a truck in Country B is 4 trucks.
C. The opportunity cost of a truck in Country B is 1.5 cars
D. The opportunity cost of a truck in Country B is 3 cars.

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

122. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements can be said of Country A?

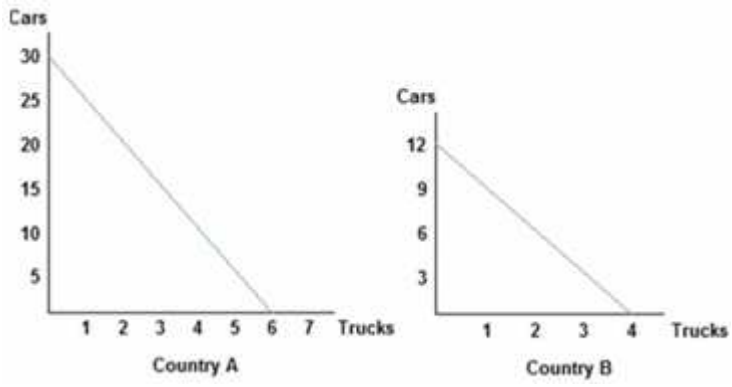


A. Country A has the comparative advantage in car production only.
B. Country A has the comparative advantage in truck production only.
C. Country A has the comparative advantage in car and truck production.
D. Country A does not possess the comparative advantage in either good.

Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

123. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Assuming both countries have the same amount of resources available to them, which of the following statements is true?

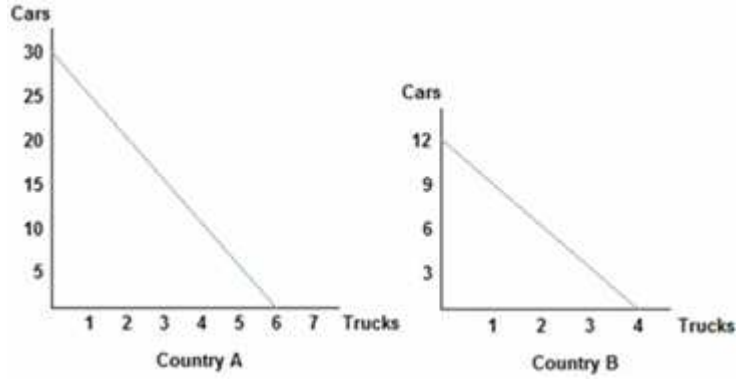


A. Country A has an absolute advantage in the production of cars, and Country B has the absolute advantage in the production of trucks.
B. Country A has an absolute advantage in the production of trucks, and Country B has the absolute advantage in the production of cars.
C. Country A has the absolute advantage in the production of both cars and trucks.
D. Country A has the absolute advantage in neither the production of cars nor trucks.

Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

124. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining each country's production possibilities curve, it is clear that:

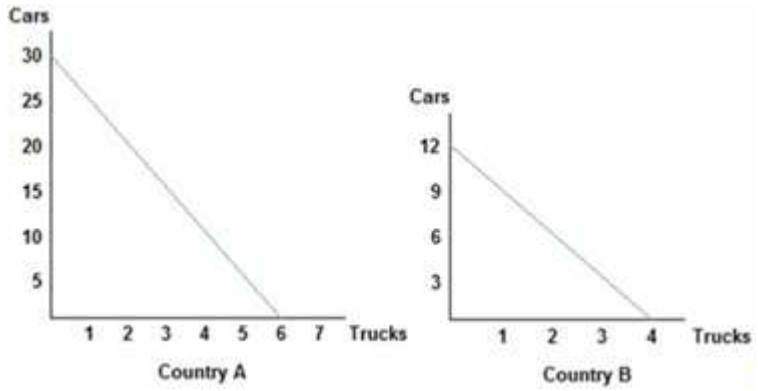


A. neither country will benefit from trade.
B. both countries can benefit from trade because absolute advantage exists.
C. both countries can benefit from trade because comparative advantage exists.
D. only Country A will benefit from trade.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

Microeconomics (Canadian) 2nd edition Karlan Test Bank

125. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After comparing each country's production possibilities curve, it is clear that:

