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Chapter 02 Economic Tools and Economic Systems

TRUEFALSE

1. Opportunity cost is the difference between the benefits and the costs of a choice.

(A) True

(B) False

Answer : (B)

2. Opportunity cost is always measured in dollar terms, rather than in terms of real goods and services.

(A) True

(B) False

Answer : (B)

3. The opportunity cost of going to college consists of more than just the tuition that will be paid.

(A) True

(B) False

Answer : (B)

4. A rational decision maker engages in an activity if that activity is more attractive than the best alternative.

(A) True

(B) False

Answer : (A)

5. The Sultan of Brunei, one of the world's richest people, does not face the problem of scarcity.

(A) True

(B) False

Answer : (B)

6. The opportunity cost of going to college is the same for all students who are receiving full-tuition scholarships.

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(A) True

(B) False

Answer : (B)

7. Opportunity cost is objective; therefore, its value does not change as circumstances change.

(A) True

(B) False

Answer : (B)

8. A university should not disband its football team since it has already paid for the stadium.

(A) True

(B) False

Answer : (B)

9. If people specialize in producing those goods for which they possess a comparative advantage, then an economy as a whole can produce a greater quantity of goods.

(A) True

(B) False

Answer : (A)

10. It is possible for one person to have a comparative advantage in the production of all products.

(A) True

(B) False

Answer : (B)

11. Comparative advantage is based on opportunity costs.

(A) True

(B) False

Answer : (A)

12. A person who can produce more of a good than another person is said to possess a comparative

advantage.

(A) True

(B) False

Answer : (B)

13. It is possible for one person to have an absolute advantage in two tasks and a comparative advantage in only one.

(A) True

(B) False

Answer : (A)

14. It is possible for one person to have an absolute advantage in something even if she has no comparative advantage in anything.

(A) True

(B) False

Answer : (B)

15. Absolute advantage is based on opportunity cost.

(A) True

(B) False

Answer : (B)

16. Specialization often leads to gains in productivity for society as a whole.

(A) True

(B) False

Answer : (A)

17. Each point on a production possibilities frontier requires full employment of resources.

(A) True

(B) False

Answer : (A)

18. The production possibilities frontier represents all desirable combinations of outputs.

(A) True

(B) False

Answer : (B)

19. Each point along a nation's production possibilities frontier represents efficient use of all resources.

(A) True

(B) False

Answer : (A)

20. The production possibilities frontier represents the boundary between attainable and unattainable prices of commodities.

(A) True

(B) False

Answer : (B)

21. A point inside the production possibilities curve illustrates a situation in which resources are not fully employed.

(A) True

(B) False

Answer : (A)

22. The bowed-out shape of the production possibilities frontier indicates increasing opportunity costs.

(A) True

(B) False

Answer : (A)

23. The typical concave (i.e., bowed-out) shape of the production possibilities frontier reflects the law of increasing opportunity cost.

(A) True

(B) False

Answer : (A)

24. A production possibilities frontier will shift outward if there is an improvement in technology.

(A) True

(B) False

Answer : (A)

25. A production possibilities frontier will shift inward if there is an increase in the size of the labor force.

(A) True

(B) False

Answer : (B)

26. The economic question of "what to produce" is often referred to as the distribution question.

(A) True

(B) False

Answer : (B)

27. A command economic system does not need to be concerned with what to produce, how to produce things, or who will get the goods and services produced.

(A) True

(B) False

Answer : (B)

28. Of the various types of economic systems, pure market capitalism involves the greatest government interference and control over the economy.

(A) True

(B) False

Answer : (B)

29. One flaw of pure capitalism is that a person who owns no resources could starve.

(A) True

(B) False

Answer : (A)

30. Inefficiency is a flaw of a command economy because there is less incentive for resources to flow to their highest-valued uses.

(A) True

(B) False

Answer : (A)

31. The primary differences in economic structure among different countries relate to ownership of resources and the manner in which economic activities are coordinated.

(A) True

(B) False

Answer : (A)

MULTICHOICE

32. Opportunity cost exists because:

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

(B) the law of comparative advantage is working.

(C) resources are scarce but wants are unlimited.

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

(E) efficiency is measured by the monetary cost of an activity.

Answer : (C)

33. Opportunity cost is defined as the:

(A) dollar cost of what is purchased.

(B) value of all alternatives not chosen.

(C) value of the best alternative not chosen.

(D) difference between the benefits from a choice and the benefits from the next best alternative.

(E) difference between the benefits from a choice and the costs of that choice.

Answer : (C)

34. Suppose you have an hour before your next class starts. You can either read a book, get something to eat, or take a nap. The opportunity cost of getting something to eat is:

(A) the cost of what you eat.

(B) the value of reading and sleeping.

(C) the loss of value from not reading or sleeping.

(D) the net benefit of sleeping for another hour.

(E) impossible to determine because the most preferred alternative is not known.

Answer : (E)

35. The opportunity cost of an activity:

(A) depends on an individual's subjective values and opinions.

(B) is the same for everyone.

(C) must be calculated and known before undertaking that activity.

(D) is irrelevant to decision making.

(E) is not related to time.

Answer : (A)

36. The opportunity cost of choosing a particular activity:

(A) can be easily and accurately calculated.

(B) cannot be estimated.

(C) does not change over time.

(D) varies depending on time and circumstances.

(E) is measured by the money spent on the activity.

Answer : (D)

37. Suppose you have a choice of working full-time during the summer or going full-time to summer school. Summer tuition and books are $2,200. If you worked, you could make $7,000. Your rent is $1,000 for the summer, regardless of your choice. If these are the only relevant costs to consider,

the opportunity cost of going to summer school is:

(A) $2,200.

(B) $7,000.

(C) $8,000.

(D) $9,200.

(E) $10,200.

Answer : (D)

38. A test is scheduled for Monday morning, and you went to a party on Sunday night. If you hadn't attended the party, you could have studied for the test or gone to a movie. Which of the following is true regarding your opportunity cost?

(A) The opportunity cost of going to the movie is studying for the test.

(B) The opportunity cost of going to the party is watching the movie.

(C) The opportunity cost of going to the party is both watching the movie and the study time.

(D) Because you could go to the party only that night, but could go to a movie any time, the opportunity cost of the party is the study time.

(E) From the above information, it's not possible to determine the opportunity cost of attending the party.

Answer : (E)

39. The term opportunity cost suggests that:

(A) in any exchange situation where one person gains, someone else must lose.

(B) not all individuals make the most of life's opportunities.

(C) executives do not always recognize opportunities for profit as quickly as they should.

(D) the only factor that is important in decision making is cost.

(E) because goods are scarce, in order to get some good you must give up some other good in return.

Answer : (E)

40. If you enjoy playing golf, the opportunity cost of cleaning your room:

(A) is greater on sunny days than it is on rainy days.

(B) is the same on sunny days as it is on rainy days.

(C) is smaller on sunny days than it is on rainy days.

(D) does not change with weather conditions.

(E) is equal to the opportunity cost of any other chore you have to do that day.

Answer : (A)

41. Melissa is a self-employed lawyer who chooses a higher-priced restaurant 2 miles from home over a cheaper restaurant 15 miles from home. Which of the following is the most likely explanation for her behavior?

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

(B) She doesn't take travel time into consideration.

(C) She doesn't like to cook or doesn't know how to cook.

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

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

Answer : (E)

42. The opportunity cost of an activity is best measured:

(A) only by the monetary costs.

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

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

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

(E) as the time wasted choosing among various activities.

Answer : (D)

43. Suppose you have purchased a nonrefundable plane ticket and, at the last moment, cannot take the trip. You can, however, sell the ticket. If you paid $700 for the ticket, the cost of sending the ticket to someone through overnight mail is $20, and you spend $10 on a courier to get the ticket to the post office for overnight delivery, what is the *minimum* you should accept for the ticket?

