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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) Which of the following best describes what the invisible hand is?
   A) the coordination that occurs from everyone working in their 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.

2) What do the concepts of specialization and gains from trade help to explain?
   A) international trade.
   B) why globalization has expanded recently.
   C) consumer decisions.
   D) both international trade and the choices individuals make.

3) Who first introduced the concept of invisible hand?
   A) David Ricardo.
   B) Adam Smith.
   C) Thomas Malthus.
   D) Milton Friedman.

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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.

5) Which of the following is FALSE concerning what the slope of the of the production possibility 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 to produce one of the other good.
   D) how much of one good that must be given up to produce at least one unit of the other good.

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6) 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.

7) 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.

8) 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.

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9) Which of the following is true of 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.

10) What does the production possibility show?
   A) shows all possible combinations of goods but not tell us which combination society should choose.
   B) shows all possible combinations of goods and which society should choose.
   C) cannot show all possible combinations of goods because society is typically inefficient.
   D) shows us which possible combinations of goods society should choose but cannot tell us which points will be inefficient.

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11) 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.

12) The world price of crude oil increased from just $ 41.96 per barrel in 2020 to $70.68 per barrel in 2021. 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

13) Suppose a wildfire destroys many millions of hectares of valuable Canadian forest. How would this impact the Canadian production possibility frontier?
A) inward shift of its production possibilities frontier.
B) outward shift of its production possibilities frontier.
C) movement along its production possibilities frontier.
D) clockwise rotation of its production possibilities frontier.

14) Suppose there is an increase in productivity because of a new technology. What impact would this have on the production possibilities frontier?
A) shift in.
B) shift out.
C) not move until society chooses to move it.
D) become more meaningful in policy decisions.

15) What impact would a hurricane that destroyed 60% of the capacity of a nation to produce have on its production possibilities frontier?
A) The production possibilities frontier would shift inwards.
B) The production possibilities frontier would increase.
C) The production possibilities frontier would shift outward
D) The production possibilities frontier would not change.

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16) Which of the following is true of total production when nations engage in voluntary 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.

17) When nations engage in voluntary trade, who benefits?
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.

18) Which of the following is true about the benefits to be derived when nations engage in voluntary 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.

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19) 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.

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

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

22) Which of the following is true of a country that possess 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.

23) 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.

24) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. An American 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 America.
B) 60 radishes for Canada and 20 radishes for America.
C) 1/6 radishes for Canada and ½ radishes for America.
D) 6,000 radishes for Canada and 2,000 radishes for America.

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25) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A French 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.

26) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A French 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.

27) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. A Spanish 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 Spain, therefore Canada has a comparative advantage in glove production.
   B) the opportunity cost of one pair of gloves is higher for Canada than Spain, 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 Spain, therefore no comparative advantage exists.
   D) the opportunity cost of one pair of gloves is the same for both Canada and Spain, therefore they both have the comparative advantage in glove production.

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28) Suppose a Canadian worker can make 50 pairs of gloves or grow 300 radishes per day. An American 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) America should specialize in glove production since it possesses the comparative advantage in glove production.
B) America should specialize in radish production since it possesses the comparative advantage in radish production.
C) America should only produce gloves since it has the absolute advantage in glove production.
D) America should only produce radishes since it has the absolute advantage in radish production.

29) 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.

30) Suppose a Canadian worker can make 100 chairs or catch 1000 fish per day. A Portuguese 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

31) 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.

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32) Suppose a producer can produce a good or service at a lower opportunity cost than others. Which of the following is true of this producer?
A) it has an absolute advantage at producing that good.
B) It has a comparative advantage at producing that good.
C) It has no reason to trade with others.
D) It is efficient.

33) 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) can produce the good at a lower opportunity cost than others.
C) has no reason to trade with others.
D) is efficient.

34) 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) can 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.

35) Which of the following is true of a producer that is producing 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.

36) 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.

37) Canada and Turkey trade trinkets and apple pie. If Canada has an absolute and a comparative advantage in the production of apple pie, then:
A) Turkey must have the comparative advantage in the production of trinkets.
B) Turkey must have the absolute advantage in the production of trinkets.
C) Turkey must have the absolute and comparative advantage in the production of trinkets.
D) Canada must have the comparative advantage in the production of trinkets too.