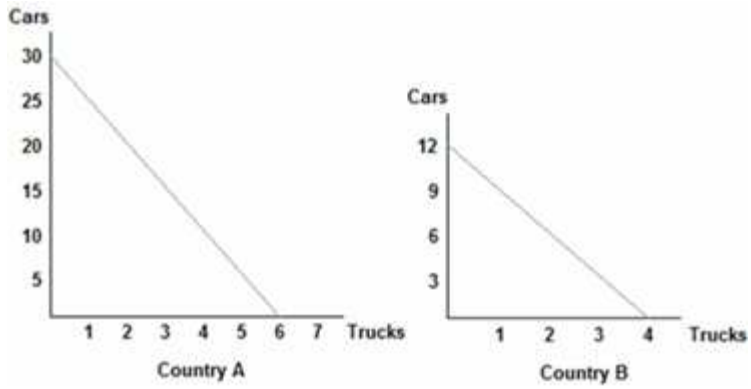


A. Country A should specialize in cars and Country B should specialize in trucks, and both will benefit from trade.
B. Country A should specialize in trucks and Country B should specialize in cars, and both will benefit from trade.
C. Country A will not benefit from trade.
D. Country B will lose by trading with Country A.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

126. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining the production possibilities of each country, we can surmise that:

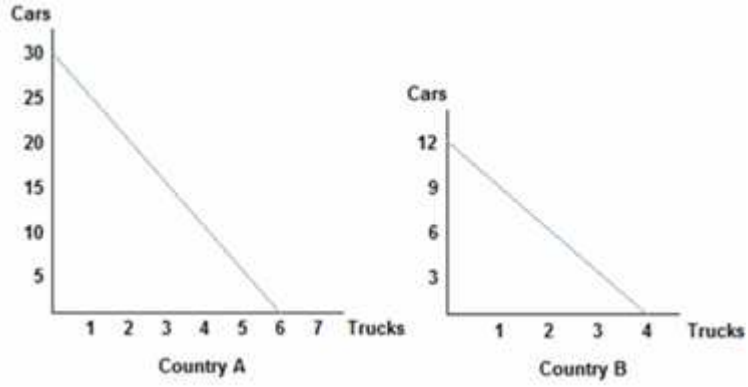


A. Country A's opportunity cost of a car is lower than that of Country B, and so they should specialize in cars and trade.
B. Country A's opportunity cost of a car is higher than that of Country B, and so they should specialize in cars and trade.
C. Country A's opportunity cost of a car is the same as that of Country B, and so they will not benefit from trade.
D. Country A's opportunity cost of a car does not determine a country's decision to trade; it is absolute advantage that drives that decision.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

127. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we know that:

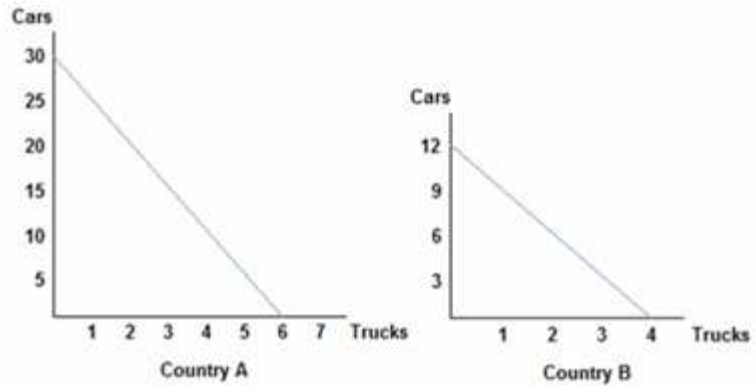


A. they would both agree to terms of trade of one truck to two cars.
B. they would both agree to terms of trade of one truck to four cars.
C. they would both agree to terms of trade of one truck to six cars.
D. they would both agree to terms of trade of one truck to eight cars.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

