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Chapter 2: Confronting Scarcity: Choices in Production

Multiple Choice

1. Economic resources used in the production process are called:
   A) free gifts of the natural environment.
   B) factors of production.
   C) consumer items.
   D) money capital.

   Ans: B
   Difficulty: Easy

2. An economic system is the set of rules that define _____ and _____.
   A) resources; prices
   B) who gets to vote; when elections will be held
   C) market prices; factors of production
   D) how an economy's resources are to be owned; how decisions about the resources are to be made

   Ans: D
   Difficulty: Medium

3. The model that shows the goods and services the economy is capable of producing is the model of:
   A) utility.
   B) the fallacy of composition.
   C) production possibilities.
   D) scarcity.

   Ans: C
   Difficulty: Easy

4. Factors of production are:
   A) the resources the economy has available to produce goods and services.
   B) generally unlimited in modern economies.
   C) always employed in modern economies.
   D) the knowledge that can be applied to the production of goods and services.

   Ans: A
   Difficulty: Easy

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5. The three broad types of factors of production are:
   A) capital, labor, and natural resources.
   B) money, profit, and interest.
   C) stocks, bonds, and financial assets.
   D) technology, human capital, and comparative advantage.

   Ans: A
   Difficulty: Easy

6. The three broad types of resources used to produce goods and services are also known as:
   A) economic systems.
   B) factors of production.
   C) production possibilities.
   D) financial capital.

   Ans: B
   Difficulty: Easy

7. Capital is best considered as:
   A) the natural environment.
   B) a factor of production that has been produced.
   C) financial assets.
   D) money.

   Ans: B
   Difficulty: Easy

8. A factor of production that has been produced for use in the production of other goods and services is:
   A) labor.
   B) money.
   C) capital.
   D) natural resources.

   Ans: C
   Difficulty: Easy

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9. Labor is the _____ that can be applied to production.
   A) the natural environment.
   B) produced resources.
   C) financial assets.
   D) human effort.

   Ans: D
   Difficulty: Medium

10. Any factor of production is capital if it:
   A) was produced and can be used to produce other goods and services.
   B) generates utility.
   C) uses human effort to produce goods and services.
   D) is included in financial capital.

   Ans: A
   Difficulty: Medium

11. The factors of production are:
   A) money, labor, natural resources, and capital.
   B) technology, human capital, and natural resources.
   C) money, capital, and natural resources.
   D) labor, capital, and natural resources.

   Ans: D
   Difficulty: Easy

12. A factor of production that is produced in order to produce something else is called:
   A) money.
   B) labor.
   C) technology.
   D) capital.

   Ans: D
   Difficulty: Easy

13. Human effort that can be applied in the production process is called:
   A) natural resources.
   B) technology.
   C) labor.
   D) specialization.

   Ans: C
   Difficulty: Easy

14. Resources from nature that can be used to produce other goods and services are called:
   A) money.

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B) natural resources.
C) labor.
D) capital.

Ans: B
Difficulty: Easy

15. For a factor of production to be called capital it must:
A) be produced.
B) occur in the natural environment.
C) be a part of human skill.
D) be a result of a stock issue.

Ans: A
Difficulty: Easy

16. Which of the following is an example of capital?
A) a gravel truck
B) a savings account
C) a share of General Motors stock
D) a lake

Ans: A
Difficulty: Medium

17. To be considered capital, a factor of production must:
A) have been produced.
B) occur naturally.
C) be part of a factory or building.
D) be a skill or talent possessed by a person.

Ans: A
Difficulty: Medium

18. One of the two criteria for a resource to be considered capital is that it must:
A) occur naturally.
B) be part of a factory or building.
C) be a skill or talent possessed by a person.
D) be possible to use it to produce other goods and services.

Ans: D
Difficulty: Medium

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19. An example of capital is:
    A) cash.
    B) a factory building.
    C) money in a checking account.
    D) the existing state of technology.

    Ans: B
    Difficulty: Medium

20. Increasing the level of education in the United States will:
    A) shift the production possibilities curve to the left.
    B) improve the level of technology.
    C) lead to increased natural resource use.
    D) lead to workers possessing greater human capital.

    Ans: D
    Difficulty: Medium

21. Which of the following is not capital?
    A) a computer in the office of an accountant
    B) a migrant worker in the fields of California
    C) a wrench in an auto-repair shop
    D) a new machine used for producing microchips

    Ans: B
    Difficulty: Easy

22. Two components of labor are:
    A) residential location and education.
    B) natural ability and human capital.
    C) money and financial wealth.
    D) ingenuity and job-specific machinery.

    Ans: B
    Difficulty: Medium

23. The set of acquired skills and abilities that workers bring to the production of goods and services is:
    A) money.
    B) wealth.
    C) human capital.
    D) natural ability.

    Ans: C
    Difficulty: Easy

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24. Human capital is:
    A) the set of acquired skills and abilities that workers bring to the production of goods and services.
    B) the financial wealth the economy has available to produce goods and services.
    C) the ability to produce one of two goods at relatively lower cost.
    D) a factor of production only if it occurs naturally.

    Ans: A
    Difficulty: Easy

25. Technology is:
    A) knowledge that can be applied to the production of goods and services.
    B) generally unlimited in modern economies.
    C) a graphical illustration of the alternative combinations of goods and services an economy can produce.
    D) the resources the economy has available to produce goods and services.

    Ans: A
    Difficulty: Easy

26. Knowledge that can be applied to the production of goods and services is:
    A) natural resources.
    B) specialization.
    C) technology.
    D) comparative advantage.