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38) Which of the following statements about absolute and comparative advantage is FALSE?
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) A country must have the absolute advantage in the production of at least one good.

39) 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.

40) 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.

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41) 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.

42) 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.

43) Which of the following is FALSE regarding when people choose to specialize?
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) it allows people to acquire goods at a higher opportunity cost.

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44) What is the improvement in outcomes that occur when specialized producers exchange goods and services called?
A) the gains from trade.
B) absolute advantage.
C) comparative advantage.
D) specialization.

45) 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.

46) Which of the following is NOT a reason often noted as to why people choose to specialize and trade?
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) they can produce and consume as much as they want.

47) 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.

48) 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.

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

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

51) 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).

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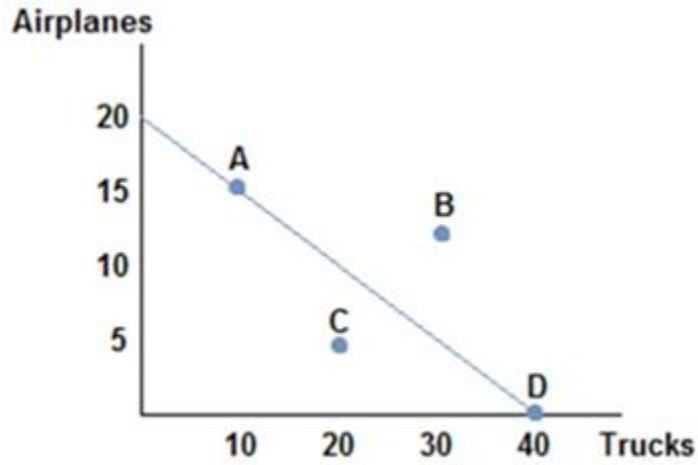
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52) Suppose the figure shown represents the production possibilities frontier for Country A. Country B offers to trade four trucks for every airplane. Assuming Country A specializes in airplane production, which of the following combinations of goods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



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

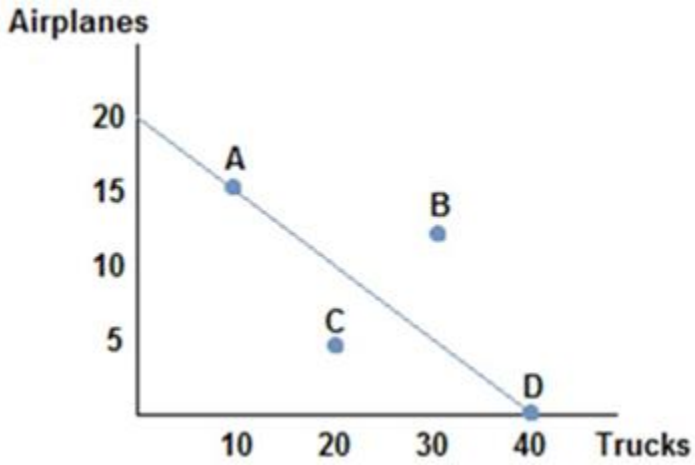
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53) Suppose the figure shown represents the production possibilities frontier for Country A. Which of the following combinations of goods could Country A consume in the absence of trade?



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

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

55) Which of the following is the basis for the existence of gains from trade?
A) comparative advantage.
B) absolute advantage.
C) both absolute and comparative advantage.
D) tariffs.

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56) 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.

57) Economic theory states that losing comparative advantage in one good means creating/transitioning to a comparative advantage in another good. Which of the following is FALSE regarding this transition?
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) restricting trade can restore comparative advantage

58) 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.

59) When opportunity costs differ between countries, which of the following is true?
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.

60) 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.

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

62) Which of the following is FALSE of the concept of comparative advantage?
A) it can be useful in explaining why countries import and export certain goods.
B) it can be useful in explaining why individuals typically work at one job and buy the other goods and services they need.
C) it can be useful in explaining why we allow ourselves to be interdependent on others.
D) it can be useful in explaining why nations close their borders to trade

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

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63) How does the production possibilities frontier illustrate scarcity?

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

65) Explain the difference(s) between comparative advantage and absolute advantage.

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66) Why do people specialize and trade?

67) What are the gains from specialization and trade?