(A) $700 because that is what the ticket cost

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

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

(D) More than $730, so that you can make a profit

(E) $30 because the $700 is a sunk cost

Answer : (E)

44. Sunk costs:

(A) can only be measured in monetary terms.

(B) are opportunity costs.

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

(D) lower the efficiency of production.

(E) should not be considered when making economic decisions.

Answer : (E)

45. The law of comparative advantage says that a person should produce a good if he or she:

(A) has the greatest desire to consume that good.

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

(C) has an absolute advantage in a related activity.

(D) has a comparative advantage in a related activity.

(E) is equally good at producing this good as someone else is.

Answer : (B)

46. The law of comparative advantage does *not* apply to:

(A) entire nations.

(B) natural resources like air and sunshine.

(C) individuals.

(D) firms.

(E) regions of a country.

Answer : (B)

47. The law of comparative advantage says that:

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

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

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

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

(E) gains from trade are possible only when one person has a comparative advantage in producing both goods.

Answer : (A)

48. Comparative advantage refers to:

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

(B) the number of units of a good given up in order to acquire something.

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

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

(E) the ability of an individual to produce a good using fewer labor hours than other individuals.

Answer : (C)

49. The law of comparative advantage states that the person who should produce a good is the person who:

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

(B) can produce that good using the fewest resources.

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

(D) has the most desire for that good.

(E) has produced that good in the past.

Answer : (A)

50. John takes 10 minutes to iron a shirt and 20 minutes to type a paper. Harry takes 10 minutes to iron a shirt and 30 minutes to type a paper. Which of the following statements is correct?

(A) Harry has a comparative advantage in ironing.

(B) Harry has a comparative advantage in typing.

(C) Harry has an absolute advantage in typing.

(D) Harry has an absolute advantage in ironing.

(E) Neither can gain from specialization and exchange.

Answer : (A)

51. Don can produce 10 pens or 20 pencils in one hour while Bob can produce 5 pencils or 15 pens in one hour. Which of the following statements is correct?

(A) Bob has an absolute advantage over Don in the production of pencils.

(B) Bob has an absolute advantage over Don in the production of pens.

(C) Bob has a comparative advantage over Don in the production of pencils.

(D) Don has a comparative advantage over Bob in the production of pens.

(E) Don does not have a comparative advantage in the production of either good.

Answer : (B)

52. If Jason can wash a car in 20 minutes and wash a dog in 10 minutes and Megan can wash a car in 15 minutes and wash a dog in 15 minutes, which of the following statements is true?:

(A) The opportunity cost of washing a car is greater for Megan.

(B) The opportunity cost of washing a car is one dog bath for Jason.

(C) Megan could wash two cars in the time it takes Josh to wash a dog.

(D) Jason has both a comparative and an absolute advantage in washing a dog.

(E) The opportunity cost of washing a dog is lower for Jason.

Answer : (D)

53. Janis mows the lawn in 1 hour and types a paper in 1 hour. Kristen mows the lawn in 2 hours and types a paper in 1 hour. Which of the following statements is true?

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

(B) Janis has an absolute advantage in both activities and a comparative advantage in typing.

(C) Janis has an absolute advantage in both activities and a comparative advantage in mowing.

(D) The opportunity cost of mowing the lawn is greater for Kristen than it is for Janis.

(E) Neither Janis nor Kristen would gain from specialization.

Answer : (D)

54. If Monica has a comparative advantage in baking and George has a comparative advantage in sewing, then:

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

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

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

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

(E) we can conclude nothing about absolute advantage.

Answer : (E)

55. If Evan has an absolute advantage in cleaning and bookkeeping when compared to Gloria, then:

(A) Evan must also have a comparative advantage in cleaning and bookkeeping.

(B) Evan must have a comparative advantage in cleaning.

(C) Evan must have a comparative advantage in bookkeeping.

(D) Gloria has a comparative advantage in neither activity.

(E) we can conclude nothing about comparative advantage.

Answer : (E)

56. If Jeremy has an absolute advantage in cooking and Margaret has an absolute advantage in cleaning, then:

(A) Jeremy has a comparative advantage in cooking and Margaret has a comparative advantage in cleaning.

(B) Jeremy has a comparative advantage in cleaning and Margaret has a comparative advantage in cooking.

(C) Margaret has a comparative advantage in cleaning, but we can conclude nothing about Jeremy.

(D) Jeremy has a comparative advantage in cooking, but we can conclude nothing about Margaret.

(E) we can conclude nothing about comparative advantage.

Answer : (E)

57. If Robin has an absolute advantage in both gardening and baking when compared to Robert, then:

(A) Robin cannot benefit by trading with Robert.

(B) Robin can benefit by specializing in gardening if Robert specializes in baking.

(C) Robin can benefit by specializing in baking if Robert specializes in gardening.

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

(E) neither Robin nor Robert can benefit from trading with the other.

Answer : (D)

58. If one person has an absolute advantage in producing both of two goods, then that person:

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

(B) cannot benefit from trade.

(C) cannot have a comparative advantage in either good.

(D) will have a comparative advantage in only one good.

(E) should specialize in the production of both goods.

Answer : (D)

59. A country has an absolute advantage in the production of a good if that country:

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

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

(C) has the lowest opportunity cost of producing the good, regardless of whether it is produced with the fewest resources.

(D) has the greatest opportunity cost of producing the good, regardless of whether it is produced with the fewest resources.

(E) has the greatest opportunity cost of producing the good and produces it with the fewest resources.

Answer : (A)

60. If Sam can chop up more carrots per minute than Joe can, then:

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

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

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

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

(E) we can conclude nothing about absolute advantage.

Answer : (C)

61. Eileen has a comparative advantage over Jan in piano tuning, but not shoe polishing. Therefore, _____.

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

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

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

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

(E) Eileen must have an absolute advantage in piano tuning

Answer : (C)

62. If Helen can paint one room in the time it takes her to bake 40 cakes and Josh can paint one room in the time it takes him to bake 60 cakes, which of the following is true?

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

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

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

(D) The opportunity cost of baking one cake is 60 rooms painted for Josh.

(E) The opportunity cost of cakes cannot be computed.

Answer : (B)

63. If Helen can paint one room in the time it takes her to bake 40 cakes and Josh can paint one room in the time it takes him to bake 60 cakes, Helen's opportunity cost of baking one cake is:

(A) painting one room.

(B) painting 1/40 of a room.

(C) painting 1/60 of a room.

(D) painting 2/3 of a room.

(E) painting 3/2 of a room.

Answer : (B)

64. If Helen can paint one room in the time it takes her to bake 40 cakes and Josh can paint one room in the time it takes him to bake 60 cakes, Josh's opportunity cost of baking one cake is:

(A) painting one room.

(B) painting 1/40 of a room.

(C) painting 1/60 of a room.

(D) painting 2/3 of a room.

(E) painting 3/2 of a room.

Answer : (C)

65. If Daniel produces one pair of shoes in 4 hours and Sarah produces one pair of shoes in 3 hours, then:

(A) Sarah has a comparative advantage in shoemaking.

(B) Daniel has a comparative advantage in shoemaking.

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

(D) Daniel has an absolute and a comparative advantage in shoemaking.

(E) Sarah has an absolute advantage in shoemaking.

Answer : (E)

66. Hans can do 4 loads of laundry per hour, and he can type 6 pages per hour. Maria can do 12 loads of laundry per hour, and she can type 8 pages per hour. Hans' opportunity cost of doing one load of laundry is:

(A) 12 papers.

(B) 8 papers.

(C) 1 1/2 pages.

(D) 2/3 of a page.

(E) impossible to compute without additional information.

Answer : (C)

67. Hans can do 4 loads of laundry per hour, and he can type 6 pages per hour. Maria can do 12 loads of laundry per hour, and she can type 8 pages per hour. Hans' opportunity cost of typing one page is:

(A) 12 loads of laundry.

(B) 8 loads of laundry.