Microeconomics (Canadian) 2nd edition Karlan Test Bank

128. Refer to the figure shown. The figure represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can infer that:

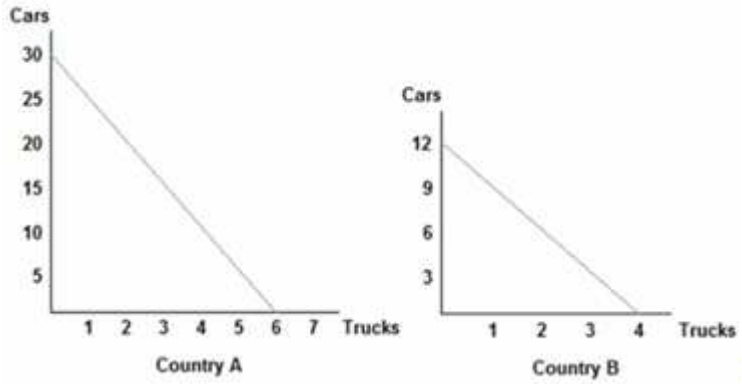


A. Country A will specialize in trucks and be willing to accept no less than 5 cars for each truck.
B. Country A will specialize in cars and be willing to give no more than 5 cars for each truck.
C. Country A will specialize in trucks and be willing to accept no more than 5 cars for each truck.
D. Country A will specialize in cars and be willing to give no less than 5 cars for each truck.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

Microeconomics (Canadian) 2nd edition Karlan Test Bank

129. Refer to the figure shown. The figure represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can conclude that:

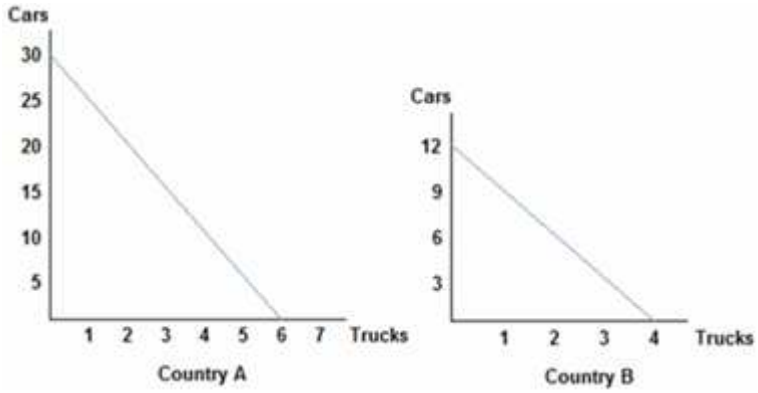


A. Country B will specialize in trucks and be willing to accept no fewer than 3 cars for each truck.
B. Country B will specialize in cars and be willing to give no more than 3 cars for each truck.
C. Country B will specialize in trucks and be willing to accept no more than 3 cars for each truck.
D. Country B will specialize in cars and be willing to give no fewer than 3 cars for each truck.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

Microeconomics (Canadian) 2nd edition Karlan Test Bank

130. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. If Country A were to divide its resources equally, it could produce:

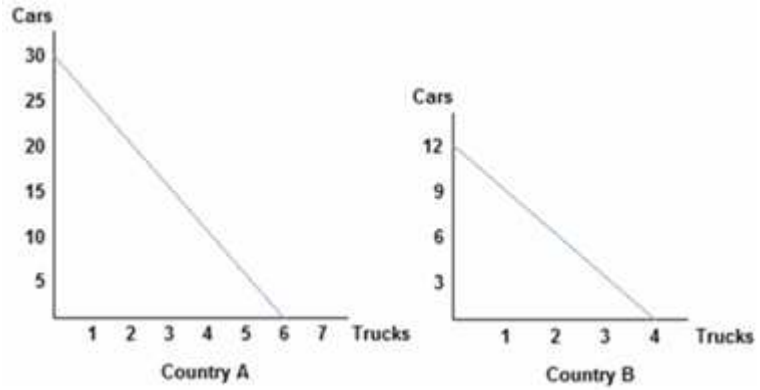


A. 30 cars and 6 trucks.
B. 25 cars and 5 trucks.
C. 15 cars and 3 trucks.
D. 10 cars and 4 trucks.

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

131. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. The slope of Country A's production possibilities frontier:

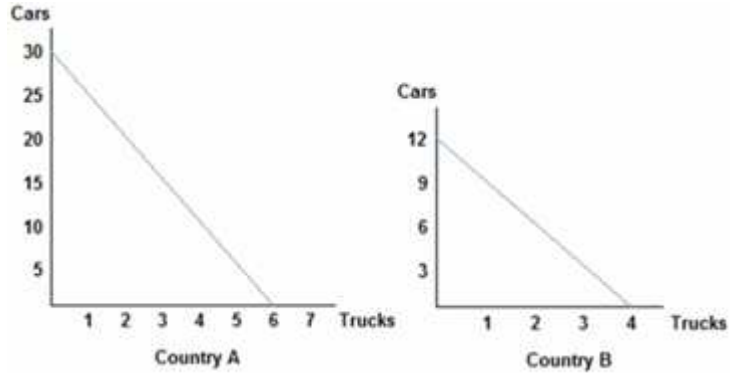


A. measures the opportunity cost of trucks in terms of cars.
B. measures the trade-off that workers in Country A face when deciding how to allocate resources.
C. is constant because the opportunity cost remains constant.
D. All of these statements are true.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

132. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. The slope of Country A's production possibilities frontier is _____, and Country B's is _____.

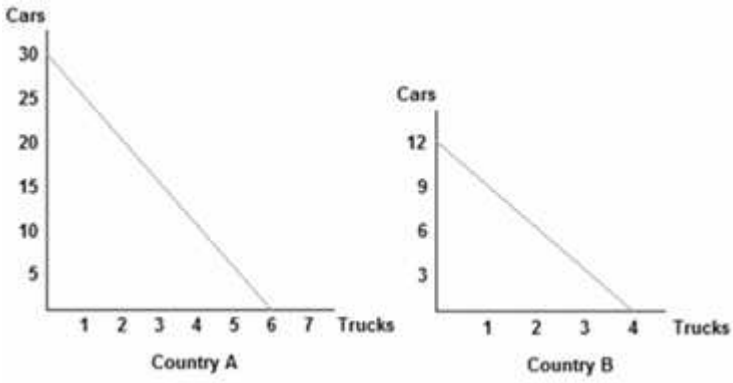


A. -5; -3
B. -30; -3
C. -1/5; -1/3
D. 1/5; 1/3

Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

133. Refer to the figure shown. The figure represents the production possibilities frontiers for Countries A and B. Country A has the comparative advantage in:

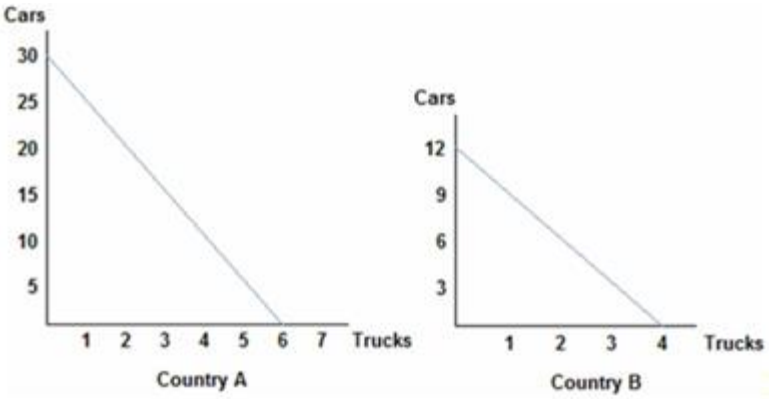


A. cars and Country B has comparative advantage in trucks.
B. trucks and Country B has comparative advantage in cars.
C. cars and trucks.
D. neither cars nor trucks.

Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-08 Comparative Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

134. Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. One of the reasons why Country A and Country B are not realistic representations of actual countries is:

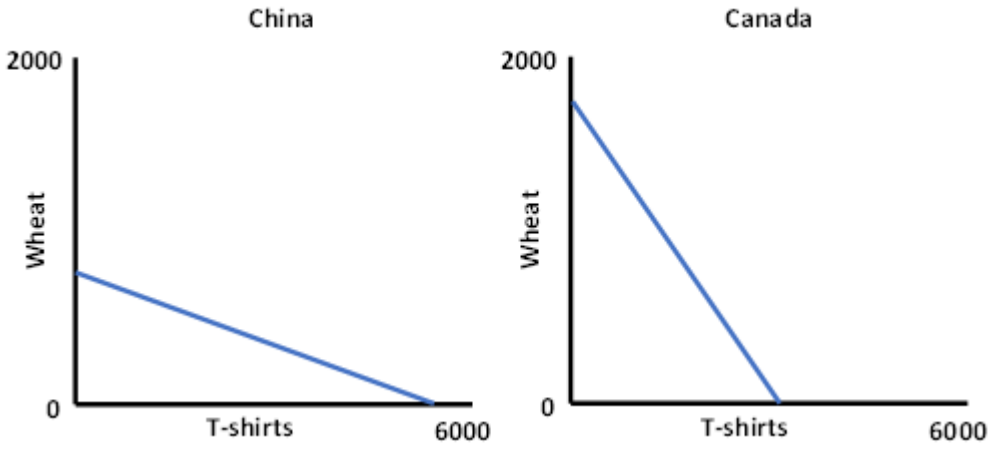


A. the production possibilities curves are straight lines; realistic ones would be concave.
B. they only represent the production of two goods.
C. they do not account for political pressures.
D. All of these statements are true.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

135. Refer to the figure shown. The figure shows the production possibilities boundaries of China and Canada in the production of wheat and T-shirts.

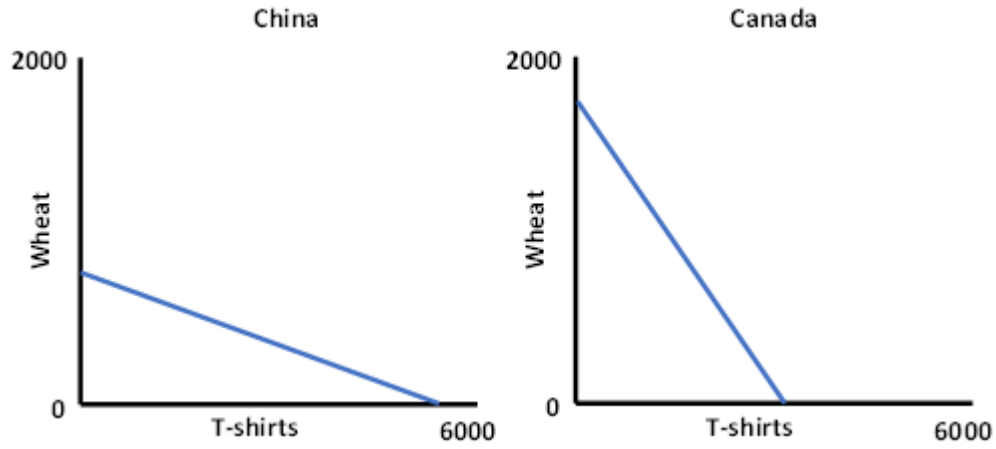


The diagrams illustrate that the _____ is lower in China than in Canada.
A. opportunity cost of producing T-shirts
B. opportunity cost of producing wheat
C. total cost of producing T-shirts
D. total cost of producing wheat

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

136. Refer to the figure shown. The figure shows the production possibilities boundaries of China and Canada in the production of wheat and T-shirts.

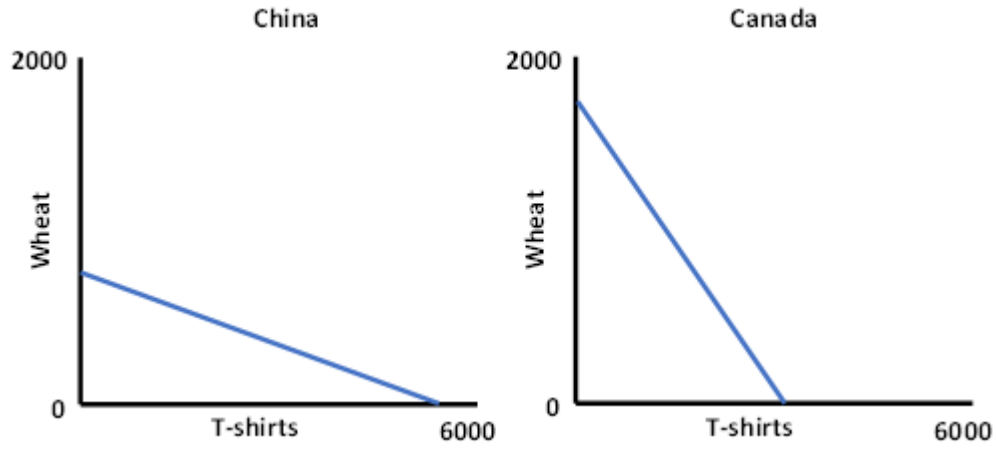


The diagrams illustrate that Canada:
A. has an absolute advantage in the production of wheat.
B. has a comparative advantage in the production of wheat.
C. has an absolute advantage in the production of T-shirts.
D. has a comparative advantage in the production of T-shirts.