68) How does the production possibilities frontier illustrate scarcity?

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

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70) Why do people specialize and trade?

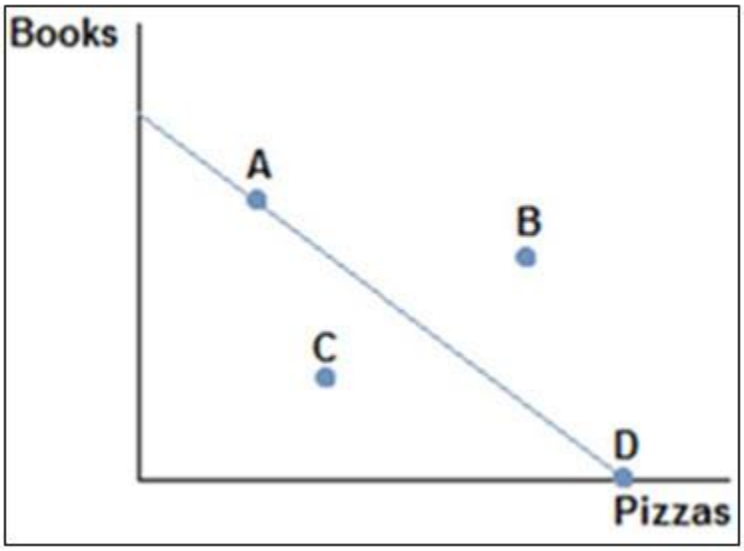
71) What are the gains from specialization and trade?

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SECTION BREAK. Answer all the part questions.

72) Consider the production possibilities frontier displayed in the figure shown.



72.1) 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.

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72.2) 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.

72.3) 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.

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72.4) Which economic concept can be deduced from the slope of the production possibilities frontier?
A) Production possibilities
B) Trade-offs
C) Specialization
D) Efficiency

72.5) Where should a society faced with this production possibility frontier choose to produce?
A) A, B, or D.
B) A, B, or C.
C) A, D, or C.
D) B, C, or D.

72.6) 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.

72.7) 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.

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72.8) 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.

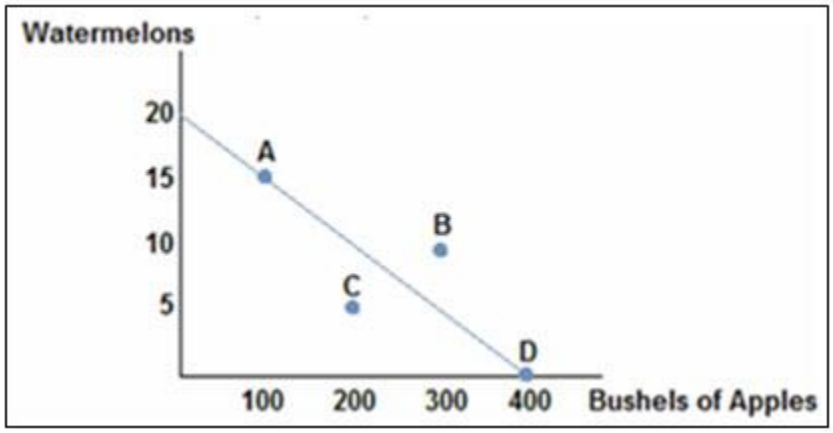
72.9) Which of the following statements is true?
A) Producing at point A is the best choice, because some of both items are made.
B) Producing at point D would be inefficient, since no books would be produced.
C) Producing at point C is the best choice, because it's closest to the middle.
D) Producing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

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73) Consider the production possibilities frontier displayed in the figure shown.



73.1) 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.

73.2) The opportunity cost of one watermelon is:
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A) 10 bushels of apples.
B) 20 bushels of apples.
C) 30 bushels of apples.
D) 40 bushels of apples.

73.3) 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.

