ECON MICRO 6th edition McEachern Test Bank

SKU: 9781337408059-TEST-BANK

TRUE/FALSE

1 : Opportunity cost is the difference between the benefits and the costs of a choice.
A : true
B : false

Correct Answer : B

2 : Opportunity cost is measured in dollar terms, rather than in terms of real goods and services.
A : true
B : false

Correct Answer : B

3 : The opportunity cost of going to college consists of more than just the tuition.
A : true
B : false

Correct 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

Correct Answer : A

5 : The opportunity cost of going to college is the same for all students who receive full-tuition scholarships.
A : true
B : false

Correct Answer : B

6 : Opportunity cost is objective; therefore, its value does not change as circumstances change.
A : true
B : false

Correct Answer : B

7 : The Sultan of Brunei, one of the worlds richest people, does not face the problem of scarcity.
A : true
B : false

Correct Answer : B

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

Correct Answer : B

9 : A person who can produce more of a good than another person is said to possess a comparative advantage.
A : true
B : false

Correct Answer : B

10 : Absolute advantage is based on opportunity cost.
A : true
B : false

Correct Answer : B

11 : It is possible for one person to have a comparative advantage in the production of all products.
A : true
B : false

Correct Answer : B

12 : Comparative advantage is based on opportunity costs.
A : true
B : false

Correct Answer : A

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

Correct 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

Correct Answer : B

15 : 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

Correct Answer : A

16 : Specialization often leads to gains in productivity for society as a whole.
A : true
B : false

Correct Answer : A

17 : Each point on a production possibilities frontier requires full employment of resources.
A : true
B : false

Correct Answer : A

18 : The production possibilities frontier represents all desirable combinations of outputs.
A : true
B : false

Correct Answer : B

19 : Each point along a nations production possibilities frontier represents efficient use of all resources.
A : true
B : false

Correct Answer : A

20 : The production possibilities frontier represents the boundary between attainable and unattainable prices of commodities.
A : true
B : false

Correct Answer : A

21 : A point inside the production possibilities frontier illustrates a situation in which resources are not fully employed.
A : true
B : false

Correct Answer : A

22 : The bowed-out shape of the production possibilities frontier indicates increasing opportunity costs.
A : true
B : false

Correct 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

Correct Answer : A

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

Correct 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

Correct Answer : B

26 : The economic question of what to produce is often referred to as the distribution question.
A : true
B : false

Correct Answer : B

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

Correct 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

Correct Answer : B

29 : One flaw of pure capitalism is that a person who owns no resources could starve.
A : true
B : false

Correct 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

Correct Answer : A

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

Correct Answer : A

MULTIPLE CHOICE

32 : Outside of economics, the total cost of an item is measured as _____

A : the dollar cost of the item.
B : the time spent obtaining the item.
C : what you gave up to get the item.
D : the opportunity cost of the item.
E : the sunk cost of the item.

Correct Answer : A

33 : In economics, the total cost of an item is measured as _____
A : the dollar cost of the item.
B : the time spent obtaining the item.
C : what you gave up to get the item.
D : the implicit cost of the item.
E : the explicit cost of the item.

Correct Answer : C

34 : _____ is the value of the best alternative forgone when an item or activity is chosen.
A : The choice cost
B : The opportunity cost
C : The direct cost
D : The implicit cost
E : The explicit cost

Correct Answer : B

35 : What is the term for giving up one choice for another opportunity?
A : choice cost
B : opportunity cost
C : direct cost
D : implicit cost
E : explicit cost

Correct Answer : B

36 : Opportunity cost can also be thought of as _____
A : an opportunity lost.
B : an opportunity gained.
C : a dollar expenditure.
D : the overhead spent.
E : a waste of time.

Correct Answer : A

37 : Opportunity costs exist because _____
A : technology is fixed.
B : of comparative advantage.
C : resources are scarce but wants are unlimited.
D : the value of lost opportunities varies.
E : efficiency is measured by the monetary cost of an activity

Correct Answer : C

38 : What is the opportunity cost of an item?
A : the dollar cost of what is purchased.
B : the value of all alternatives not chosen.
C : the value of the best alternative not chosen.
D : less than the dollar cost of what is purchased.
E : more than the dollar cost of what is purchased.

Correct Answer : C

39 : 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 difference between the costs of the book and the food.
C : the difference between the opportunity costs of reading and sleeping.
D : the net benefit of sleeping.
E : impossible to determine because the most preferred alternative is not known.

Correct Answer : E

40 : The opportunity cost of an activity _____
A : depends on an individuals values and opinions.
B : is the same for everyone.
C : cannot be calculated.
D : is irrelevant to decision making.
E : is not related to time.

Correct Answer : A

41 : 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 in terms of the money spent on the activity.

Correct Answer : D

42 : What is the largest cost of attending school?
A : the cost of tuition, books, etc.
B : the value of the best opportunity forgone
C : the lost income if the student had been working
D : none if someone else is paying all the expenses
E : none if the student will earn more after graduating

Correct Answer : A

43 : What is the opportunity cost of attending school?
A : the dollar cost of tuition and books
B : the value of the best opportunity forgone
C : the lost income if the student had been working
D : none if someone else is paying all the expenses
E : none if the student will earn more after graduating

Correct Answer : B

44 : Attending summer school costs $2,200. If you worked, you could earn $7,000. What is the opportunity cost of attending summer school?
A : $2,200.
B : $7,000.
C : $8,000.
D : $9,200.
E : $10,200.

Correct Answer : D

45 : A test is scheduled for Monday morning, and you went to a party on Sunday night. If you hadnt attended the party, you could have studied for the test or gone to a movie. Which of the following is true of your opportunity cost?
A : The opportunity cost of going to the movie is zero.
B : The opportunity cost of going to the party is the difference between the costs of the movie and the party.
C : The opportunity cost of going to the party is the total amount spent on transport to go to the party.
D : The opportunity cost of going to the party is the cost of the movie ticket.
E : From the above information, its not possible to determine the opportunity cost of attending the party.

Correct Answer : E

46 : The term opportunity cost suggests that _____
A : one person must lose when someone else gains in an exchange situation.
B : not all individuals make the most of lifes 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 : a good must be given up to get some other good in return as resources are scarce.

Correct Answer : E

47 : 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.

Correct Answer : A

48 : Melissa is a self-employed lawyer who chooses a higher-priced restaurant that is 2 miles away from her home over a cheaper restaurant that is 15 miles away from her 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 does not take the time taken to travel to the restaurants into consideration.
C : She does not like to cook.
D : The prices at the more expensive restaurant understate the opportunity cost of eating there.
E : The higher cost of the more expensive restaurant is offset by the higher opportunity cost of the cheaper restaurant.

Correct Answer : E

49 : The opportunity cost of an activity is best measured _____
A : in terms of the monetary costs of the activity.
B : by the number of alternative activities that are forgone by choosing this activity.
C : by the difference between the costs of the chosen activity and the next best alternative.
D : by the value expected from the best alternative that is forgone.
E : by the time wasted choosing among various activities.

Correct Answer : D

50 : The opportunity cost of an activity is best measured _____
A : $40
B : $30
C : $20
D : $10
E : $0

Correct Answer : E

51 : The opportunity cost of an activity is best measured _____
A : $40
B : $30
C : $20
D : $10
E : $0

Correct Answer : E

52 : The opportunity cost of an activity is best measured _____
A : $0
B : $10
C : $202
D : $30
E : $40

Correct Answer : E

53 : The opportunity cost of an activity is best measured _____
A : $0
B : $10
C : $20
D : $30
E : $40

Correct Answer : E

54 : The opportunity cost of an activity is best measured _____
A : $10 in terms of movies
B : $10 in terms of restaurant
C : $20 in terms of movies and $20 in terms of restaurant
D : $40 because you managed to do both

E : $0 because you managed to do both

Correct Answer : C

55 : The opportunity cost of an activity is best measured _____
A : $10 in terms of movies
B : $30 in terms of restaurant
C : $30 in terms of movies and $10 in terms of restaurant
D : $40 because you managed to do both
E : $0 because you managed to do both

Correct Answer : C

56 : The opportunity cost of an activity is best measured _____
A : $30 in terms of movies
B : $10 in terms of restaurant
C : $30 in terms of restaurant and $10 in terms of movies
D : $40 because you managed to do both
E : $0 because you managed to do both

Correct Answer : C

57 : The opportunity cost of an activity is best measured _____
A : $100
B : $50 in terms of D
C : $15 in terms in terms of B
D : the total value of all the options
E : the value of the option given up if A were not chosen

Correct Answer : E

58 : The opportunity cost of an activity is best measured _____
A : $100
B : $0 in terms of E
C : $25 in terms in terms of B
D : The total value of all the options
E : The value of the option given up if E were not chosen

Correct Answer : A

59 : The opportunity cost of an activity is best measured _____
A : $100
B : $25 in terms of C
C : $25 in terms in terms of B
D : The total value of all the options taken together
E : The value of the option given up if C were not chosen

Correct Answer : E

60 : The opportunity cost of an activity is best measured _____
A : $100
B : $25 in terms of C.
C : $50 in terms in terms of B

D : the total value of all the options taken together
E : the value of none of options if B were chosen

Correct Answer : C

61 : The opportunity cost of an activity is best measured _____
A : $100
B : $15 in terms of D
C : $50 in terms in terms of B
D : the total value of all the options taken together
E : the value of none of options if B was chosen

Correct Answer : C

62 : A cost that has already been incurred and cannot be recovered is known as a(n)_____
A : sunk cost.
B : opportunity cost.
C : direct cost.
D : implicit cost.
E : explicit cost.

Correct Answer : A

63 : A sunk cost _____
A : can only be measured in monetary terms.
B : is a cost that has already been incurred and cannot be recovered.
C : should influence a persons choice if that person is a marginal decision maker.
D : lowers the efficiency of production.
E : should not be considered when making economic decisions.

Correct Answer : B

64 : Sunk costs _____
A : can only be measured in monetary terms.
B : are opportunity costs.
C : are marginal costs.
D : lower the efficiency of production.
E : should not be considered when making economic decisions.