(C) 3/2 of a load of laundry.

(D) 2/3 of a load of laundry.

(E) impossible to compute without additional information.

Answer : (D)

68. Hans can do 4 loads of laundry per hour, and he can type 6 pages per hour. Maria can do 12 loads of laundry per hour, and she can type 8 pages per hour. Maria's opportunity cost of typing one page is:

(A) 4 loads of laundry.

(B) 6 loads of laundry.

(C) 3/2 of a load of laundry.

(D) 2/3 of a load of laundry.

(E) impossible to compute without additional information.

Answer : (C)

69. Hans can do 4 loads of laundry per hour, and he can type 6 pages per hour. Maria can do 12 loads of laundry per hour, and she can type 8 pages per hour. Maria's opportunity cost of doing one load of laundry is:

(A) 4 pages.

(B) 6 pages.

(C) 2/3 of a page.

(D) 3/2 of a page.

(E) impossible to compute without additional information.

Answer : (C)

70. Hans can do 4 loads of laundry per hour, and he can type 6 pages per hour. Maria can do 12 loads of laundry per hour, and she can type 8 pages per hour. In any given amount of time, _____.

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

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

(C) Maria has a comparative advantage in both typing and doing laundry

(D) Hans has both an absolute and a comparative advantage in typing

(E) Hans has an absolute advantage in doing laundry

Answer : (B)

71. Hans can do 4 loads of laundry per hour, and he can type 6 pages per hour. Maria can do 12 loads of laundry per hour, and she can type 8 pages per hour. Hans and Maria would both be better off if:

(A) Hans specialized in typing and Maria in doing laundry, trading with each other for the other service.

(B) Hans specialized in doing laundry and Maria in typing, trading with each other for the other service.

(C) each did their own laundry and typing.

(D) Maria did all of the typing and all of the laundry.

(E) Hans did all of the typing and all of the laundry.

Answer : (A)

72. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Aisha can knit 15 sweaters or bake 480 cookies. Which of the following is correct?

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

(B) Aisha has an absolute and comparative advantage in both tasks.

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

(D) Aisha has an absolute advantage in both tasks and a comparative advantage in knitting sweaters.

(E) Mohammed has an absolute advantage in both tasks and a comparative advantage in baking cookies.

Answer : (D)

73. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Aisha can knit 15 sweaters or bake 480 cookies. Mohammed's opportunity cost of knitting one sweater is:

(A) 480 cookies.

(B) 240 cookies.

(C) 48 sweaters.

(D) 1/48 of a cookie.

(E) 48 cookies.

Answer : (E)

74. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Aisha can knit 15 sweaters or bake 480 cookies. Mohammed's opportunity cost baking one cookie is:

(A) 1 sweater.

(B) 5 sweaters.

(C) 48 sweaters.

(D) 1/48 of a sweater.

(E) 48 cookies.

Answer : (D)

75. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Aisha can knit 15 sweaters or bake 480 cookies. Mohammed and Aisha would produce the maximum quantities of both cookies and sweaters if:

(A) Mohammed knitted and baked and Aisha did nothing.

(B) Aisha knitted and baked and Mohammed did nothing.

(C) Mohammed knitted and Aisha baked.

(D) Aisha knitted and Mohammed baked.

(E) Mohammed knitted and baked and Aisha just knitted.

Answer : (D)

76. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Aisha can knit 15 sweaters or bake 480 cookies. Aisha's opportunity cost of knitting one sweater is:

(A) 240 cookies.

(B) 480 cookies.

(C) 32 cookies.

(D) 1/32 of a cookie.

(E) 16 cookies.

Answer : (C)

77. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Aisha can knit 15 sweaters or bake 480 cookies. Aisha's opportunity cost of baking one cookie is:

(A) 5 sweaters.

(B) 15 sweaters.

(C) 32 sweaters.

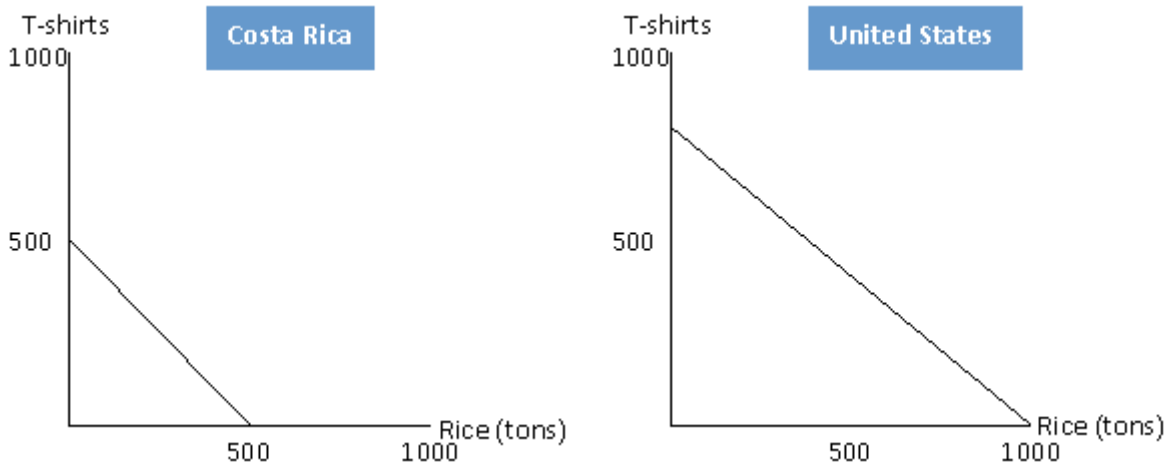
(D) 1/32 of a sweater.

(E) 480 sweaters.

Answer : (D)

78. The figure below shows the production possibilities frontiers for rice and T-shirts for two countries, Costa Rica and United States. According to the figure below, in Costa Rica, the opportunity cost of 1 ton of rice is:

Figure 2.1



(A) 1/2 of a T-shirt.

(B) 3/4 of a T-shirt.

(C) 1 T-shirt.

(D) 11/2 T-shirts.

(E) 2 T-shirts.

Answer : (C)

79. Barter occurs when:

(A) two people share everything.

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

(C) money is used to buy goods.

(D) money is exchanged directly for other money.

(E) goods are used to buy money.

Answer : (B)

80. Bill trades a ginger snap for a chocolate chip cookie. This is an example of:

(A) barter.

(B) specialization.

(C) absolute advantage.

(D) privatization.

(E) the division of labor.

Answer : (A)

81. Money facilitates trade because:

(A) it eliminates the need for specialization.

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

(C) it serves as a medium of exchange.

(D) the division of labor allows money to be produced at a lower cost.

(E) people do not benefit from barter unless money is used.

Answer : (C)

82. Barter is:

(A) illegal in the United States.

(B) an efficient system of exchange.

(C) most useful when there is much specialization and international trade.

(D) only possible if money is used as a medium of exchange.

(E) the direct exchange of goods without the use of money.

Answer : (E)

83. A medium of exchange must be:

(A) approved by the government.

(B) universally acceptable in exchange for goods and services.

(C) easy to reproduce.

(D) used to eliminate the specialization and division of labor.

(E) used when a system of barter exists.

Answer : (B)

84. All of the following are evidences of specialization *except*:

(A) a carpenter who builds an entire bedroom set without any help from others.

(B) a restaurant that provides continental and oriental food in all its outlets.

(C) the credits at the end of a movie.

(D) professional mourners in Taiwan.

(E) online sellers.

Answer : (A)

85. Which of the following provides the best evidence of the specialization of labor?

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

(B) An architect who is willing to practice in only one geographic area

(C) A physician who practices in a specialty area such as cardiology or orthopedic surgery

(D) A family that eats at Wendy's every Thursday night

(E) A retailer who sells goods but provides no services

Answer : (A)

86. The division of labor:

(A) allows more people to be employed.

(B) allows tasks to be performed more efficiently.