73.4) 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)

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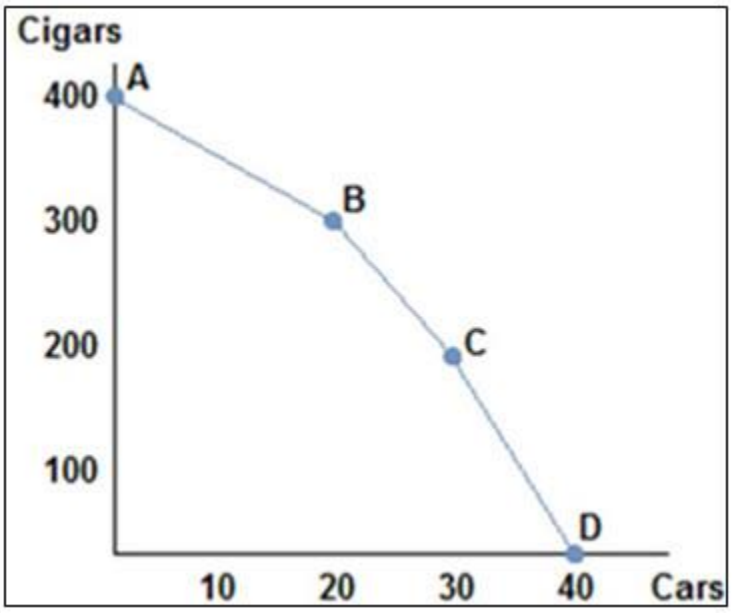
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73.5) Which of the following combinations could not be produced?
A) (20 watermelons, 400 bushels of apples)
B) (15 watermelons, 100 bushels of apples)
C) (10 watermelons, 150 bushels of apples)
D) (0 watermelons, 400 bushels of apples)

73.6) 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.

73.7) 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.

74) Consider the production possibilities frontier in the figure shown.



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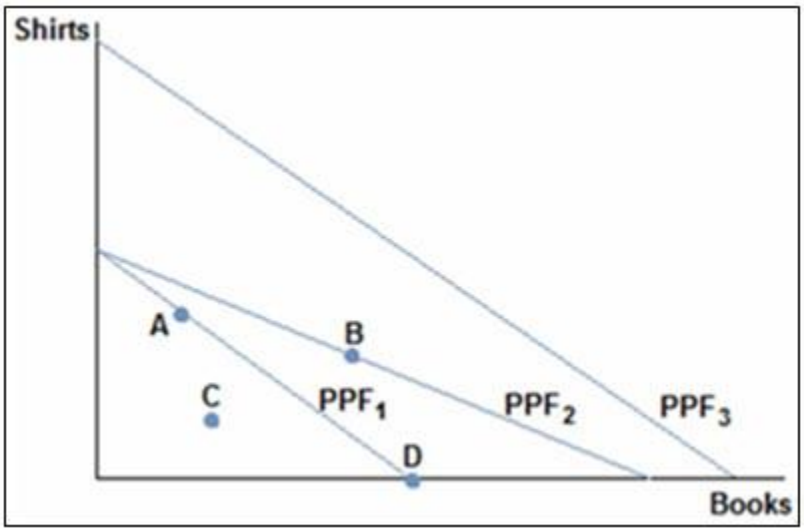
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74.1) What happens to the opportunity cost of cars as more of them are produced?
A) the opportunity cost of cars decreases.
B) the opportunity cost of cars stays the same.
C) the opportunity cost of cars increases.
D) the opportunity cost of cars decreases then increases.

74.2) What happens to the opportunity cost of cigars as more of them 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.

74.3) What is the opportunity cost of moving from point A to point B?
A) it is 5 cars per cigar.
B) it is 10 cars per cigar.
C) it is 5 cigars per car.
D) it is 10 cigars per car.

75) Consider a society facing the production possibilities curves in the figure shown.



75.1) 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

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75.2) 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

75.3) What is the most likely cause of a society moving from PPF3 to PPF1?
A) A tornado
B) More workers
C) A desire to read more books
D) Better sewing technology

76) Suppose a Canadian worker can make 20 pairs of shoes or grow 100 apples per day. A worker in the U.S., on the other hand, can produce 10 pairs of shoes or grow 20 apples per day.

76.1) 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.

76.2) 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.

76.3) 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.

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76.4) 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.

76.5) 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

76.6) 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.

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76.7) 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.

76.8) 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

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76.9) 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

77) Suppose that a worker in Country A can make either 10 iPhones or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPhones or 10 tablets each year. Country B has 200 workers.