Correct Answer : E

65 : Suppose the line you are standing in at a grocery checkout counter has not moved for 10 minutes. You notice a cashier opening a new one and inviting you to check out. Do you switch to the new cashier or stay put because you have already waited for 10 minutes?
A : stay, because you have already waited for 10 minutes
B : decide to wait for another 5 minutes in case your line speeds up
C : walk out of the store without buying anything because of the wait times
D : be patient and read a magazine while you are waiting
E : switch, because the 10 minutes you waited is a sunk cost

Correct Answer : E

66 : Suppose you have purchased a nonrefundable plane ticket. At the last moment, you cannot

take the trip but can still sell the ticket. The cost of sending the ticket to someone through overnight mail is $20, and you have to spend $10 on a courier to get the ticket to the post office for overnight delivery. If you paid $700 for the ticket, which of the following is the minimum amount you should accept for the ticket?
A : $700, because that is what the ticket costs
B : $720, because that is the sum of the cost of the ticket and the cost of sending it to the buyer
C : $730, because that is the sum of the cost of the ticket and the cost of sending it to the buyer
D : More than $730, so that you can make a profit
E : $30, because the $700 is a sunk cost

Correct Answer : E

67 : The ability to make something using fewer resources than other producers use is known as _____
A : specialization.
B : exchange
C : arbitrage.
D : absolute advantage.
E : comparative advantage.

Correct Answer : D

68 : _____ is the ability to make something using fewer resources than other producers use.
A : Specialization.
B : Exchange.
C : Arbitrage.
D : Absolute advantage.
E : Comparative advantage.

Correct Answer : D

69 : 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 sell it at the highest price.
C : has the lowest opportunity cost of producing the good, regardless of whether it is produced using the fewest resources.
D : has the greatest opportunity cost of producing the good, regardless of whether it is produced using the fewest resources.
E : has the greatest opportunity cost of producing the good and can sell it at the highest price.

Correct Answer : A

70 : The law of comparative advantage says that a person should produce a good if he or she _____
A : has the greatest desire to consume the good.
B : has the lowest opportunity cost of producing the good.
C : has an absolute advantage in producing the good.
D : receives the highest marginal benefit from the good.
E : can produce the good at the same cost as another producer can.

Correct Answer : B

71 : You realize that total output would increase if you did all the typing and your roommate did

all the ironing. You are each _____
A : diversifying.
B : good producers.
C : better off as a result of specialization and exchange.
D : doing so because you get something in return.
E : acting out of concern for the other.

Correct Answer : C

72 : You realize that total output would fall if you did some of the typing and ironing and your roommate did some of the typing and ironing. You are each _____
A : good producers.
B : good at both typing and ironing.
C : worse off for not exchanging typing and ironing.
D : doing so because you are not getting something in return.
E : acting out of concern for the other.

Correct Answer : C

73 : The law of comparative advantage does not apply to _____
A : entire nations.
B : natural resources.
C : individuals.
D : firms.
E : the regions of a country.

Correct Answer : B

74 : Comparativeadvantage is measured in terms of _____
A : opportunity costs.
B : absolute advantage.
C : sunk costs.
D : dollar costs.
E : trade.

Correct Answer : A

75 : If labor in the United States is more productive than England, then _____
A : the United States is better off for trading with England.
B : England is worse off for trading with the United States.
C : neither country will benefit from trading.
D : both countries will benefit from trading.
E : England does not have a comparative advantage.

Correct Answer : D

76 : Comparative advantage refers to _____
A : the ability of an individual to produce a greater amount of a good than another individual.
B : the ability of an individual to produce a lesser amount of a good than another individual.
C : the ability of an individual to produce a good at a lower opportunity cost than another individual.
D : the ability of an individual to produce a good at a lower dollar cost than another individual.
E : the ability of an individual to produce a good using fewer labor hours than other individuals.

Correct Answer : C

77 : The law of comparative advantage states that the person who _____ should produce the good.
A : has the lowest opportunity cost of producing a good
B : can produce a good using the fewest resources
C : can produce a good using the most expensive resources
D : has the most desire for a good
E : has produced a particular good in the past

Correct Answer : A

78 : _____ states that the person with the lowest opportunity cost should produce the good.
A : Specialization
B : Exchange
C : Arbitrage
D : Absolute advantage
E : Comparative advantage

Correct Answer : E

79 : 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.

Correct Answer : A

80 : 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 in the production of pencils.
B : Bob has an absolute advantage in the production of pens.
C : Bob has a comparative advantage in the production of pencils.
D : Don has a comparative advantage in the production of pens.
E : Don does not have a comparative advantage in the production of either good.

Correct Answer : B

81 : 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 can wash two cars in the time it takes Jason 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 Megan.

Correct Answer : D

82 : Janis mows a lawn in 1 hour and types a paper in 1 hour. Kristen mows a 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 the activities and a comparative advantage in typing.
C : Janis has an absolute advantage in both the 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.

Correct Answer : D

83 : 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.

Correct Answer : E

84 : 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.

Correct Answer : E

85 : 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.

Correct Answer : E

86 : If Robin has an absolute advantage in both gardening and baking when compared to Robert, then _____
A : Robin cannot benefit by trading with Robert and should instead specialize in both gardening and baking.
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.

Correct Answer : D

87 : If one person has an absolute advantage in producing two goods, then that person _____
A : must also have a comparative advantage in producing both the goods.
B : cannot benefit from trade.
C : cannot have a comparative advantage in producing either good.
D : will have a comparative advantage in producing only one good.
E : should specialize in the production of both the goods.

Correct Answer : D

88 : If Sam can chop 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.

Correct Answer : C

89 : 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.

Correct Answer : E

90 : Hans can do 4 loads of laundry or type 6 pages in an hour. Heidi can do 12 loads of laundry or type 8 pages in an hour. Which of the following is correct?
A : Heidi has both an absolute and a comparative advantage in typing.
B : Heidi has both an absolute and a comparative advantage in doing laundry.
C : Heidi 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.

Correct Answer : B

91 : In one week, Sami can knit 5 sweaters or bake 240 cookies. In one week, Leila can knit 15 sweaters or bake 480 cookies. Which of the following is correct?
A : Sami has an absolute and a comparative advantage in both tasks.
B : Leila has an absolute and a comparative advantage in both tasks.
C : Sami has an absolute advantage in both tasks and a comparative advantage in knitting sweaters.
D : Leila has an absolute advantage in both tasks and a comparative advantage in knitting sweaters.
E : Sami has an absolute advantage in both tasks and a comparative advantage in baking cookies.

Correct Answer : D

92 : Eileen has a comparative advantage over Jan in piano tuning, but not shoe polishing. Which of the following is correct?
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 only in piano tuning

Correct Answer : C

93 : 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 correct?
A : The opportunity cost of painting is higher for Helen.
B : The opportunity cost of baking cakes is lower for Josh.
C : Helens opportunity cost of painting one room is equal to 1/40 of a cake.
D : Joshs opportunity cost of baking one cake is equal to painting 60 rooms.
E : The opportunity cost of cakes cannot be computed.

Correct Answer : B

94 : 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, Helens opportunity cost of baking one cake is equal to _____
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.

Correct Answer : B

95 : 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, Joshs 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.

Correct Answer : C

96 : Hans can do 4 loads of laundry and type 6 pages per hour. Heidi can do 12 loads of laundry and type 8 pages per hour. Hanss opportunity cost of doing one load of laundry is _____
A : equal to typing 12 papers.
B : equal to typing 8 papers.
C : equal to typing 1 1/2 pages.
D : equal to typing 2/3 of a page.
E : impossible to compute without additional information.

Correct Answer : C

97 : Hans can do 4 loads of laundry and type 6 pages per hour. Heidi can do 12 loads of laundry and type 8 pages per hour. Heidis opportunity cost of doing one load of laundry is _____
A : equal to typing 4 pages.
B : equal to typing 6 pages.
C : equal to typing 2/3 of a page.
D : equal to typing 3/2 of a page.
E : impossible to compute without additional information.

Correct Answer : C

98 : Hans can do 4 loads of laundry and type 6 pages per hour. Heidi can do 12 loads of laundry and type 8 pages per hour. Hanss opportunity cost of typing one page is:
A : equal to 12 loads of laundry.
B : equal to 8 loads of laundry.
C : equal to 3/2 of a load of laundry.
D : equal to 2/3 of a load of laundry.
E : impossible to compute without additional information.

Correct Answer : D

99 : Hans can do 4 loads of laundry and type 6 pages per hour. Heidi can do 12 loads of laundry and type 8 pages per hour. Heidis opportunity cost of typing one page is _____
A : equal to 4 loads of laundry.
B : equal to 6 loads of laundry.
C : equal to 3/2 of a load of laundry.
D : equal to 2/3 of a load of laundry.
E : impossible to compute without additional information.

Correct Answer : C

100 : In one week, Sami can knit 5 sweaters or bake 240 cookies. In one week, Leila can knit 15 sweaters or bake 480 cookies. Samis opportunity cost of knitting one sweater is _____
A : equal to 480 cookies.
B : equal to 240 cookies.
C : equal to 48 sweaters.
D : equal to 1/48 of a cookie.
E : equal to 48 cookies.

Correct Answer : E

101 : In one week, Sami can knit 5 sweaters or bake 240 cookies. In one week, Leila can knit 15 sweaters or bake 480 cookies. Samis opportunity cost of baking one cookie is _____
A : equal to 1 sweater.
B : equal to 5 sweaters.
C : equal to 48 sweaters.
D : equal to 1/48 of a sweater.
E : equal to 48 cookies.