(C) makes people happier on the job.

(D) means that less management is required.

(E) means that less equipment will be used.

Answer : (B)

87. The division of labor facilitates productivity increases for all of the following reasons, *except one*. Which is the exception?

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

(B) Workers get better at tasks the more they repeat them.

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

(D) More sophisticated production techniques are introduced.

(E) It often permits the introduction of labor-saving machinery.

Answer : (C)

88. Which of the following is *not* a gain from division of labor?

(A) Workers' abilities are matched to tasks.

(B) Workers gain experience from the repetition of the tasks.

(C) Workers save time by not moving to different tasks.

(D) Workers' morale increases as tasks become more specialized.

(E) The introduction of labor-saving machinery is possible.

Answer : (D)

89. The division of labor increases productivity because:

(A) tasks can be assigned according to individual abilities.

(B) workers who repeatedly perform the same tasks become bored.

(C) each worker must learn each of the numerous tasks in the total production process.

(D) the specialization of labor allows for the introduction of cheaper, less sophisticated production techniques.

(E) managers can force workers to produce goods that are valued higher than the costs of producing them.

Answer : (A)

90. The division of labor refers to:

(A) discrimination in labor markets.

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

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

(D) defining a job according to the appropriate sex of the worker.

(E) the fact that two 20-year-olds are more productive than one 40-year-old.

Answer : (B)

91. The specialization of labor:

(A) increases productivity without creating any problems.

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

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

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

(E) ignores individual preferences and natural abilities.

Answer : (C)

92. In economics, specialization means:

(A) producing something using only one type of natural resource.

(B) producing something using only labor.

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

(D) producing only one unit of output.

(E) producing something using only one unit of a variable resource.

Answer : (C)

93. Which of the following is an example of the division of labor?

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

(B) A firm trying to get rid of a labor union

(C) Separating resources into four categories: land, labor, capital, and entrepreneurial ability

(D) Allocating revenue among a firm's resource suppliers

(E) Dividing an assembly process into separate steps

Answer : (E)

94. On a given production possibilities frontier, which of the following is *not* assumed to be fixed?

(A) The amount of labor available

(B) The amount of capital available

(C) The level of technology

(D) The amount of land and natural resources available

(E) Production of each item

Answer : (E)

95. At all points along the production possibilities frontier, _____.

(A) the greatest achievable output levels are illustrated

(B) resources are not fully employed

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

(D) more efficient output levels are possible

(E) society is equally well off

Answer : (A)

96. When drawing a production possibilities frontier for two goods, all of the following are usually assumed *except one*. Which is the exception?

(A) The quantity of resources is rapidly growing.

(B) Technology is fixed.

(C) Resources can be shifted from the production of one good to the other.

(D) The production possibilities frontier is drawn for a particular time period.

(E) Resources are fully and efficiently employed.

Answer : (A)

97. An economy's production possibilities frontier:

(A) helps explain the immense complexity of the real economy.

(B) demonstrates that, although resources are scarce for individuals, there is no problem of scarcity for society as a whole.

(C) is based on unrealistic assumptions and therefore has no value as an economic tool.

(D) is based on simplifying assumptions, but is still useful for illustrating scarcity, opportunity cost, and economic growth.

(E) is based on the assumption that technology is constantly changing.

Answer : (D)

98. Which of the following is measured along one axis of the production possibilities frontier diagram?

(A) The quantity of a produced good

(B) The price of a produced good

(C) The quantity of natural resources

(D) The state of technology

(E) Society's welfare and satisfaction

Answer : (A)

99. Efficiency involves:

(A) producing output using the least amount of labor.

(B) producing output using the least amount of capital.

(C) producing as far inside the production possibilities frontier as possible.

(D) producing only one out of many possible commodities.

(E) getting the maximum possible output from available resources.

Answer : (E)

100. If all resources are used efficiently to produce goods and services, a nation will find itself producing:

(A) inside its production possibilities frontier.

(B) somewhere on its production possibilities frontier.

(C) outside of its production possibilities frontier.

(D) at one extreme end of its production possibilities frontier.

(E) more of one product with no decrease in the production of any other product.

Answer : (B)

101. A point outside the production possibilities frontier:

(A) represents unemployment of resources.

(B) represents full employment of resources.

(C) would not represent an efficient combination of goods.

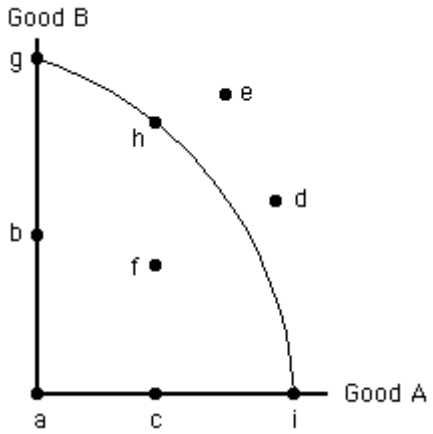
(D) cannot be reached using the available technology.

(E) is less desirable than one that lies inside the frontier.

Answer : (D)

102. The figure below shows the production possibilities frontier for Good A and Good B. In the figure below, if all the economy's resources are used efficiently to produce only good B, then the economy will be at point:

Figure 2.2



(A) g.

(B) b.

(C) h.

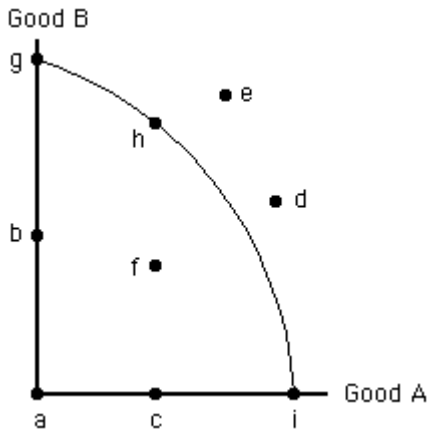
(D) i.

(E) e.

Answer : (A)

103. The figure below shows the production possibilities frontier for Good A and Good B. In the figure below, if all the economy's resources are used efficiently to produce only good A, then the economy will be at point:

Figure 2.2



(A) g.

(B) b.

(C) h.

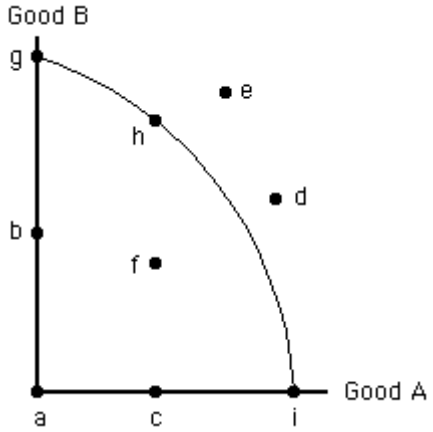
(D) i.

(E) e.

Answer : (D)

104. The figure below shows the production possibilities frontier for Good A and Good B. In the figure below, given the quantity of resources and level of technology, which of the following points is unattainable?

Figure 2.2



(A) g

(B) b

(C) h

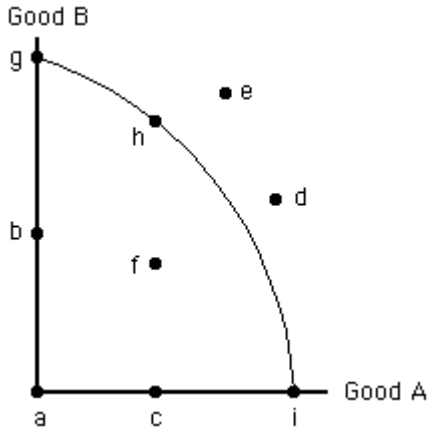
(D) i

(E) e

Answer : (E)

105. The figure below shows the production possibilities frontier for Good A and Good B. In the figure below, which of the following points represents an inefficient use of the economy's resources?