77.1) A bundle of goods that Country A could potentially make would be:

A) (1,000 iPhones, 500 tablets).
B) (500 iPhones, 500 tablets).
C) (500 iPhones, 250 tablets).
D) (750 iPhones, 150 tablets).

77.2) A bundle of goods that Country A could potentially make would be:

A) (500 iPhones, 500 tablets).
B) (500 iPhones, 400 tablets).
C) (500 iPhones, 300 tablets). TBEXAM.COM
D) (500 iPhones, 200 tablets).

77.3) A bundle of goods that Country A could not make would be:

A) (500 iPhones, 150 tablets).
B) (500 iPhones, 200 tablets).
C) (500 iPhones, 250 tablets).
D) (500 iPhones, 300 tablets).

77.4) Country A would be working efficiently if it produced:

A) (500 iPhones, 100 tablets).
B) (500 iPhones, 150 tablets).
C) (500 iPhones, 200 tablets).
D) (500 iPhones, 250 tablets).

77.5) A bundle of goods that Country B could potentially make would be:

A) (400 iPhones, 2,000 tablets).
B) (300 iPhones, 500 tablets).
C) (200 iPhones, 1,500 tablets).
D) (100 iPhones, 2,000 tablets).

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77.6) A bundle of goods that Country B could potentially make would be:
A) (400 iPhones, 2,000 tablets).
B) (200 iPhones, 1,500 tablets).
C) (300 iPhones, 450 tablets).
D) (400 iPhones, 1 tablet).

77.7) A bundle of goods that Country B could not make would be:
A) (400 iPhones, 250 tablets).
B) (300 iPhones, 500 tablets).
C) (200 iPhones, 750 tablets).
D) (100 iPhones, 1,000 tablets).

77.8) Country B would be working efficiently if they were producing:
A) (200 iPhones, 1,750 tablets).
B) (200 iPhones, 1,500 tablets).
C) (200 iPhones, 1,000 tablets).
D) (200 iPhones, 750 tablets).

77.9) Country B has the comparative advantage in the production of:
A) iPhones only.
B) tablets only.
C) both iPhones and tablets.
D) neither iPhones nor tablets.

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77.10) Country A has the absolute advantage in the production of:
A) iPhones only.
B) tablets only.
C) both iPhones and tablets.
D) neither iPhones nor tablets.

77.11) Country B has the _____ advantage in the production of tablets, which means they should specialize in _____.
A) comparative; tablets
B) absolute; tablets
C) comparative; iPhones
D) absolute; iPhones

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77.12) 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.

77.13) 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.

77.14) Which of the following is true?
A) Country B should produce tablets and Country A should produce iPhones, and they could benefit from trade.
B) Country B should produce iPhones 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.

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77.15) 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 iPhones.
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.

78) 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.

78.1) The opportunity cost of producing one tomato in Country A is:
A) 100 bananas.
B) 20 bananas.
C) 5 bananas.
D) 4 bananas.

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78.2) The opportunity cost of producing one tomato in Country B is:
A) 108 bananas.
B) 18 bananas.
C) 6 bananas.
D) 3 bananas.

78.3) 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.

78.4) 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.

78.5) 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)

78.6) 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)

78.7) 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.

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78.8) 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.

78.9) 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

78.10) 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.

78.11) 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

78.12) 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.

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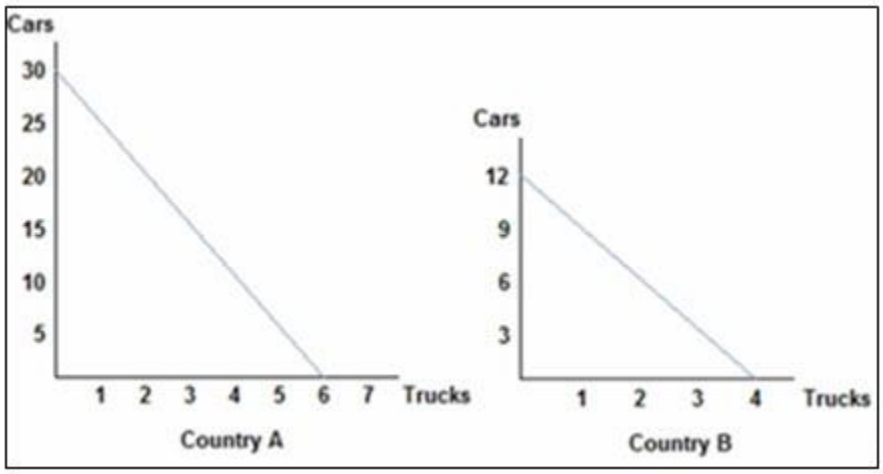
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78.13) Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country B would find acceptable are:

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.

79) Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B.



79.1) What is the opportunity cost of a truck in country A?

A) 30 cars.
B) 6 trucks.
C) 5 cars.
D) 3 cars.

79.2) What is the opportunity cost of a truck in country B?

A) 12 cars.
B) 4 trucks.
C) 1.5 cars
D) 3 cars.

79.3) 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.

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79.4) 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.

79.5) 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.

79.6) 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.

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79.7) 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.

79.8) 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.

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79.9) 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.

79.10) 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.

79.11) 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.

79.12) Which of the following is FALSE about the slope of the production possibility frontier of Country A?
A) it measures the opportunity cost of trucks in terms of cars.
B) it measures the trade-off that workers in Country A face when deciding how to allocate resources.
C) It is constant because the opportunity cost remains constant.
D) is increasing because the opportunity cost is increasing

79.13) 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

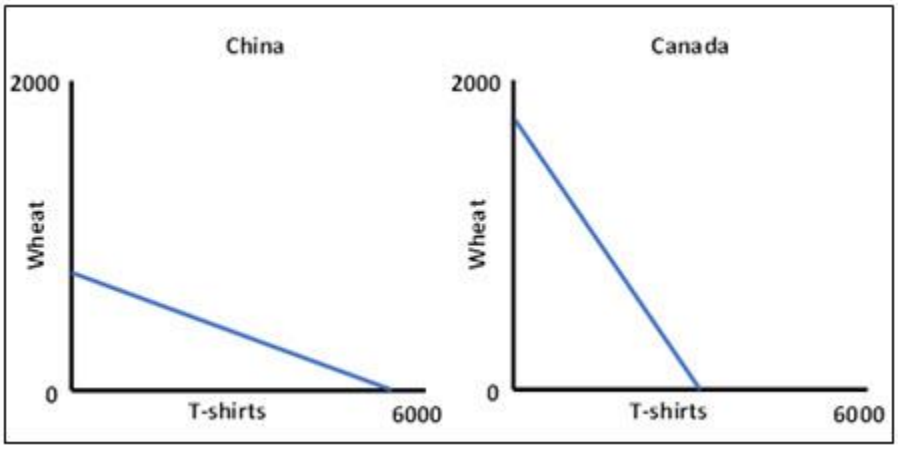
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79.14) Country A has the comparative advantage in:
A) cars and Country B has comparative advantage in trucks.
B) trucks and Country B has comparative advantage in cars.
C) cars and trucks.
D) neither cars nor trucks.

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



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80.1) 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

80.2) 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.

80.3) 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

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81) Michelle and Jerry have two tasks to do all day: set traps and build trinkets. If Michelle spends all day setting traps, she will have set 16 traps. If she instead devotes her day to building trinkets, Michelle will build 4 trinkets. If Jerry spends his day setting traps, he will set 14 traps; if he spends the day building trinkets, he will build 7 trinkets.

81.1) At the end of the day, Michelle could have:
A) either 16 traps and 4 trinkets, or 8 traps and 2 trinkets.
B) either 8 traps and 2 trinkets, or 4 traps and 6 trinkets.
C) either 8 traps and 2 trinkets, or 4 traps and 3 trinkets.
D) either 12 traps and 3 trinkets, or 8 traps and 3 trinkets.

81.2) At the end of the day, Jerry could have produced:
A) 14 traps and 7 trinkets.
B) 12 traps and 6 trinkets.
C) 10 traps and 5 trinkets.
D) 6 traps and 4 trinkets.

81.3) At the end of the day, if Jerry was efficient with his resources, he could have produced:
A) 12 traps and 0 trinkets.
B) 10 traps and 2 trinkets.
C) 8 traps and 2 trinkets.
D) 6 traps and 2 trinkets.