Correct Answer : D

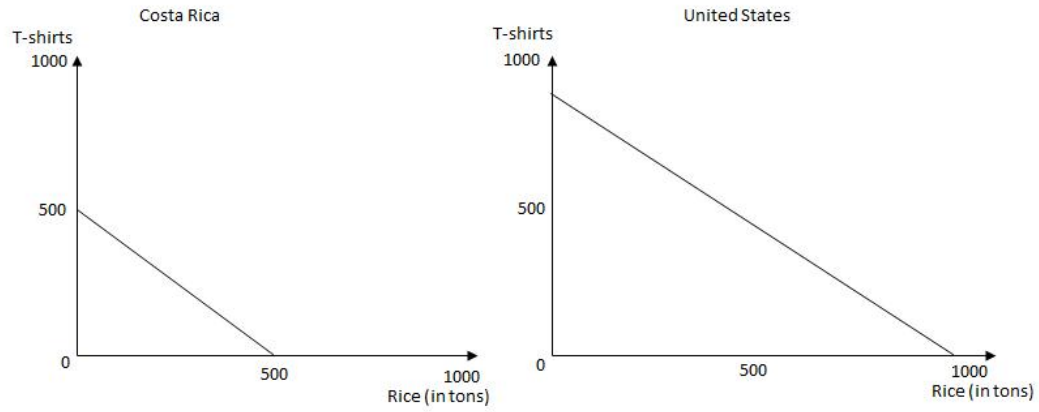
102 : In one week, Sami can knit 5 sweaters or bake 240 cookies. In one week, Leila can knit 15 sweaters or bake 480 cookies. Leilas opportunity cost of knitting one sweater is _____
A : equal to 240 cookies.
B : equal to 480 cookies.
C : equal to 32 cookies.
D : equal to 1/32 of a cookie.
E : equal to 16 cookies.

Correct Answer : C

103 : In one week, Sami can knit 5 sweaters or bake 240 cookies. In one week, Leila can knit 15 sweaters or bake 480 cookies. Leilas opportunity cost of baking one cookie is _____
A : equal to 5 sweaters.
B : equal to 15 sweaters.
C : equal to 32 sweaters.
D : equal to 1/32 of a sweater.
E : equal to 480 sweaters.

Correct Answer : D

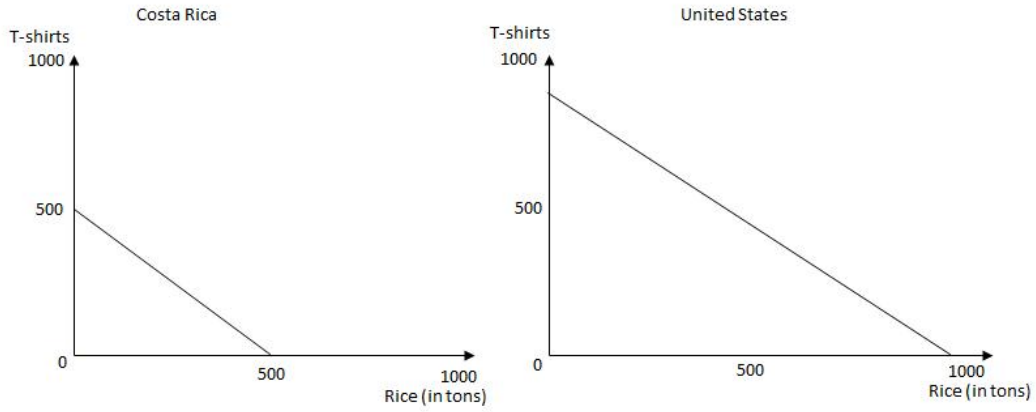
104 : Exhibit 2.1



Refer to Exhibit 2.1, which shows the production for rice and T-shirts for two countries: Costa Rica and the United States. If Costa Rica produces exactly half of its total production in each good, what will it produce?
A : 100 T-shirts and 100 tons of rice
B : 200 T-shirts and 200 tons of rice
C : 250 T-shirts and 250 tons of rice
D : 300 T-shirts and 300 tons of rice
E : 400 T-shirts and 400 tons of rice

Correct Answer : C

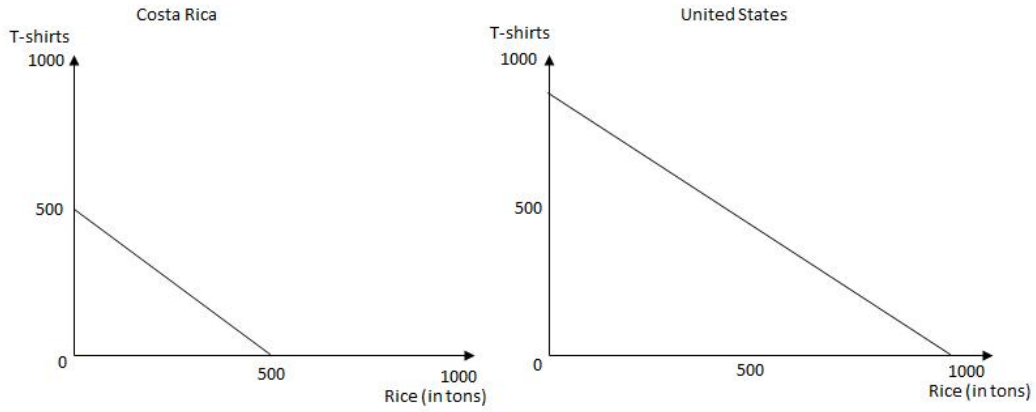
105 : Exhibit 2.1



Refer to Exhibit 2.1, which shows the production for rice and T-shirts for two countries: Costa Rica and the United States. If the United States produces exactly half of its total production in each good, what will it produce?
A : 100 T-shirts and 100 tons of rice
B : 250 T-shirts and 250 tons of rice
C : 500 T-shirts and 500 tons of rice
D : 750 T-shirts and 750 tons of rice
E : 1000 T-shirts and 1000 tons of rice

Correct Answer : C

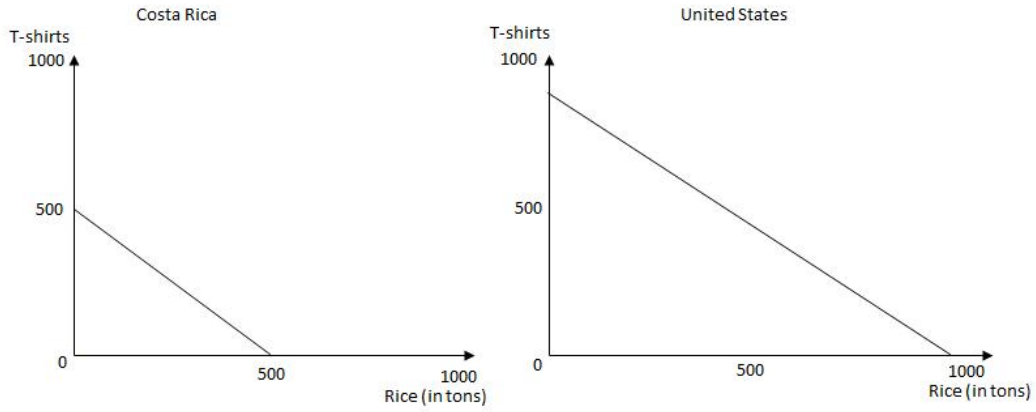
106 : Exhibit 2.1



Refer to Exhibit 2.1, which shows the production for rice and T-shirts for two countries: Costa Rica and the United States. In Costa Rica, the opportunity cost of 1 ton of rice is _____
A : equal to 1/2 of a T-shirt
B : equal to 3/4 of a T-shirt
C : equal to 1 T-shirt
D : equal to 11/2 T-shirts
E : equal to 2 T-shirts

Correct Answer : C

107 : Exhibit 2.1



Refer to Exhibit 2.1 which shows the production for rice and T-shirts for two countries: Costa Rica and the United States. In the United States, the opportunity cost of 1 ton of rice is:For answer to be correct, for the United States, on the vertical axis, maximum T-shirt production should touch 1000 units.
A : equal to 1/2 of a T-shirt.
B : equal to 3/4 of a T-shirt.
C : equal to 1 T-shirt.
D : equal to 11/2 T-shirts.
E : equal to 2 T-shirts.

Correct Answer : C

108 : Refer to Exhibit 2.1, which shows the production for rice and t-shirts for two countries: Costa Rica and the United States. Assume exactly country produces half of its total production in each good and they are the only producers of T-shirts and rice. What is the total production of T-shirts and rice?
A : 1500 T-shirts and 1500 tons of rice.
B : 1000 T-shirts and 1500 tons of rice.
C : 1000 T-shirts and 500 tons of rice.
D : 750 T-shirts and 750 tons of rice.
E : 500 T-shirts and 1000 tons of rice.

Correct Answer : D

109 : 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 in different currencies is exchanged directly.
E : goods are used to buy money.

Correct Answer : B

110 : Bill trades a gingersnap for a chocolate chip cookie. This is an example of _____
A : barter.
B : a credit transaction.
C : a monetary exchange.
D : privatization.
E : the division of labor.

Correct Answer : A

111 : 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 goods to be produced at a lower cost.
E : it is considered less valuable than the goods it is used to buy.

Correct Answer : C

112 : 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.

Correct Answer : E

113 : The direct exchange of one product for another without using money is called _____.
A : illegal.
B : efficient.
C : specialization.
D : e-money.
E : barter.

Correct Answer : E

114 : A medium of exchange must be _____
A : different for different countries.
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.

Correct Answer : B

115 : Hans can do 4 loads of laundry and type 6 pages per hour. Heidi can do 12 loads of laundry and type 8 pages per hour. Hans and Heidi would both be better off if _____
A : Hans specialized in typing and Heidi in doing laundry, trading with each other for the other service.
B : Hans specialized in doing laundry and Heidi in typing, trading with each other for the other service.
C : each did their own laundry and typing.
D : Heidi did all of the typing and all of the laundry.
E : Hans did all of the typing and all of the laundry.

Correct Answer : A

116 : In one week, Sami can knit 5 sweaters or bake 240 cookies. In one week, Leila can knit 15 sweaters or bake 480 cookies. Sami and Leila would produce the maximum quantities of both cookies and sweaters if _____

A : Sami knitted and baked and Leila did nothing.
B : Leila knitted and baked and Sami did nothing.
C : Sami knitted and Leila baked.
D : Leila knitted and Sami baked.
E : Sami knitted and baked and Leila just knitted.

Correct Answer : D

117 : All of the following are examples of specialization except for _____
A : a director who intends to make a film without any help from writers, editors, and others.
B : a restaurant that provides continental food in all its outlets.
C : the credits at the end of a movie.
D : professional mourners in Taiwan.
E : websites that sell musical bowls.