Figure 2.2



(A) h

(B) d

(C) f

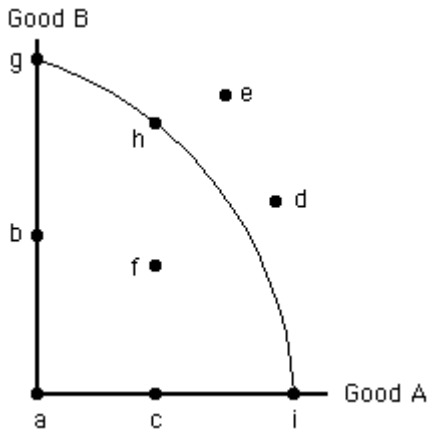
(D) i

(E) e

Answer : (C)

106. The figure below shows the production possibilities frontier for Good A and Good B. In the figure below, if resources are used fully and efficiently, then the economy can produce at point(s):

Figure 2.2



(A) f.

(B) a or b.

(C) c.

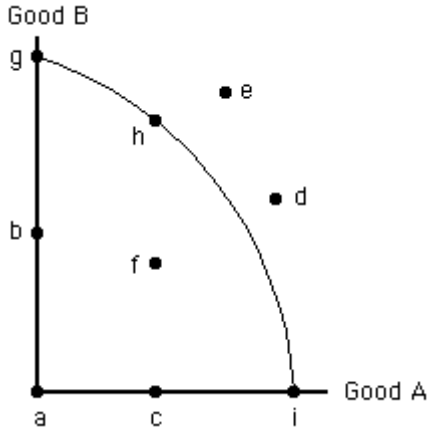
(D) d or e.

(E) g, h, or i.

Answer : (E)

107. The following figure shows the production possibilities frontier for Good A and Good B. In the figure below, point e represents:

Figure 2.2



(A) an attainable combination of Good A and Good B.

(B) an unattainable combination of Good A and Good B.

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

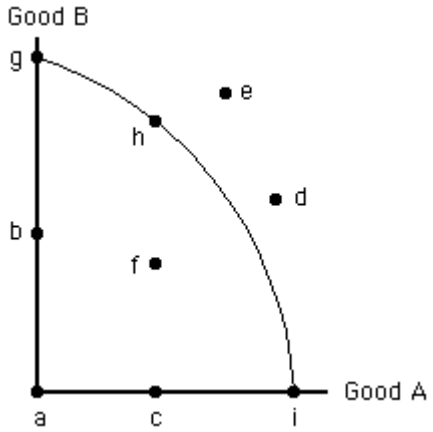
(D) one possible efficient combination of Good A and Good B.

(E) the only unattainable combination of Good A and Good B.

Answer : (B)

108. The following figure shows the production possibilities frontier for Good A and Good B. In the figure below, point f represents:

Figure 2.2



(A) an efficient combination of Good A and Good B.

(B) the only efficient combination of Good A and Good B.

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

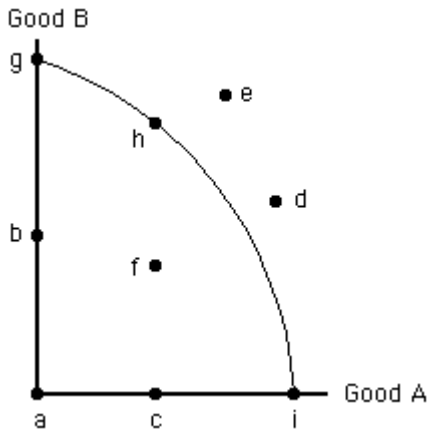
(D) an inefficient combination of Good A and Good B.

(E) the only inefficient combination of Good A and Good B.

Answer : (D)

109. The following figure shows the production possibilities frontier for Good A and Good B. In the figure below, point g is efficient because:

Figure 2.2



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

(B) the economy can increase production of both Good A and Good B from point g.

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

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

(E) no other production possibilities frontier exists.

Answer : (A)

110. Points inside the production possibilities frontier represent:

(A) full and efficient use of all resources.

(B) inefficiency or unemployment.

(C) currently unattainable combinations of outputs.

(D) currently unattainable combinations of resources.

(E) the most desirable combinations of outputs.

Answer : (B)

111. Points outside the production possibilities frontier represent:

(A) unemployment of resources.

(B) inefficient use of resources.

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

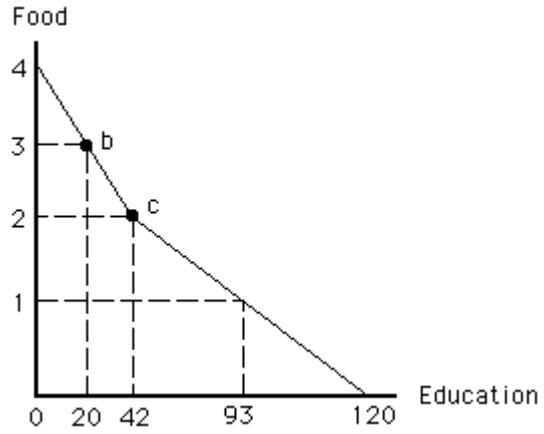
(D) currently unattainable combinations of outputs.

(E) the only currently attainable combinations from which society must choose.

Answer : (D)

112. The figure given below shows the production possibilities frontier for education and food. In The opportunity cost of moving from point c to point b is _____.

Figure 2.3



(A) 3 units of food

(B) 22 units of education

(C) 1 unit of food

(D) 12 units of education

(E) 62 units of education

Answer : (B)

113. Along a bowed-out production possibilities frontier, as more of one good is produced, _____.

(A) the opportunity cost of producing that good remains constant

(B) the opportunity cost of producing that good decreases

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(C) efficiency decreases

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

(E) technology remains constant

Answer : (E)

114. If an economy is operating at a point inside the production possibilities frontier, then:

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

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

(C) unlimited resources must satisfy scarce desires.

(D) using the existing resources efficiently will shift the production possibilities frontier outward.

(E) society is paying too much for wages.

Answer : (A)

115. If the production possibilities frontier is a straight line, _____.

(A) its slope will equal −1

(B) resources must not be used efficiently

(C) resources must be unemployed

(D) society must not be using the latest technology

(E) resources must be equally adaptable at producing either product

Answer : (E)

116. A production possibilities frontier will be bowed out if:

(A) there is scarcity.

(B) resources are used efficiently.

(C) production of one good involves an opportunity cost.

(D) resources are not perfectly adaptable to making each good.

(E) technology is improving.

Answer : (D)

117. As resources are not perfectly adaptable to the production of both Good A and Good B, _____.

(A) the opportunity cost of Good A increases as the production of Good A increases.

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

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

(D) the opportunity cost of Good A is constant.

(E) the opportunity cost of Good B is constant.

Answer : (A)

118. On a bowed-out production possibilities frontier showing possible output levels of Good A and good B, the opportunity cost of producing the first 10 units of Good A will usually be:

(A) the same as the opportunity cost of producing the next 10 units of Good A.

(B) lower than the opportunity cost of producing the next 10 units of Good A.

(C) greater than the opportunity cost of making the next 10 units of Good A.

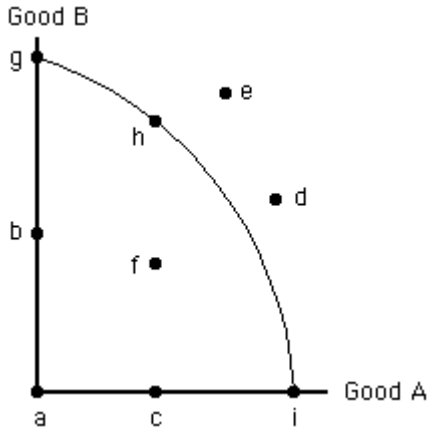
(D) 10 units of Good A.

(E) 10 units of Good B.