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81.4) For Michelle, the opportunity cost of building a bomb is _____ traps set.
A) 16
B) 12
C) 8
D) 4

81.5) For Jerry, the opportunity cost of building a bomb is _____ traps set.
A) 14
B) 7
C) 4
D) 2

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81.6) After looking at the production possibilities for both Michelle and Jerry, we can surmise that:

A) Michelle has the absolute advantage in the production of both traps and trinkets.
B) Jerry has the absolute advantage in the production of both traps and trinkets.
C) Michelle has the absolute advantage in the production of traps and Jerry has the absolute advantage in bomb production.
D) Michelle has the absolute advantage in the production of trinkets and Jerry has the absolute advantage in trap production.

81.7) After looking at the production possibilities for both Michelle and Jerry, we can conclude that:

A) Michelle has the comparative advantage in trap production.
B) Jerry has the comparative advantage in trap production.
C) Michelle has the comparative advantage in bomb production.
D) No comparative advantage exists.

81.8) The opportunity cost of one bomb is _____ for Michelle and _____ for Jerry. Therefore, Michelle should specialize in _____.

A) 4 traps; 2 traps; traps
B) 16 traps; 14 traps; traps
C) 4 traps; 2 traps; trinkets
D) 16 traps; 14 traps; trinkets

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81.9) Because Michelle has a _____ opportunity cost for one bomb compared to Jerry, we know Michelle 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

81.10) 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.

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81.11) Based on their production possibilities frontiers, Michelle 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 Michelle has the absolute advantage in both goods.
D) will not decide to trade because no comparative advantage exists.

81.12) If Michelle divides her time evenly between activities and acts efficiently, she will produce:
A) 16 traps and 4 trinkets.
B) 12 traps and 3 trinkets.
C) 8 traps and 2 trinkets.
D) 4 traps and 3 trinkets.

81.13) If Jerry decides to specialize in building trinkets, 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 trinkets for each trap.
D) Jerry will accept no less than 2 trinkets for each trap.

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Answer Key

Test name: Chapter 02

1) A
2) D
3) B
4) A
5) D
6) B
7) C
8) B
9) A
10) A
11) A
12) D
13) A
14) B
15) A
16) A
17) C
18) D
19) B
20) C
21) C
22) D
23) C
24) A
25) D
26) D
27) B
28) A
29) D
30) A
31) D
32) B
33) B
34) A
35) A
36) B
37) A

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38) D
39) B
40) A
41) A
42) B
43) D
44) A
45) A
46) D
47) A
48) B
49) B
50) B
51) A
52) A
53) D
54) A
55) A
56) A
57) D
58) D
59) A
60) A
61) D
62) D
63) Short Answer
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.

64) Short Answer

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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.

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65) Short Answer
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.

66) Short Answer
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.

67) Short Answer
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.

68) Short Answer

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69) Short Answer
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70) Short Answer
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72) Section Break
72.1) C
72.2) D

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72.3) D
72.4) B
72.5) C
72.6) C
72.7) A
72.8) B
72.9) D
73) Section Break
73.1) B
73.2) B
73.3) C
73.4) B
73.5) A
73.6) D
73.7) B
74) Section Break
74.1) C
74.2) A
74.3) C
75) Section Break
75.1) B
75.2) A
75.3) A
76) Section Break
76.1) A
76.2) B
76.3) B
76.4) D
76.5) A
76.6) A
76.7) A
76.8) A
76.9) D
77) Section Break
77.1) C
77.2) D
77.3) D
77.4) D
77.5) B
77.6) C

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77.7) A
77.8) C
77.9) B
77.10) A
77.11) A
77.12) A
77.13) B
77.14) A
77.15) B
78) Section Break
78.1) C
78.2) D
78.3) B
78.4) C
78.5) B
78.6) C
78.7) B
78.8) D
78.9) A
78.10) C
78.11) C
78.12) A
78.13) B
79) Section Break
79.1) C
79.2) D
79.3) A
79.4) C
79.5) C
79.6) A
79.7) A
79.8) B
79.9) B
79.10) A
79.11) C
79.12) D
79.13) A
79.14) A
80) Section Break
80.1) A

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80.2) B
80.3) B
81) Section Break
81.1) C
81.2) D
81.3) B
81.4) D
81.5) D
81.6) C
81.7) A
81.8) A
81.9) D
81.10) C
81.11) B
81.12) C
81.13) B

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