Correct Answer : A

118 : 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 cardiology and orthopedic surgery
D : a family that eats at Wendys every Thursday night
E : a retailer who sells goods but does not provide services

Correct Answer : A

119 : The division of labor _____
A : reduces the number of stages in the production process.
B : allows tasks to be performed more efficiently.
C : makes people work less efficiently.
D : means that there are fewer departments in an organization.
E : reduces the scale of production and increases the cost of production.

Correct Answer : B

120 : The division of labor facilitates productivity increases for all of the following reasons, except for one. Which of the following is the exception?
A : It allows people to perform 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 performing that task.
D : Greater experience at a task leads to the introduction of more sophisticated production techniques.
E : It often permits the introduction of labor-saving machinery.

Correct Answer : B

121 : Which of the following is not a gain from the 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.

Correct Answer : D

122 : The division of labor increases productivity because _____
A : tasks can be assigned according to individual abilities and skills.
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.

Correct Answer : A

123 : The division of labor means _____
A : discrimination in labor markets.
B : separating a job into smaller tasks to be completed by different people.
C : dividing one workers time among different jobs and duties.
D : assigning the same task to different groups of people.
E : the fact that two 20-year-olds are more productive than one 40-year-old.

Correct Answer : B

124 : Breaking down the production of a good into separate tasks is known as _____
A : barter.
B : a credit transaction.
C : a monetary exchange.
D : the specialization of labor
E : the division of labor.

Correct Answer : E

125 : 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.

Correct Answer : C

126 : In economics, specialization means _____
A : producing something using only one type of a natural resource.
B : focusing only on one type of product.
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.

Correct Answer : C

127 : 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 firms resource suppliers
E : dividing an assembly process into separate stages of production

Correct Answer : E

128 : 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 : the amount of goods produced

Correct Answer : E

129 : A curve showing alternative combinations of goods that can be produced when available resources are used efficiently is known as the _____
A : circular-flow model.
B : IS-LM model.
C : production function.
D : productivity possibilities frontier.
E : production possibilities frontier.

Correct Answer : E

130 : Getting the most from available resources is known as _____
A : demand.
B : efficiency.
C : productivity.
D : possibilities.
E : production.

Correct Answer : E

131 : At all points along the production possibilities frontier, _____
A : the greatest achievable output levels are produced.
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.

Correct Answer : A

132 : When drawing a production possibilities frontier for two goods, all of the following are usually assumed, except for one. Which of the following 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.

Correct Answer : A

133 : An economys production possibilities frontier _____
A : helps explain the immense complexity of the real economy.
B : demonstrates that there is no problem of scarcity for society as a whole.
C : is based on unrealistic assumptions and 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.

Correct Answer : D

134 : Which of the following is measured along an axis of the production possibilities frontier diagram?
A : the quantity of a good produced
B : the price of a good produced
C : the quantity of natural resources
D : the state of technology
E : societys welfare and satisfaction

Correct Answer : A

135 : Efficiency involves _____
A : producing output using a large amount of labor.
B : producing output using a large amount of capital.
C : producing at a point inside the production possibilities frontier.
D : producing only one out of many possible commodities.
E : getting the maximum possible output from available resources.

Correct Answer : E

136 : 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 its production possibilities frontier.
D : only one type of commodity.
E : more of one product with no decrease in the production of any other product.

Correct Answer : B

137 : 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 available technology.
E : is less desirable than a point inside the frontier.

Correct Answer : D

138 : A point outside the production possibilities frontier _____
A : 1 unit of capital goods is given up for 7 units of consumer goods.
B : 2 units of capital goods are given up for 13 units of consumer goods.
C : 1 unit of capital goods is given up for 13 units of consumer goods.

D : 2 units of capital goods are given up for 7 units of consumer goods.
E : 2 units of capital goods are given up for 28 units of consumer goods.

Correct Answer : E

139 : A point outside the production possibilities frontier _____
A : 35 units of capital goods
B : 15 units of consumer goods
C : 13 units of consumer goods
D : 7 units of consumer goods
E : 5 units of consumer goods

Correct Answer : A

140 : A point outside the production possibilities frontier _____
A : 13 units of capital goods
B : 7 units of consumer goods
C : 5 units of consumer goods
D : 35 units of consumer goods
E : 15 units of consumer goods.

Correct Answer : E

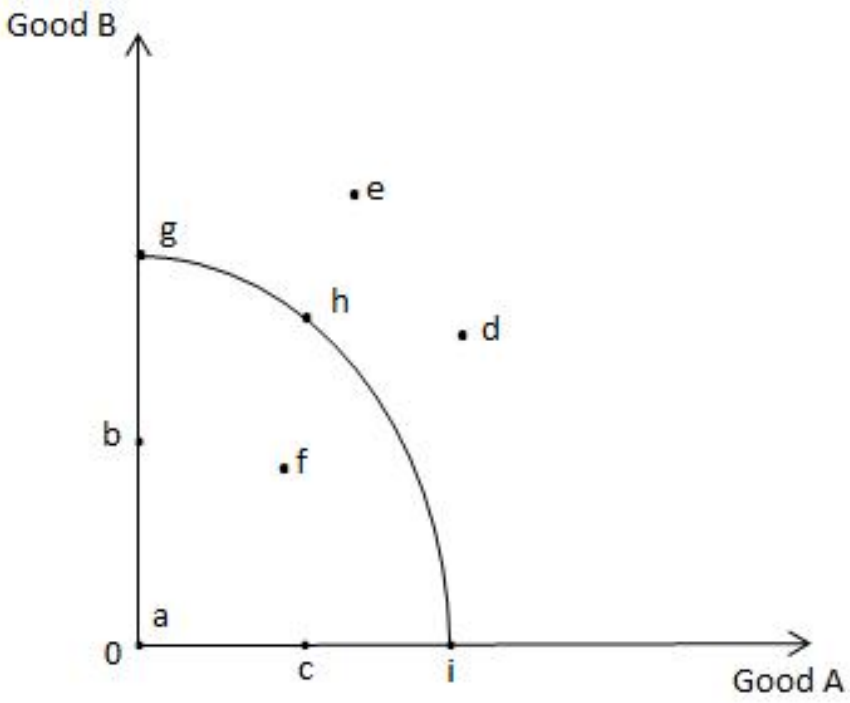
141 : A point outside the production possibilities frontier _____
A : 35 units of capital goods.
B : 13 units of consumer goods.
C : 7 units of consumer goods.
D : 15 units of consumer goods.
E : 5 units of consumer goods.

Correct Answer : B

142 : A point outside the production possibilities frontier _____
A : It represents unemployment of resources.
B : It represents zero production of consumer goods.
C : It would not represent an efficient combination of goods.
D : It cannot be reached using available technology.
E : It is less desirable than a point inside the frontier.

Correct Answer : B

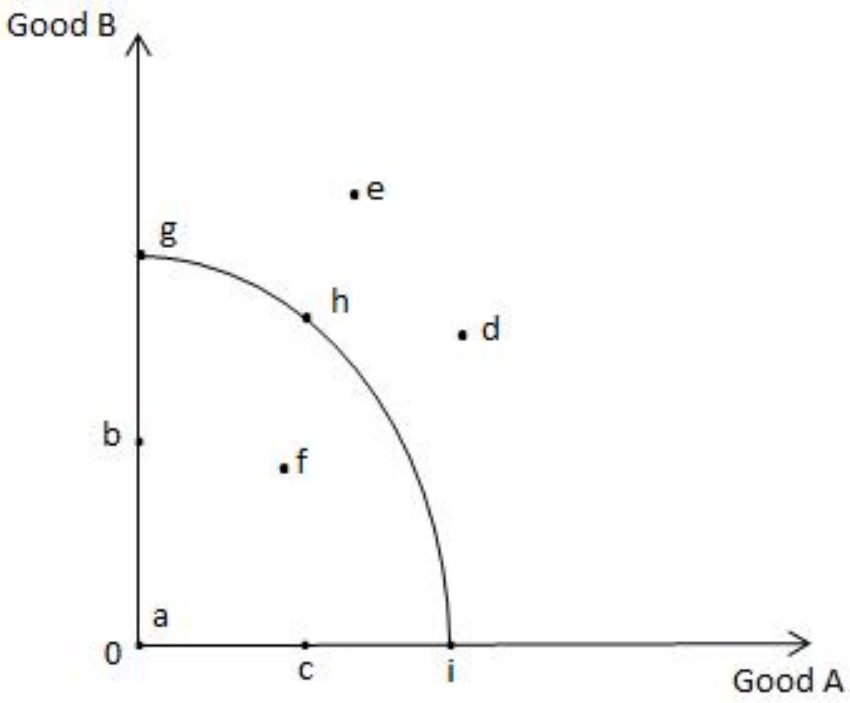
143 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. If all of the economys resources are used efficiently to produce only Good B, then the economy will be at point _____.
A : g
B : b
C : h
D : i
E : e

Correct Answer : A

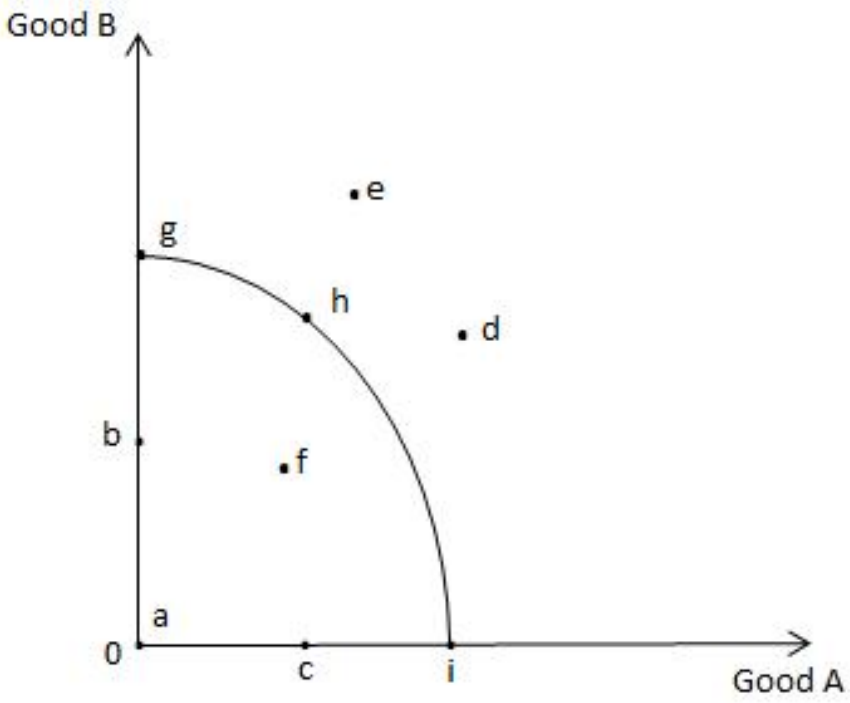
144 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. If all of the economys resources are used efficiently to produce only Good A, then the economy will be at point _____.
A : g
B : b
C : h
D : i
E : e