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

137. Refer to the figure shown. The figure shows the production possibilities boundaries of China and Canada in the production of wheat and T-shirts.



If China and Canada engage in free trade with each other, it is likely that Canada will specialize in the production of _____ and China will specialize in the production of _____.

A. wheat; wheat
B. wheat; T-shirts
C. T-shirts; wheat
D. T-shirts; T-shirts

Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

138. If the opportunity cost of producing corn is lower for Alberta than for Saskatchewan, then:
A. Saskatchewan should specialize in corn production.
B. Saskatchewan has the comparative advantage in corn production.
C. Saskatchewan should export corn to Ohio.
D. Alberta has the comparative advantage in corn production.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-03 Drawing the Production Possibilities Frontier

139. When opportunity costs differ between countries,
A. specialization and trade can lead to increases in the production of all goods.
B. only the smaller countries will benefit from trade.
C. only the large countries will benefit from trade.
D. each country should produce only those goods for which it has an absolute advantage.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

140. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. At the end of the day, Tom could have:
A. either 16 traps and 4 bombs, or 8 traps and 2 bombs.
B. either 8 traps and 2 bombs, or 4 traps and 6 bombs.
C. either 8 traps and 2 bombs, or 4 traps and 3 bombs.
D. either 12 traps and 3 bombs, or 8 traps and 3 bombs.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

141. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. At the end of the day, Jerry could have produced:
A. 14 traps and 7 bombs.
B. 12 traps and 6 bombs.
C. 10 traps and 5 bombs.
D. 6 traps and 4 bombs.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

142. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. At the end of the day, if Jerry was efficient with his resources, he could have produced:
A. 12 traps and 0 bombs.
B. 10 traps and 2 bombs.
C. 8 traps and 2 bombs.
D. 6 traps and 2 bombs.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

143. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. For Tom, the opportunity cost of building a bomb is _____ traps set.
A. 16
B. 12
C. 8
D. 4

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

144. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. For Jerry, the opportunity cost of building a bomb is _____ traps set.
A. 14
B. 7
C. 4
D. 2

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

145. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. After looking at the production possibilities for both Tom and Jerry, we can surmise that:
A. Tom has the absolute advantage in the production of both traps and bombs.
B. Jerry has the absolute advantage in the production of both traps and bombs.
C. Tom has the absolute advantage in the production of traps and Jerry has the absolute advantage in bomb production.
D. Tom has the absolute advantage in the production of bombs and Jerry has the absolute advantage in trap production.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

146. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. After looking at the production possibilities for both Tom and Jerry, we can conclude that:
A. Tom has the comparative advantage in trap production.
B. Jerry has the comparative advantage in trap production.
C. Tom has the comparative advantage in bomb production.
D. No comparative advantage exists.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

147. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. The opportunity cost of one bomb is _____ for Tom and _____ for Jerry. Therefore, Tom should specialize in _____.
A. 4 traps; 2 traps; traps
B. 16 traps; 14 traps; traps
C. 4 traps; 2 traps; bombs
D. 16 traps; 14 traps; bombs

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-11 Gains from Trade

148. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Because Tom has a _____ opportunity cost for one bomb compared to Jerry, we know Tom has _____.
A. higher; the comparative advantage in bomb production
B. lower; the comparative advantage in bomb production
C. similar; no advantage in production of either good
D. higher; the comparative advantage in trap production

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

Microeconomics (Canadian) 2nd edition Karlan Test Bank

149. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Jerry has a comparative advantage in:
A. trap production because he has the lower opportunity cost of a trap.
B. trap production because he has the higher opportunity cost of a trap.
C. bomb production because he has the lower opportunity cost of a bomb.
D. bomb production because he has the higher opportunity cost of a bomb.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-07 Absolute Advantage

150. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. Based on their production possibilities frontiers, Tom and Jerry:
A. can both benefit from trade because absolute advantage exists.
B. can both benefit from trade because comparative advantage exists.
C. cannot benefit from trade because Tom has the absolute advantage in both goods.
D. will not decide to trade because no comparative advantage exists.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

Microeconomics (Canadian) 2nd edition Karlan Test Bank

151. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. If Tom divides his time evenly between activities and acts efficiently, he will produce:
A. 16 traps and 4 bombs.
B. 12 traps and 3 bombs.
C. 8 traps and 2 bombs.
D. 4 traps and 3 bombs.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Hard
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-09 Why Trade?

152. Tom and Jerry have two tasks to do all day: set traps and build bombs. If Tom spends all day setting traps, he will have set 16 traps. If he instead devotes his day to building bombs, Tom will build 4 bombs. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building bombs, he will build 7 bombs. If Jerry decides to specialize in building bombs, what are the limits to his terms of trade?
A. Jerry will accept no less than 7 traps for each bomb.
B. Jerry will accept no less than 2 traps for each bomb.
C. Jerry will accept no less than 7 bombs for each trap.
D. Jerry will accept no less than 2 bombs for each trap.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

Microeconomics (Canadian) 2nd edition Karlan Test Bank

153. The concepts of comparative advantage, specialization, and trade form a compelling argument in favor of:
A. free trade.
B. protectionism.
C. self-sufficiency.
D. only exporting, never importing goods.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

154. Barbie and Ken are married. Barbie stays home and cares for the children, while Ken spends his day at work earning money to support the household. Economists would likely conclude:
A. Barbie has a higher opportunity cost of caring for the children compared to Ken, and therefore chooses to specialize in childcare.
B. Ken has a lower opportunity cost of caring for the children compared to Barbie, and therefore chooses to let Barbie specialize in childcare while he works.
C. Ken has the comparative advantage in caring for the children, while Barbie has it in earning money.
D. Barbie has the comparative advantage in caring for the children, and so the family benefits by Barbie staying home and Ken earning money at work.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-09 Why Trade?

Microeconomics (Canadian) 2nd edition Karlan Test Bank

155. The concepts of comparative advantage, specialization, and trade:
A. can be useful in explaining why countries import and export certain goods.
B. can be useful in explaining why individuals typically work at one job and buy the other goods and services they need.
C. can be useful in explaining why we allow ourselves to be interdependent on others.
D. All of the choices are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-12 Comparative Advantage Over Time

Short Answer Questions

156. How does the production possibilities frontier illustrate scarcity?

The unattainable combinations of production that lie beyond the PPF illustrate the concept of scarcity. There simply are not enough resources to produce any of these combinations of outputs. Additionally, while moving along the PPF to increase the production of one good requires that the production of another good be reduced, which also illustrates scarcity.

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

157. Why does the production possibilities frontier bow outward (convex) and what does that imply about the relationship between opportunity cost and the quantity produced?

Some resources are better suited to produce one type of good or service, like t-shirts. Other resources are better suited to produce other goods or services, like wheat. If society allocates resources wisely, it will use each resource to produce the kind of output for which it is best suited. Consider a PPF with t-shirts measured on the x-axis and wheat measured on the y-axis. A small increase in t-shirt output when t-shirt production is relatively low requires only a small increase in the use of those resources still good at making t-shirt and not good at making wheat. This yields a small decrease in wheat production for a large increase in t-shirt production, creating a relatively low opportunity cost reflected in the gentle slope of the PPF over this range of output. However, the same small increase in t-shirt output when pizza production is relatively large will require society to devote to t-shirt production those resources that are less suited to making t-shirt and more suited to making wheat. This reallocation of resources yields a relatively small increase in t-shirt output for a large decrease in wheat output, creating a relatively high opportunity cost reflected in the steep slope of the PPF over this range of output. The opportunity cost of t-shirt production increases with the quantity of t-shirt produced as the slope of the PPF becomes ever steeper. This effect creates the bowed out effect (the concavity of the PPF function) and means that as more of a good is produced, the opportunity cost of producing additional units increases.