Answer : (B)

119. The figure given below shows the production possibilities frontier for Good A and Good B. In the figure below, when moving from point f to point g, the production of:

Figure 2.2



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

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

(C) both Good A and Good B increase.

(D) both Good A and Good B decrease.

(E) Good B increases and the production of Good A decreases.

Answer : (E)

120. A downward-sloping straight-line production possibilities frontier indicates:

(A) that society cannot decide which good it prefers.

(B) an absence of scarcity.

(C) constant opportunity cost.

(D) inefficiency.

(E) specialization.

Answer : (C)

121. The law of increasing opportunity cost explains why:

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

(B) the production possibilities frontier is downward sloping.

(C) the production possibilities frontier is curved.

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

(E) technology remains constant along a production possibilities frontier.

Answer : (C)

122. The law of increasing opportunity cost reflects the fact that:

(A) the production possibilities frontier is bowed inward.

(B) resources are not perfectly substitutable.

(C) resources cannot always be used efficiently.

(D) an economy will operate at a point inside its production possibilities frontier.

(E) an economy will operate at a point along its production possibilities frontier.

Answer : (B)

123. On a straight-line production possibilities frontier, which of the following is true?

(A) The problem of scarcity does not exist.

(B) Resources are imperfect substitutes.

(C) Opportunity costs are constant.

(D) Technology is rapidly expanding.

(E) Some resources are not being used efficiently.

Answer : (C)

124. Any movement along a bowed-out production possibilities frontier involves the production of:

(A) more of both goods.

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

(C) less of both goods.

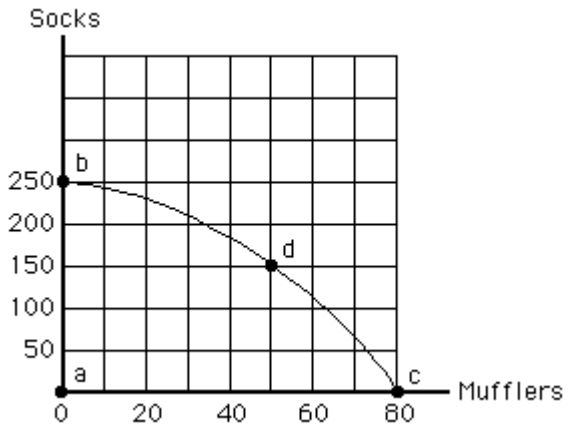
(D) more resources.

(E) better technology.

Answer : (B)

125. The figure given below shows the production possibilities frontier for mufflers and socks. The opportunity cost of moving from point b to d is:

Figure 2.4



(A) 30 mufflers.

(B) 50 mufflers.

(C) 100 socks.

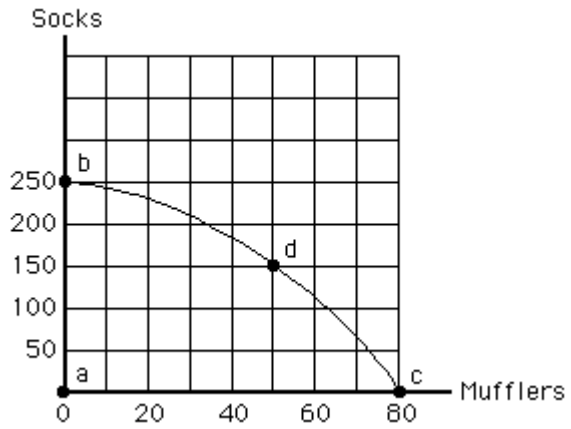
(D) 150 socks.

(E) 250 socks.

Answer : (C)

126. The figure given below shows the production possibilities frontier for mufflers and socks. If society moves from point c to point d, then society:

Figure 2.4



(A) gains 100 socks.

(B) loses 30 mufflers.

(C) is worse off after the change in production.

(D) is not operating efficiently.

(E) experiences some unemployment of resources.

Answer : (B)

127. On a production possibilities frontier, the opportunity cost of one more unit of a commodity per time period is measured by the:

(A) monetary price of the commodity.

(B) amount of the other commodity that must be sacrificed.

(C) amount of unemployed resources that must be used.

(D) amount of satisfaction it gives consumers.

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

Answer : (B)

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

(A) An increase in the size of the labor force

(B) More efficient use of existing resources and technology

(C) The government prints more money

(D) The end of a strike by a labor union

(E) Society's desire to produce more of one of the goods

Answer : (A)

129. Which of the following would *not* shift the production possibilities frontier?

(A) An increase in capital stock

(B) A war that destroyed many buildings

(C) A technological improvement that improved fuel efficiency in cars

(D) A decrease in the size of the labor force

(E) A change to a more inefficient production process

Answer : (E)

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

(A) A reduction in inefficiency

(B) A reduction in the size of the labor force

(C) An improvement in technology

(D) A change in the combination of goods produced

(E) Increasing opportunity costs

Answer : (C)

131. An improvement in technology:

(A) will always result in a parallel shift of the production possibilities frontier.

(B) will never result in a parallel shift of the production possibilities frontier.

(C) will be indicated as a movement along the production possibilities frontier.

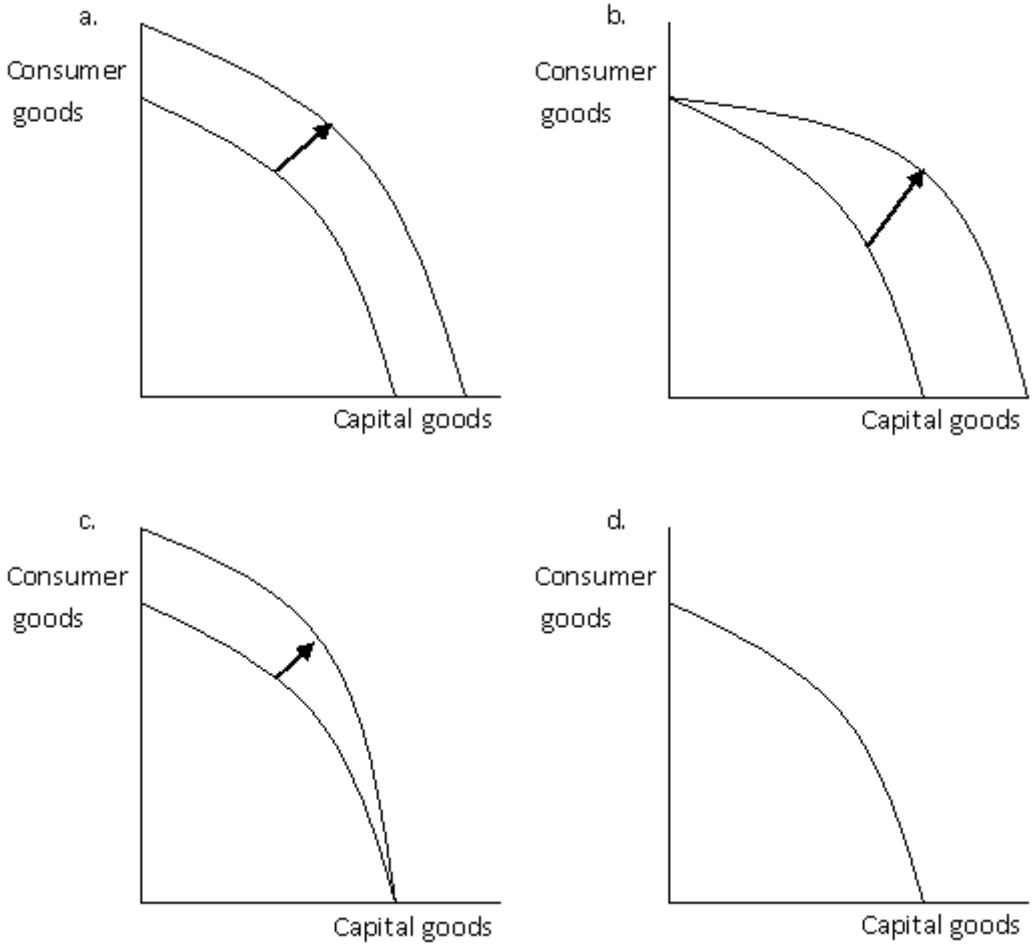
(D) will shift the production possibilities frontier outward but not necessarily to a parallel position.