Correct Answer : D

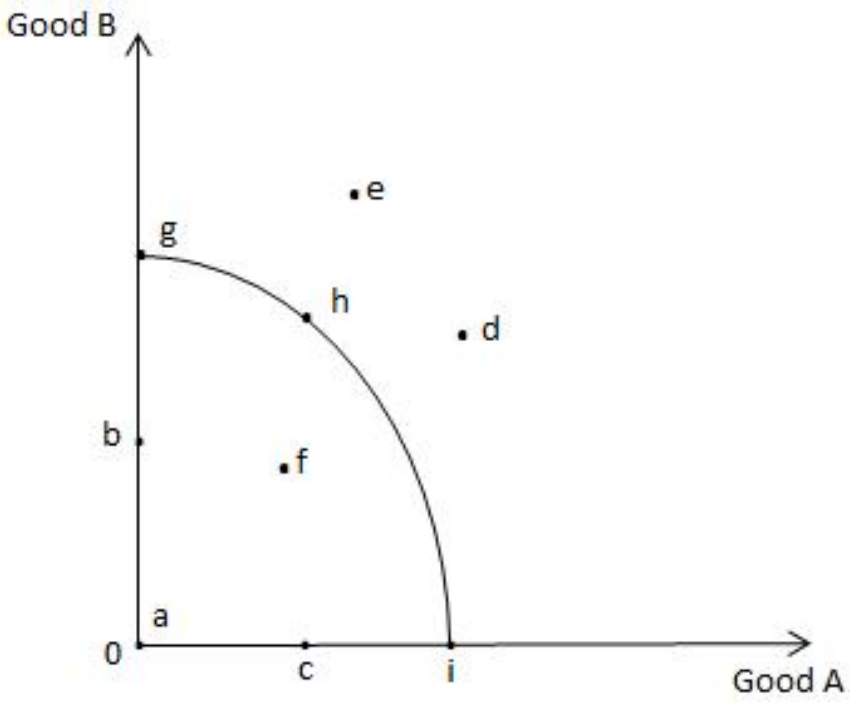
145 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. If given the quantity of resources and level of technology, which of the following points is unattainable?
A : g
B : b
C : h
D : i
E : e

Correct Answer : E

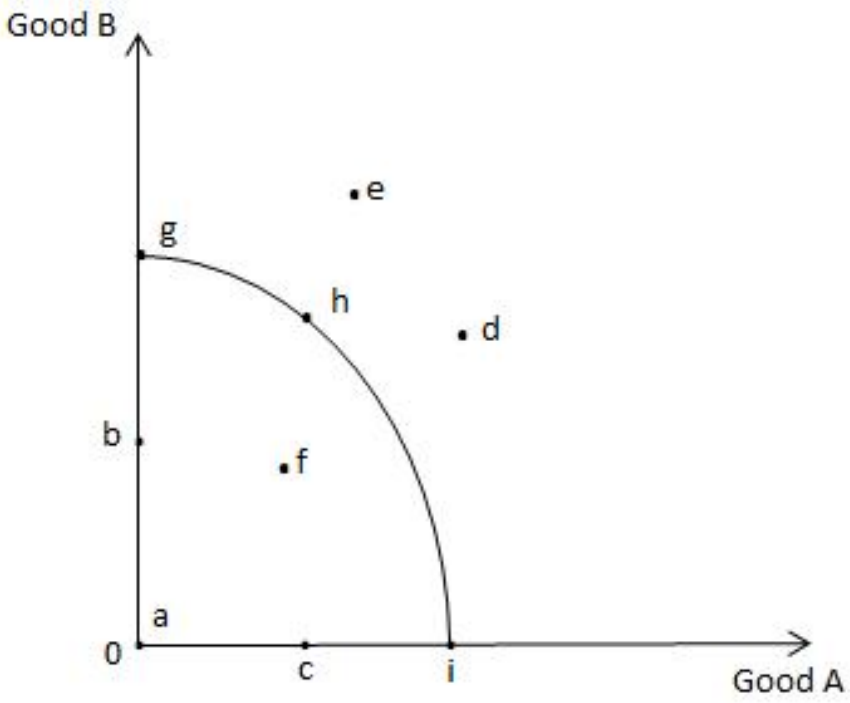
146 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. Which of the following points represents an inefficient use of the economys resources?
A : h
B : d
C : f
D : i
E : e

Correct Answer : C

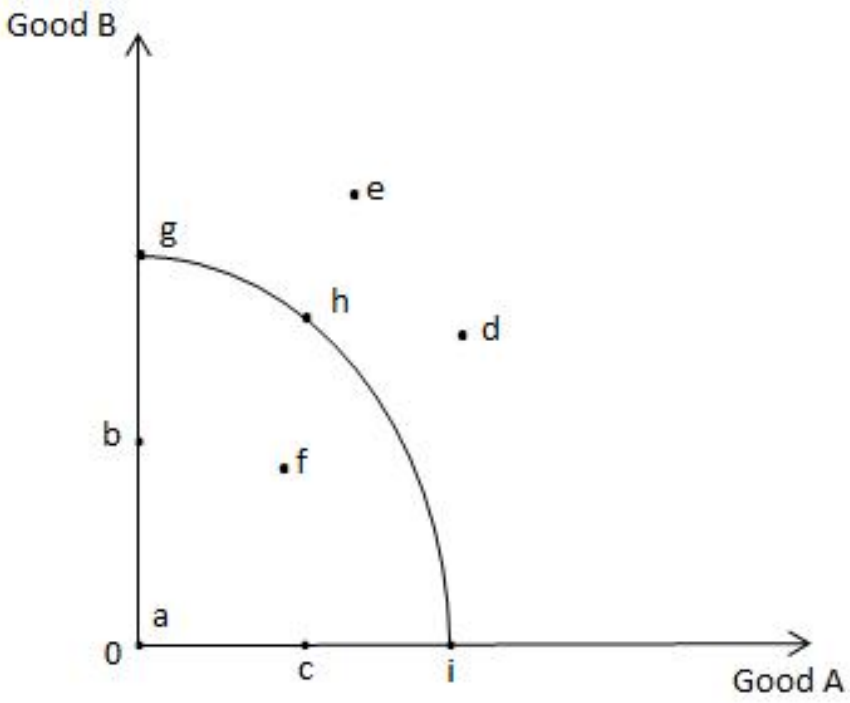
147 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. If resources are used fully and efficiently, then the economy can produce at point(s) _____
A : f
B : a or b
C : c
D : d or e
E : g, h, or i

Correct Answer : E

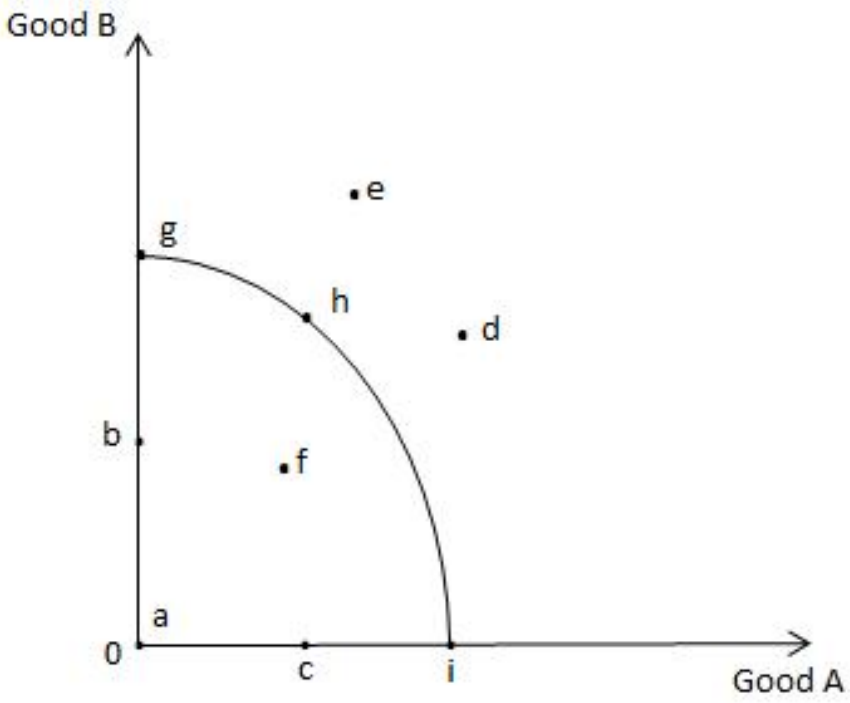
148 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. Point e represents _____
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 : a possible efficient combination of Good A and Good B.
E : the combination of Good A and Good B that will maximize profits.