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

158. Distinguish between comparative advantage and absolute advantage.

A person has a comparative advantage in producing a good when he or she has the lowest opportunity cost of producing it. Comparative advantage is based on the output forgone. A person has an absolute advantage in production when he or she uses the least amount of time or resources to produce one unit of that particular good or service. Absolute advantage is a measure of productivity in using inputs.

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

159. Why do people specialize and trade?

People can compare consumption possibilities from producing all goods and services through self-sufficiency against specializing in producing only those goods and services that reflect their comparative advantage and trading their output with others who do the same. People can then see that the consumption possibilities from specialization and trade are greater than under self-sufficiency. Therefore, it is in people's own self-interest to specialize.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-09 Why Trade?

160. What are the gains from specialization and trade?

From society's standpoint, the total output of goods and services available for consumption is greater with specialization and trade. From an individual's perspective, each person who specializes enjoys being able to consume a larger bundle of goods and services after trading with others who have also specialized, than would otherwise be possible under self-sufficiency. These increases are the gains from specialization and trade for society and for individuals.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

161. How does the production possibilities frontier illustrate scarcity?

The unattainable combinations of production that lie beyond the PPF illustrate the concept of scarcity. There simply are not enough resources to produce any of these combinations of outputs. Additionally, while moving along the PPF to increase the production of one good requires that the production of another good be reduced, which also illustrates scarcity.

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

Microeconomics (Canadian) 2nd edition Karlan Test Bank

162. Why does the production possibilities frontier bow outward (convex) and what does that imply about the relationship between opportunity cost and the quantity produced?

Some resources are better suited to produce one type of good or service, like t-shirts. Other resources are better suited to produce other goods or services, like wheat. If society allocates resources wisely, it will use each resource to produce the kind of output for which it is best suited. Consider a PPF with t-shirts measured on the x-axis and wheat measured on the y-axis. A small increase in t-shirt output when t-shirt production is relatively low requires only a small increase in the use of those resources still good at making t-shirt and not good at making wheat. This yields a small decrease in wheat production for a large increase in t-shirt production, creating a relatively low opportunity cost reflected in the gentle slope of the PPF over this range of output. However, the same small increase in t-shirt output when pizza production is relatively large will require society to devote to t-shirt production those resources that are less suited to making t-shirt and more suited to making wheat. This reallocation of resources yields a relatively small increase in t-shirt output for a large decrease in wheat output, creating a relatively high opportunity cost reflected in the steep slope of the PPF over this range of output. The opportunity cost of t-shirt production increases with the quantity of t-shirt produced as the slope of the PPF becomes ever steeper. This effect creates the bowed out effect (the concavity of the PPF function) and means that as more of a good is produced, the opportunity cost of producing additional units increases.

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: 02-03 Drawing the Production Possibilities Frontier

163. Distinguish between comparative advantage and absolute advantage.

A person has a comparative advantage in producing a good when he or she has the lowest opportunity cost of producing it. Comparative advantage is based on the output forgone. A person has an absolute advantage in production when he or she uses the least amount of time or resources to produce one unit of that particular good or service. Absolute advantage is a measure of productivity in using inputs.

Accessibility: Keyboard Navigation
Blooms: Create
Difficulty: Medium
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: 02-11 Gains from Trade

Microeconomics (Canadian) 2nd edition Karlan Test Bank

164. Why do people specialize and trade?

People can compare consumption possibilities from producing all goods and services through self-sufficiency against specializing in producing only those goods and services that reflect their comparative advantage and trading their output with others who do the same. People can then see that the consumption possibilities from specialization and trade are greater than under self-sufficiency. Therefore, it is in people's own self-interest to specialize.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-03 Define specialization and explain why people specialize.
Topic: 02-09 Why Trade?

165. What are the gains from specialization and trade?

From society's standpoint, the total output of goods and services available for consumption is greater with specialization and trade. From an individual's perspective, each person who specializes enjoys being able to consume a larger bundle of goods and services after trading with others who have also specialized, than would otherwise be possible under self-sufficiency. These increases are the gains from specialization and trade for society and for individuals.

Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: 02-10 Specialization

Microeconomics (Canadian) 2nd edition Karlan Test Bank