(E) may not shift the production possibilities frontier.

Answer : (D)

132. The following figure has four graphs showing the production possibilities frontier for capital goods and consumer goods. Assuming an influx of immigrants benefits the production of both consumer and capital goods, which of the graphs below best illustrates the impact on the production possibilities frontier?

Figure 2.5



(A) a.

(B) b.

(C) c.

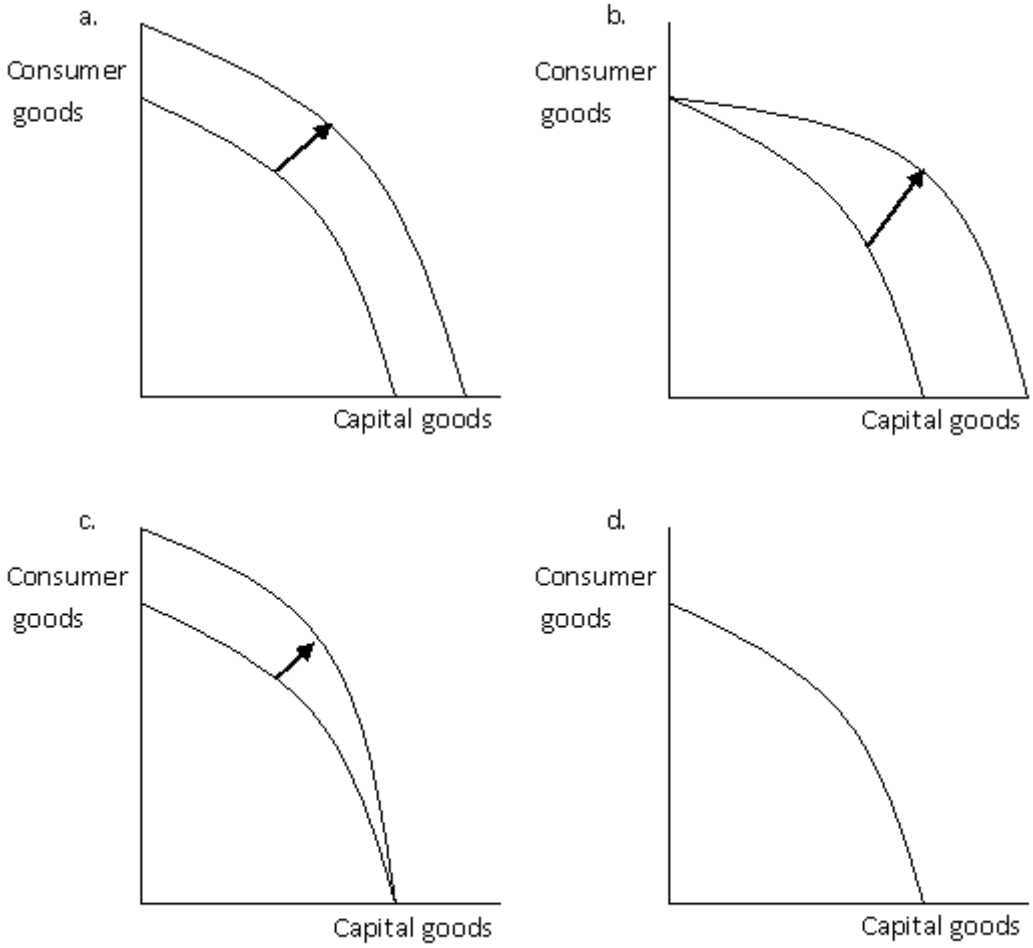
(D) d.

(E) b and d.

Answer : (A)

133. The figure given below has four graphs showing the production possibilities frontier for capital goods and consumer goods. Which of the graphs below best illustrates the impact on the production possibilities frontier of a decrease in unemployment?

Figure 2.5



(A) a.

(B) b.

(C) c.

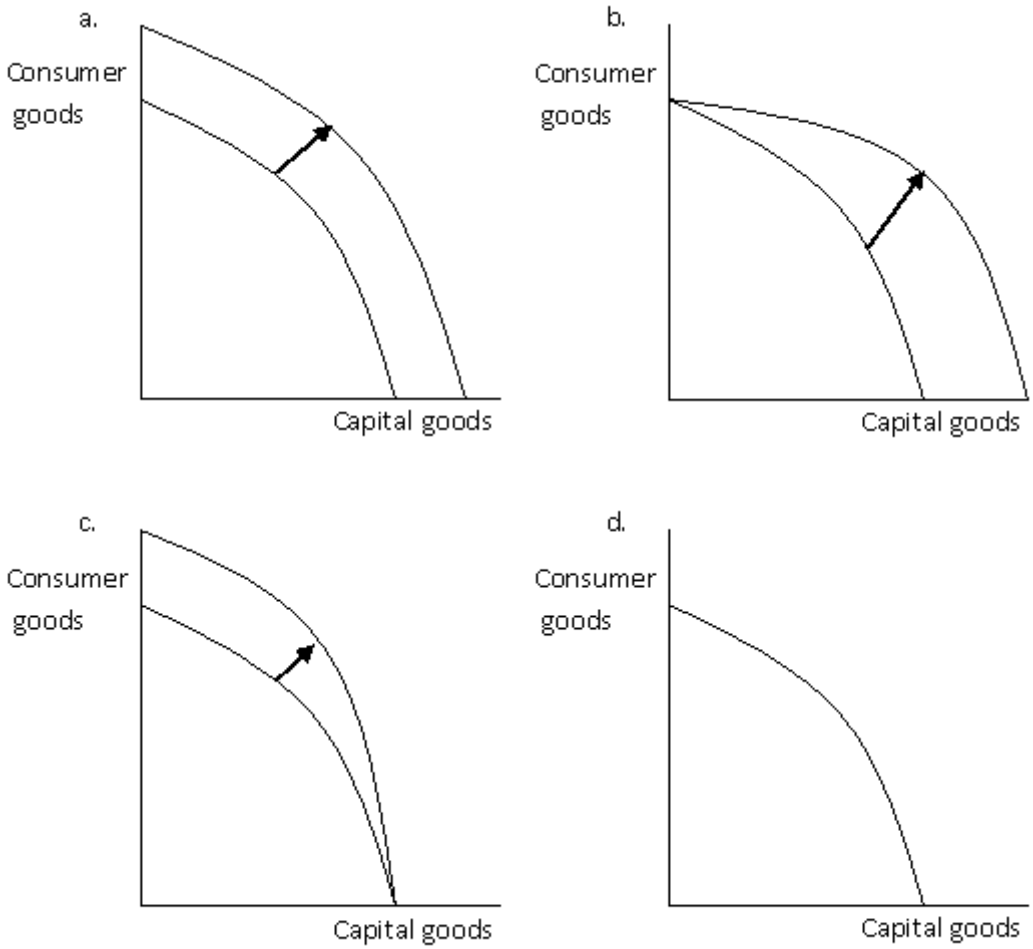
(D) d.

(E) b and d.

Answer : (D)

134. The following figure has four graphs showing the production possibilities frontier for capital goods and consumer goods. Which of the graphs below best illustrates the impact on the production possibilities frontier of a technological improvement that will make the resources used to produce consumer goods more efficient?

Figure 2.5



(A) a.

(B) b.

(C) c.

(D) d.

(E) b and d.

Answer : (C)

135. An improvement in technology used to produce goods would:

(A) enable an economy to produce outside its original production possibilities frontier.

(B) enable an economy to move along its original production possibilities frontier.

(C) eliminate scarcity and the production possibilities frontier would no longer exist.