Correct Answer : B

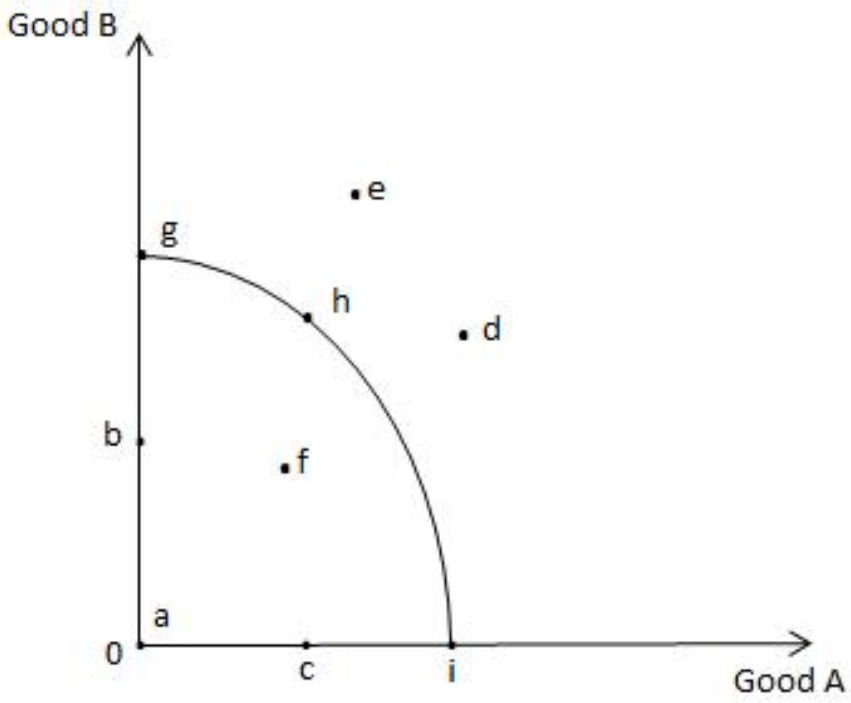
149 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. Point f represents _____
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 combination of Good A and Good B that will maximize profits.

Correct Answer : D

150 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. Point g is efficient because _____
A : the only way to increase the production of Good A is to decrease the production of Good B.
B : the economy can increase the production of both Good A and Good B.
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.

Correct Answer : A

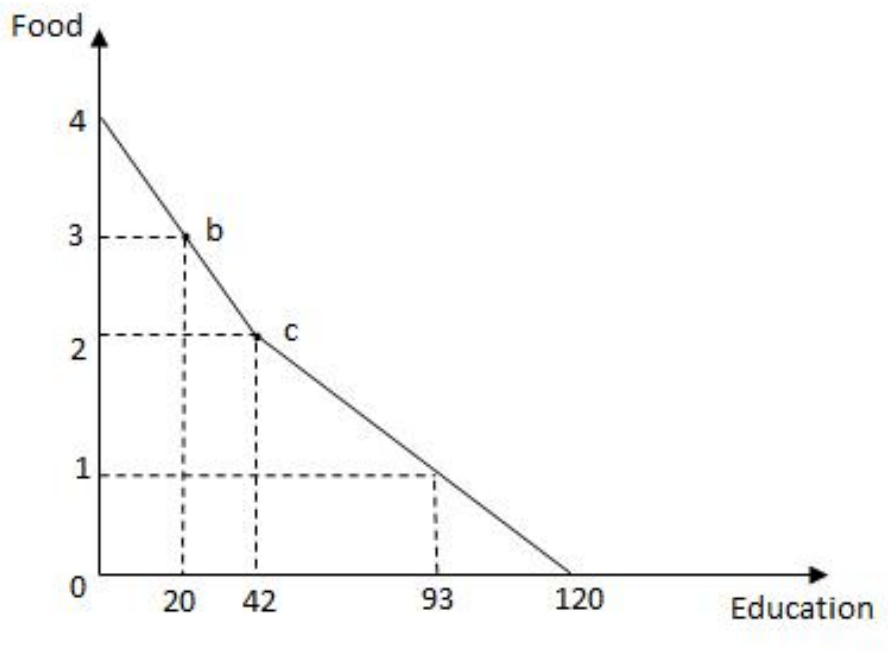
151 : Points inside the production possibilities frontier represent _____
A : full and efficient use of all resources.
B : inefficiency or unemployment.
C : currently unattainable combinations of outputs.
D : currently unattainable combinations of resources.
E : the most desirable combinations of outputs.

Correct Answer : B

152 : 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.

Correct Answer : D

153 : Exhibit 2.3



Refer to Exhibit 2.3, which shows the production possibilities frontier for education and food. The opportunity cost of moving from point c to point b is _____
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.

Correct Answer : B

154 : 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.
C : efficiency decreases.
D : the opportunity cost of producing both goods remains constant.
E : the quantity produced of the other good will be reduced.

Correct Answer : E

155 : If an economy is operating at a point inside the production possibilities frontier, then:
A : some of the economys 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 many wages.

Correct Answer : A

156 : A straight-line possibilities frontier indicates that _____
A : the slope of the line is equal to ?1.
B : resources are not being used efficiently.
C : resources are unemployed.

D : society is not using the latest technology.
E : resources are equally adaptable to the production of either product.

Correct Answer : E

157 : A production possibilities frontier will be bowed out if _____
A : resources are scarce.
B : resources are used efficiently.
C : the production of only one good involves an opportunity cost.
D : resources are not perfectly adaptable to the production of each good.
E : technology improves.

Correct Answer : D

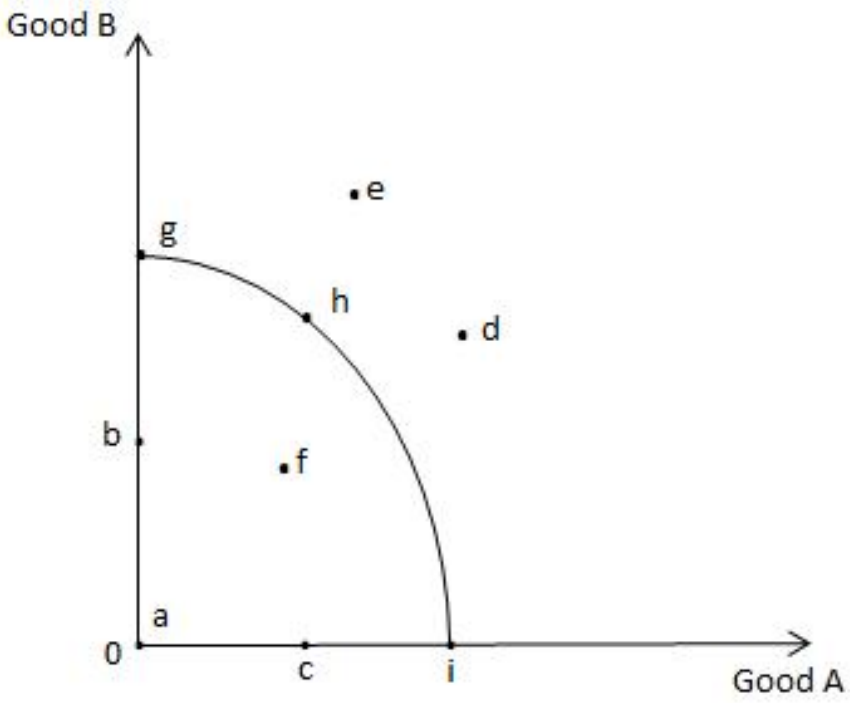
158 : As resources are not perfectly adaptable to the production of both Good A and Good B, _____.
A : the opportunity cost of Good A increases as the production of Good A increases
B : the opportunity cost of Good A decreases as the production of Good A increases
C : it is impossible for the economy 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

Correct Answer : A

159 : On a bowed-out production possibilities frontier that shows the 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 : equal to 10 units of Good A.
E : equal to 10 units of Good B.

Correct Answer : B

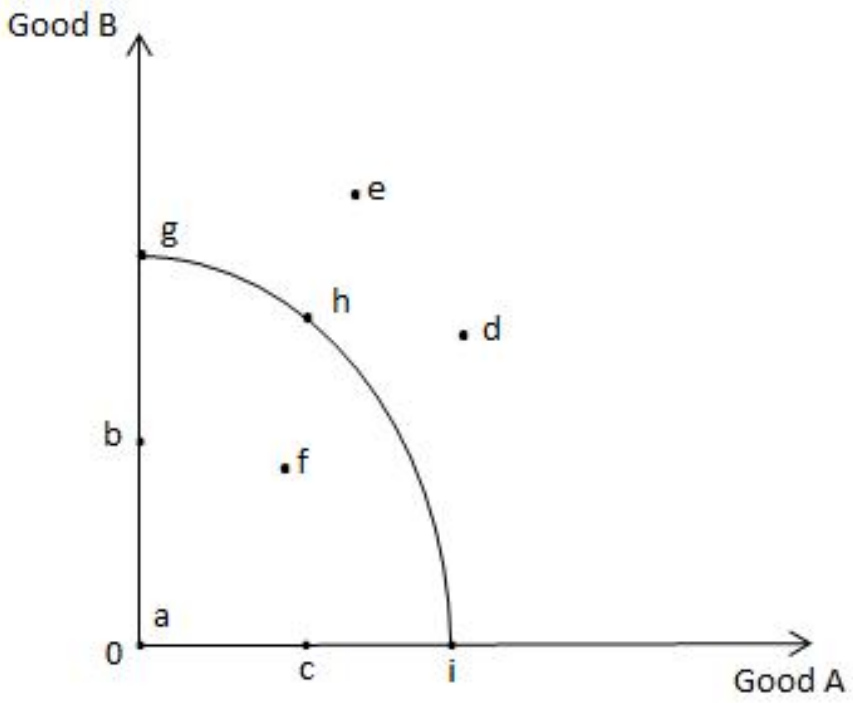
160 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. When moving from point g to point f, the production of _____
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 increases.
D : Good B decreases but Good A does not increase as much as if resources were used more efficiently.
E : Good B increases and the production of Good A decreases.

Correct Answer : D

161 : Exhibit 2.2



Refer to Exhibit 2.2, which shows the production possibilities frontier for Good A and Good B. When moving from point f to point g, the production of _____
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 increases.
D : both Good A and Good B decreases.
E : Good B increases and the production of Good A decreases.

Correct Answer : E

162 : A downward-sloping straight-line production possibilities frontier indicates _____
A : that society cannot decide which good it prefers.
B : an absence of scarcity.
C : a constant opportunity cost.
D : that labor is inefficient.
E : that labor is specialized.

Correct Answer : C

163 : 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 the production possibilities frontier.

Correct Answer : C

164 : 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.

Correct Answer : B

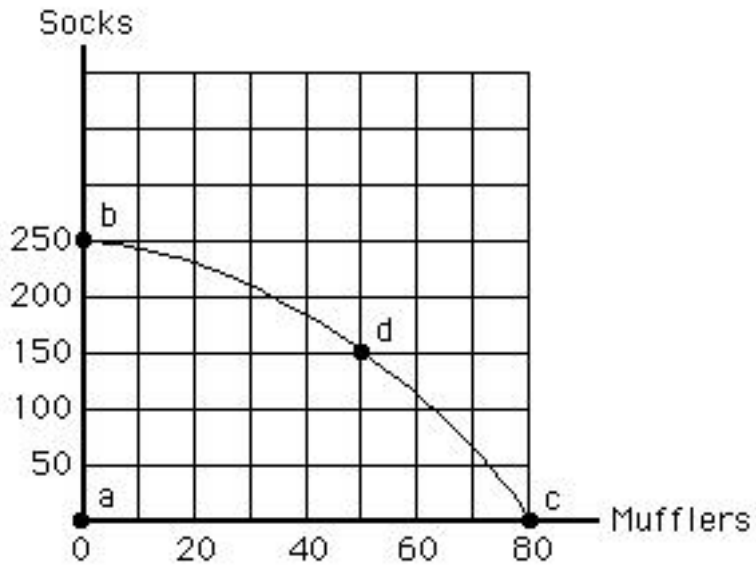
165 : A straight-line production possibilities frontier indicates that _____
A : the problem of scarcity does not exist.
B : resources are imperfect substitutes.
C : opportunity costs are constant.
D : technology is rapidly expanding.
E : some resources are not being used efficiently.

Correct Answer : C

166 : Any movement along a bowed-out production possibilities frontier involves _____
A : the production of more of both goods.
B : the production of more of one good and less of the other.
C : the consumption of less of both goods.
D : the consumption of more capital goods.
E : an improvement in technology.

Correct Answer : B

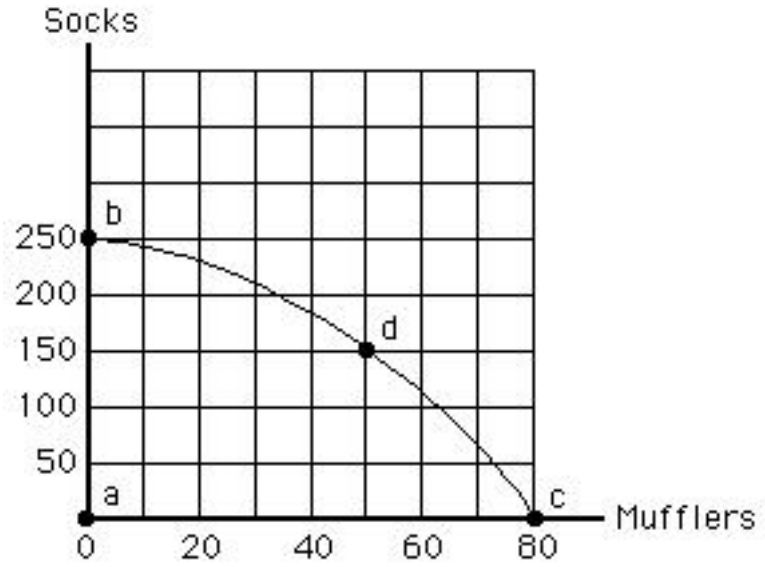
167 : Exhibit 2.4



Refer to Exhibit 2.4, which shows the production possibilities frontier for mufflers and socks. The opportunity cost of moving from point b to d is _____
A : equal to 30 mufflers.
B : equal to 50 mufflers.
C : equal to 100 socks.
D : equal to 150 socks.
E : equal to 250 socks.

Correct Answer : C

168 : Exhibit 2.4



Refer to Exhibit 2.4, which shows the production possibilities frontier for mufflers and socks. If society moves from point c to point d, then society:
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.

Correct Answer : B

169 : On the production possibilities frontier, the opportunity cost of producing one more unit of a commodity per 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 the government for the production, sale, and use of the commodity.

Correct Answer : B

170 : Which of the following would shift the production possibilities frontier outward?
A : an increase in the size of the labor force
B : existing resources and technology being used more efficiently
C : more money being printed by the government
D : the end of a strike by a labor union
E : societys desire to produce more of one of the goods

Correct Answer : A

171 : 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 the fuel efficiency of cars
D : a decrease in the size of the labor force
E : no change in the production process

Correct Answer : E

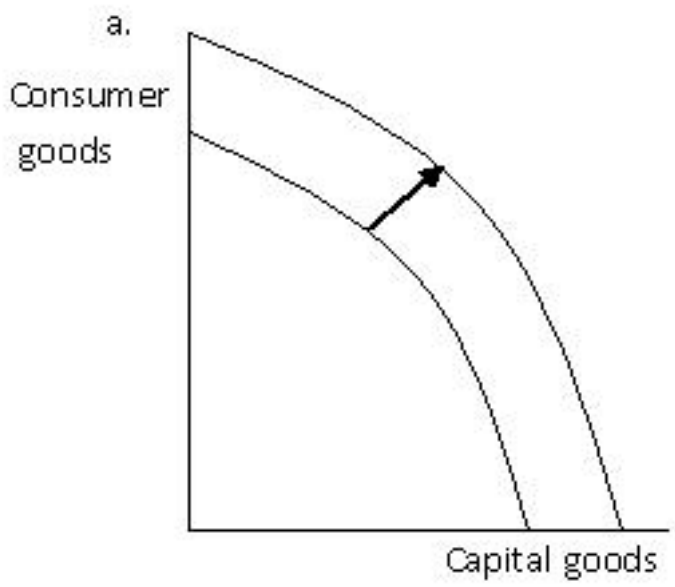
172 : Which of the following would cause an outward shift of the production possibilities frontier?
A : a reduction in inefficiency
B : a reduction in the size of the labor force
C : an improvement in technology
D : a change in the combination of goods produced
E : an increase in opportunity costs

Correct Answer : C

173 : An improvement in technology, all other things remaining constant, _____
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 by 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.

Correct Answer : D

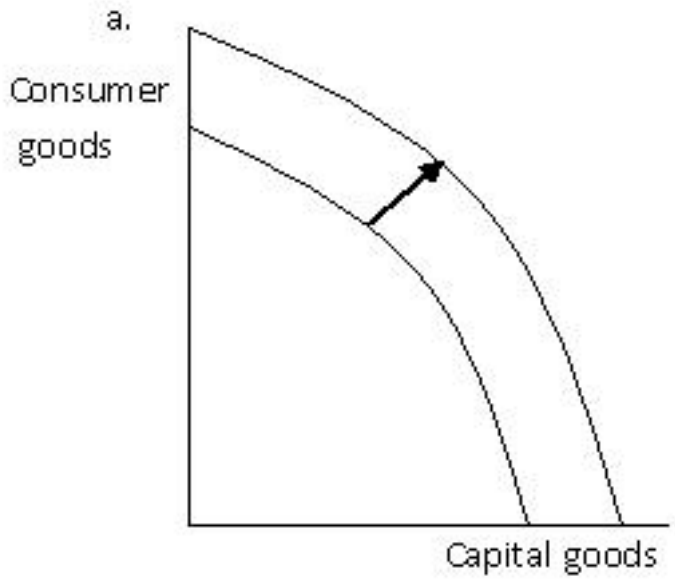
174 : Exhibit 2.5



Refer to Exhibit 2.5, which shows the production possibilities frontier for capital goods and consumer goods. Suppose an influx of immigrants benefits the production of both consumer goods and capital goods. In this case, which of the graphs best illustrates the impact on the production possibilities frontier?
A : a
B : b
C : c
D : d
E : b and d

Correct Answer : A

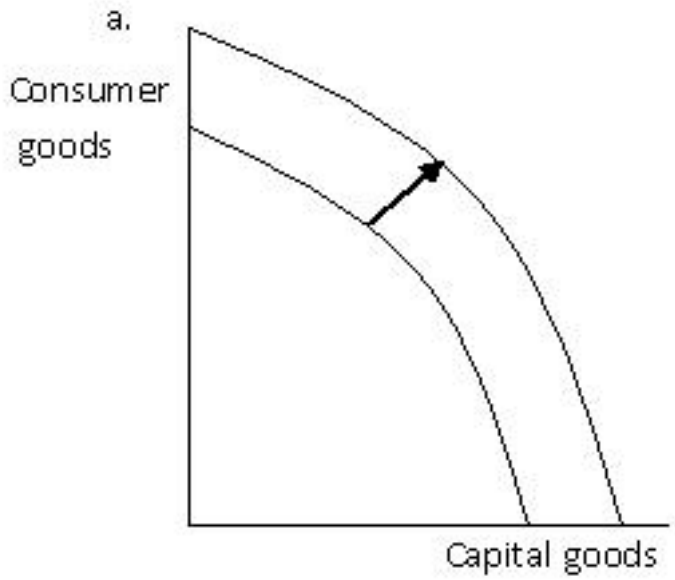
175 : Exhibit 2.5



Refer to Exhibit 2.5, which shows the production possibilities frontier (PPF) for capital goods and consumer goods. Which of the graphs best illustrates the impact on the production possibilities frontier of a decrease in unemployment?
A : a
B : b
C : c
D : d
E : b and d

Correct Answer : D

176 : Exhibit 2.5



Refer to Exhibit 2.5, which shows the production possibilities frontier for capital goods and consumer goods. Which of the graphs given best illustrates the impact on the production possibilities frontier of a technological improvement that will make the use of the resources used to produce consumer goods more efficient?
A : a
B : b
C : c
D : d
E : b and d

Correct Answer : C

177 : An improvement in the 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.