(D) have no effect on the production possibilities frontier.

(E) change the production possibilities frontier to a line with a positive slope.

Answer : (A)

136. A production possibilities frontier can shift outward for all of the following reasons *except:*

(A) a decrease in the size of the labor force.

(B) an increase in the skills of the labor force.

(C) an improvement in technology.

(D) a larger work force.

(E) a larger capital stock.

Answer : (A)

137. A production possibilities frontier can shift inward if there is:

(A) an increase in the unemployment rate.

(B) a stable political environment.

(C) an improvement in technology.

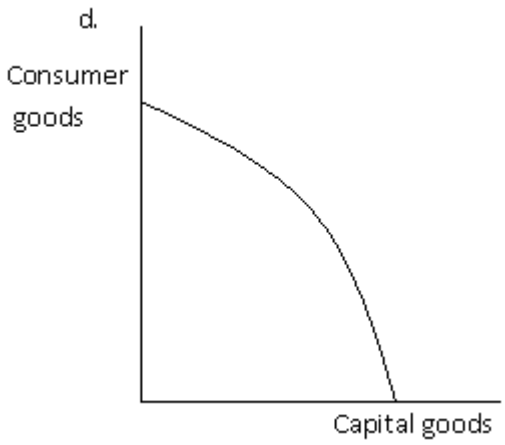
(D) a larger work force.

(E) a larger capital stock.

Answer : (A)

138. The figure below shows the production possibilities frontier for education and food production. Which of the following would cause the production possibilities frontier to shift from AA to BA?

Figure 2.6



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

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

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

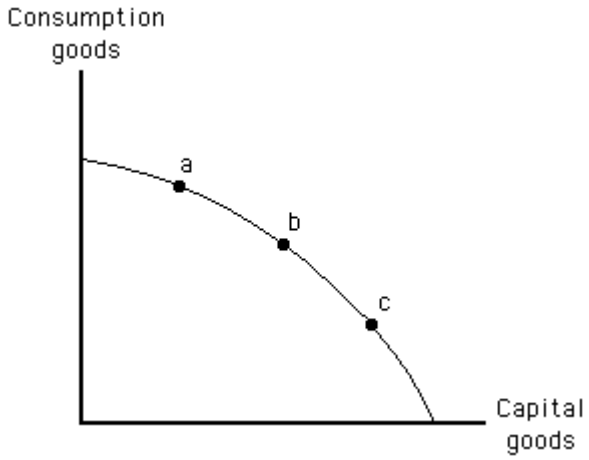
(D) A disease that affected students' ability to learn (and therefore education) but not food production.

(E) An increase in the size of the labor force that affected both food production and education.

Answer : (A)

139. The figure below shows the production possibilities frontier for capital goods and consumption goods. Current production at _____ would lead to the largest outward shift in the production possibilities frontier in a later year _____.

Figure 2.7



(A) Point a; because this point represents a greater consumption level than point b

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

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

(D) Point b; because this point represents greater production of capital than point c

(E) Point c; because this point represents greater production of capital than the other two points

Answer : (C)

140. The production possibilities frontier will shift if there is a change in:

(A) technology.

(B) unemployment.

(C) product prices.

(D) society's preferences for commodities.

(E) the quantities of the two goods being produced.

Answer : (A)

141. The reason that the production possibilities frontier is usually a bow-shaped curve instead of a straight line is that:

(A) a curve makes it easier to illustrate the concepts of scarcity and prices than a straight line.

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

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

(D) resources are not perfectly adaptable to the production of all goods.

(E) the frontier will shift outward over time.

Answer : (D)

142. An outward shift of the production possibilities frontier:

(A) reflects economic stability.

(B) reflects economic growth.

(C) reflects economic decline.

(D) does not relate to the state of the economy.

(E) is always a parallel shift.

Answer : (B)

143. Which economic question does the decision to produce butter instead of guns answer?

(A) What to produce?

(B) How to produce?

(C) For whom to produce?

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

(E) Who has an absolute advantage in butter production?

Answer : (A)

144. If dairy farmers use automatic milking machines instead of milking by hand, which economic question does their decision answer?

(A) What to produce?

(B) How to produce?

(C) For whom to produce?

(D) Who has a comparative advantage in milking?

(E) What is the price of milk?

Answer : (B)

145. Which economic question does the decision to give all of the butter an economy produces to the homeless answer?

(A) What to produce?

(B) How to produce?

(C) For whom to produce?

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

(E) Who has an absolute advantage in butter production?

Answer : (C)

146. Every economy must answer each of the following questions *except* one. Which is the exception?

(A) Which goods will be produced?

(B) Why are these particular goods produced?

(C) Which resources should be used?

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

(E) Who will actually consume the goods produced?

Answer : (B)

147. The economic question of what will be produced is:

(A) primarily answered by the government in a system of pure capitalism.

(B) primarily answered by markets in a command economy.

(C) faced by all economies regardless of their wealth.

(D) does not have to be answered by economies possessing great wealth.

(E) cannot be illustrated by the economic concept of the production possibilities frontier.

Answer : (C)

148. The set of mechanisms and institutions that resolve the basic economic questions is called the:

(A) economic system.

(B) production possibilities dilemma.

(C) business resolution device.

(D) absolute advantage determination.

(E) comparative advantage determination.

Answer : (A)

149. An economic system:

(A) must answer the three economic questions to the satisfaction of everyone in society.

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

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

(D) is a set of social institutions and mechanisms organized to answer society's three primary economic questions.

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

Answer : (D)

150. Which of the following is *not* a characteristic of pure capitalism?

(A) Private property rights

(B) Competitive markets

(C) Laissez-faire policies

(D) Central planning

(E) A reliance on prices to direct resources to their best uses

Answer : (D)

151. Adam Smith's term "the invisible hand" refers to:

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

(B) the most capable entrepreneurs in the economy.

(C) market forces.

(D) the unseen work of the financial markets that facilitates trade.

(E) the role of technological change and random events in the economy.

Answer : (C)

152. A major distinguishing feature between capitalist and socialist (or command) economies is that:

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

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

(C) resources are privately owned in capitalist economies and private property rights are enforced by a dictator in command economies.

(D) resources are publicly owned in capitalist economies.

(E) decision making is typically decentralized under capitalism, while it is centralized in command economies.

Answer : (E)

153. Adam Smith believed that people's pursuit of their own self-interests:

(A) tended to promote general welfare.

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

(C) might cause aggregate demand to be greater than aggregate supply.

(D) would increase the wealth of a nation, which was the quantity of gold and silver it owned.

(E) would decrease the wealth of a nation, which was its ability to produce goods and services.

Answer : (A)

154. Pure capitalism and a pure command system represent:

(A) two different ways of answering the basic economic questions.

(B) two names describing the same method of answering the basic economic questions.

(C) the only two ways of answering the basic economic questions.

(D) the most efficient ways to answer the basic economic questions.

(E) two market systems of resource distribution.

Answer : (A)

155. In a command economy, _____.

(A) a dictator makes every economic decision

(B) owners can sell their resources to the highest bidder

(C) no individual or group coordinates the economy

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

(E) public ownership of resources is combined with free markets to direct economic activity

Answer : (D)

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

(A) All resources are privately owned.

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

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

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

(E) Economic choices are voluntary and are based on rational self-interest.

Answer : (D)

157. The U.S. economy is best characterized as a:

(A) barter economy.

(B) command economy.

(C) mercantile economy.

(D) mixed economy.

(E) traditional economy.

Answer : (D)

158. A mixed economy is one in which:

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

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

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

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

(E) all resources are publicly owned and prices are used to coordinate economic activity.

Answer : (D)

159. Recognizing the incentive power of property rights and markets, some of the most die-hard central planners are now allowing:

(A) more influence from custom or religion.

(B) family relations to play significant roles.

(C) a role for markets.

(D) communal ownership of property.

(E) inefficient use of resources.

Answer : (C)