Correct Answer : A

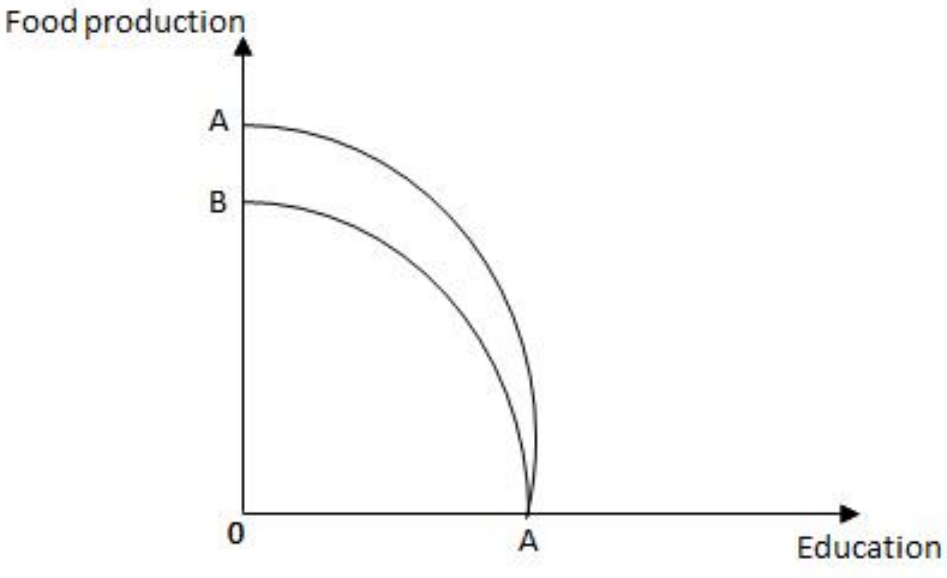
178 : A production possibilities frontier can shift outward for all of the following reasons except _____
A : a decrease in the size of the labor force.
B : an increase in population.
C : an improvement in technology.
D : a larger work force.
E : a larger capital stock.

Correct Answer : A

179 : The production possibilities frontier of an economy can shift inward if there is _____
A : a natural disaster in the economy.
B : a stable political environment in the economy.
C : an improvement in technology in the economy.
D : a larger work force in the economy.
E : a larger capital stock in the economy.

Correct Answer : A

180 : Exhibit 2.6

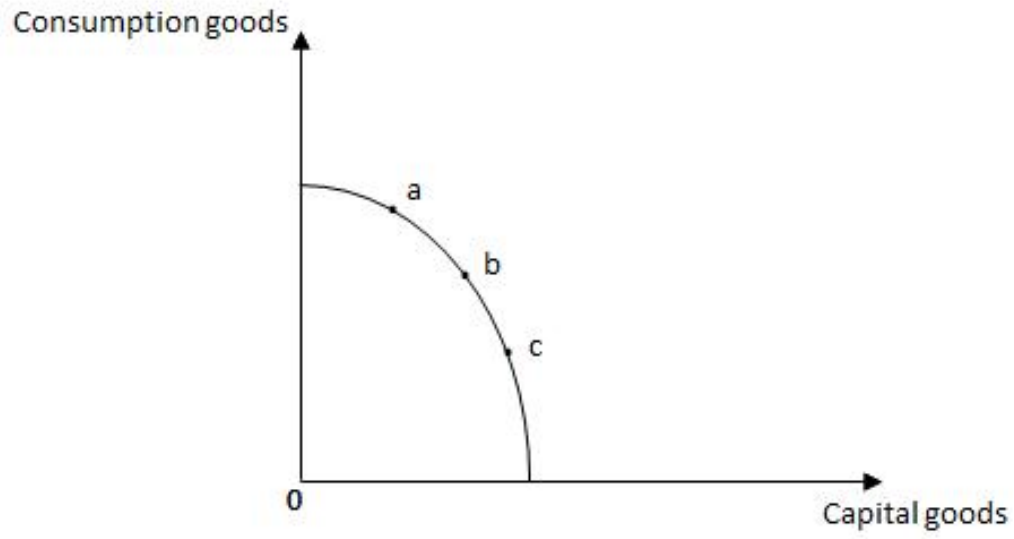


Refer to Exhibit 2.6, which shows the production possibilities frontier for food production and education. Which of the following would cause the production possibilities frontier to shift from AA to BA?
A : a drought that affected food production but had no effect on education

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

Correct Answer : A

181 : Exhibit 2.7



Refer to Exhibit 2.7, which shows the production possibilities frontier for capital goods and consumer goods. Identify the correct statement.
A : If the economy is initially at point b, an increase in capital stock will lead to a movement to point c.
B : If the economy is initially at point c, an increase in capital stock will lead to a movement to point b.
C : Economic growth will allow the economy to produce at a point that lies on a higher production possibilities frontier.
D : Economic growth will allow the economy to produce at a point that lies on a lower production possibilities frontier.
E : If the economy is initially at point a, an improvement in the rules of the game will lead to a movement to point c.

Correct Answer : C

182 : The production possibilities frontier will shift if there is a change in _____
A : technology.
B : the unemployment level.
C : product prices.
D : societys preferences for goods.
E : the quantities of the two goods being produced.

Correct Answer : A

183 : 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 does 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 shifts outward over time.

Correct Answer : D

184 : 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.

Correct Answer : B

185 : Which of the following economic questions does the decision to produce butter instead of guns in an economy 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?

Correct Answer : A

186 : If dairy farmers use automatic milking machines instead of milking by hand, which of the following economic questions 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?

Correct Answer : B

187 : Which of the following economic questions 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?

Correct Answer : C

188 : Every economy must answer each of the following questions, except for one. Which of the following 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?

Correct Answer : B

189 : The economic question of what will be produced _____
A : is primarily answered by the government in a system of pure capitalism.
B : is primarily answered by markets in a command economy.
C : is 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.

Correct Answer : C

190 : The set of mechanisms and institutions that resolve the questions of what, how, and for whom goods are produced is called the _____
A : economic system.
B : circular-flow model.
C : business resolution device.
D : automatic stabilizer mechanism.
E : multiplier mechanism.

Correct Answer : A

191 : An economic system _____
A : must choose socialism to adequately answer the three basic economic questions.
B : is one that does not depend on an established legal system.
C : must choose pure capitalism to adequately answer the three basic economic questions.
D : is a set of social institutions and mechanisms organized to answer societys three primary economic questions.
E : can address the problem of scarcity only by embracing the social institution of private property.

Correct Answer : D

192 : Which system is characterized by the private ownership of resources and the use of prices to coordinate economic activity in unregulated markets?
A : a pure command system
B : a transitional system
C : a traditional system
D : a pure capitalist system
E : a mixed system

Correct Answer : D

193 : A system which is characterized by the private ownership of resources and the use of prices to coordinate economic activity in unregulated markets is known as a _____
A : traditional system.
B : transitional system.
C : pure command system.
D : mixed system.
E : pure capitalist system.

Correct Answer : E

194 : Which of the following is not a characteristic of pure capitalism?
A : private property rights
B : competitive product markets
C : laissez-faire policies
D : central planning
E : competitive labor markets

Correct Answer : D

195 : According to Adam Smith, invisible hand refers to _____
A : the hidden role of government in setting regulations that govern markets.
B : the most capable entrepreneurs in an economy.
C : the competitive market forces that determine prices.
D : the unseen mechanism of the financial markets that facilitates trade.
E : the role of technological change and random events in an economy.

Correct Answer : C

196 : A major distinguishing feature between capitalist and socialist (or command) economies is that _____
A : the average citizen is wealthy in capitalist economies, whereas the average citizen is poor in socialist economies.
B : decision making is decentralized in socialist economies, while decision making is centralized in capitalist economies.
C : resources are privately owned in capitalist economies, whereas private property rights are enforced in command economies.
D : resources are publicly owned in capitalist economies, whereas resources are privately owned in command economies.
E : decision making is decentralized under capitalism, while decision making is centralized in command economies.

Correct Answer : E

197 : Adam Smith believed that peoples pursuit of their own self-interests _____
A : tended to promote general welfare.
B : required the governments invisible hand to keep an economy running smoothly.
C : caused 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.

Correct Answer : A

198 : Pure capitalism and a pure command system are _____
A : two different ways of answering the basic economic questions.
B : two terms 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 of answering the basic economic questions.
E : two economic systems where the problem of scarcity does not exist.

Correct Answer : A

199 : Which system is characterized by the public ownership of resources and centralized

planning?
A : a pure command system
B : a transitional system
C : a traditional system
D : a pure capitalism system
E : a mixed system

Correct Answer : A

200 : A system which is characterized by the public ownership of resources and centralized planning is known as a _____
A : traditional system.
B : transitional system.
C : pure command system.
D : mixed system.
E : pure capitalist system.

Correct Answer : C

201 : In a command economy, _____
A : society makes every economic decision.
B : owners can sell their resources to the highest bidder.
C : no individual or group coordinates the economy.
D : 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.

Correct Answer : D

202 : 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.

Correct Answer : D

203 : The U.S. economy is best characterized as a _____
A : barter economy.
B : command economy.
C : mercantile economy.
D : mixed economy.
E : traditional economy.

Correct Answer : D

204 : Which system is characterized by the private ownership of some resources and the public ownership of other resources and where some markets are regulated by government?
A : a pure command system
B : a transitional system
C : a traditional system
D : a pure capitalist system

E : a mixed system

Correct Answer : E

205 : A system characterized by the private ownership of some resources and the public ownership of other resources and where some markets are regulated by government is known as a(n)_____.
A : traditional system.
B : transitional system.
C : pure command system.
D : mixed system.
E : pure capitalism system.

Correct Answer : D

206 : 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.

Correct Answer : D

207 : Recognizing the incentive power of property rights and markets, some of the most die-hard central planners are now allowing _____
A : influence from custom or religion.
B : family relations to play significant economic roles.
C : a role for markets.
D : communal ownership of property.
E : the basic economic questions to be decided by the government.

Correct Answer : C

208 : A command economy that is now allowing for a role for markets is known as a _____
A : traditional system.
B : transitional system.
C : pure command system.
D : mixed system.
E : pure capitalism system.

Correct Answer : D

209 : Charging interest is banned under Islamic law. This is an example of an economy that is _____
A : transitional.
B : market.
C : pure command.
D : interest driven.
E : based on custom or religion.

Correct Answer : E