    Ans: C
    Difficulty: Easy

27. The textbook classifies technology as _____ and entrepreneurs as _____ .
    A) knowledge; persons who seek profit by finding new ways to organize factors of production
    B) capital; labor
    C) labor skills; capital
    D) a factor of production; a factor of production

    Ans: A
    Difficulty: Hard

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28. A person who seeks to earn profits by finding ways to organize factors of production is called a(n):
    A) foreman
    B) finance capitalist.
    C) entrepreneur.
    D) manager.

    Ans: C
    Difficulty: Easy

29. One of the two criteria for a resource to be considered as a natural resource is that it must:
    A) have been produced.
    B) not be part of the environment.
    C) be part of a factory or building.
    D) be available for the production of goods and services.

    Ans: D
    Difficulty: Medium

30. One of the two criteria for a resource to be considered as a natural resource is that it must:
    A) have been produced.
    B) be found in nature.
    C) be part of a factory or building.
    D) not be used to produce goods and services.

    Ans: B
    Difficulty: Medium

31. An example of a natural resource is:
    A) oil in the ground.
    B) oil in storage tanks.
    C) a factory.
    D) a computer program.

    Ans: A
    Difficulty: Medium

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32. The difference between iron ore deposits and the steel produced from these deposits that is later used to make factory equipment illustrates the difference between:
    A) labor and a natural resource.
    B) labor and capital.
    C) a natural resource and capital.
    D) a natural resource and entrepreneurship.

    Ans: C
    Difficulty: Hard

33. Improvements in technology provide benefits to:
    A) consumers, through lower prices.
    B) workers, although some jobs may be eliminated.
    C) firms, through lower production costs.
    D) all of the above.

    Ans: D
    Difficulty: Easy

34. Who may benefit from technological progress?
    A) consumers
    B) workers
    C) firms.
    D) all of the above.

    Ans: D
    Difficulty: Medium

35. The production possibilities curve represents the fact that:
    A) the economy will automatically end up at full employment.
    B) an economy's productive capacity increases proportionally with its population.
    C) if all resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
    D) economic production possibilities have no limit.

    Ans: C
    Difficulty: Medium

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Use the following to answer questions 36-38:

Exhibit: Production Possibilities Schedule 1

Alternatives	A	B	C	D	E	F
Consumer goods per period	0	1	2	3	4	5
Capital goods per period	30	28	24	18	10	0

36. (Exhibit: Production Possibilities Schedule 1) If the economy produces 2 units of consumer goods per period, it also can produce at most _____ units of capital goods per period.
A) 30
B) 28
C) 24
D) 18

Ans: C
Difficulty: Hard

37. (Exhibit: Production Possibilities Schedule 1) If the economy produces 10 units of capital goods per period, it also can produce at most _____ unit(s) of consumer goods per period.
A) 5
B) 4
C) 3
D) 2

Ans: B
Difficulty: Hard

38. (Exhibit: Production Possibilities Schedule 1) The opportunity cost of producing the fourth unit of consumer goods is _____ units of capital goods.
A) 2
B) 4
C) 6
D) 8

Ans: D
Difficulty: Hard

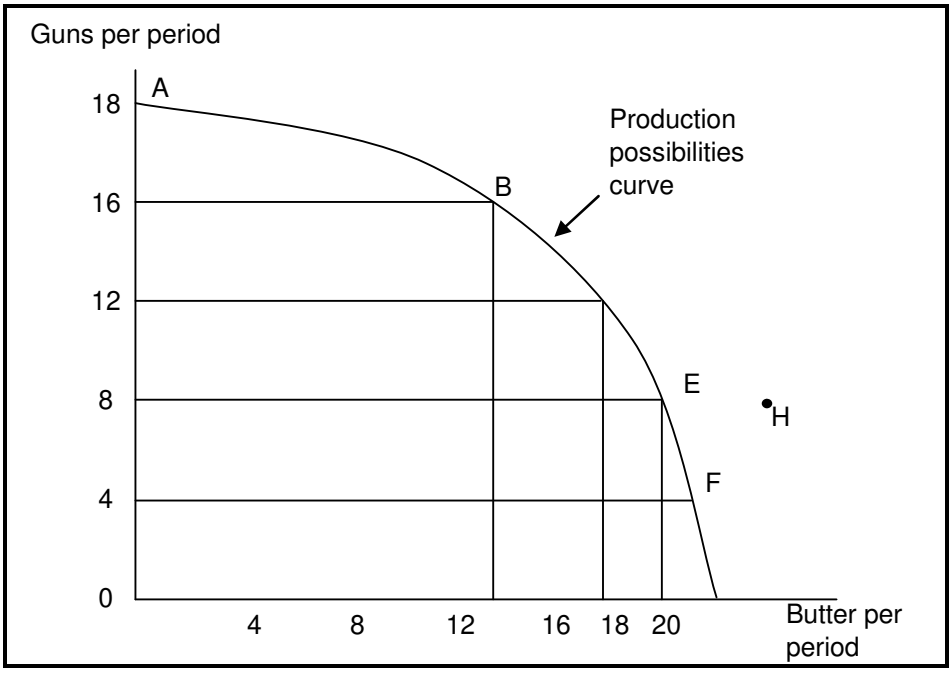
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39. In drawing a production possibilities curve, it is assumed that:
    A) technology does not change.
    B) the economy is fully employed and may not be efficient.
    C) there are increasing qualities of the factors of production.
    D) all of the above are true.

    Ans: A
    Difficulty: Hard

Use the following to answer questions 40-46:

Exhibit: Guns and Butter



40. (Exhibit: Guns and Butter) Points A, B, E, and F:
    A) indicate combinations of guns and butter that society can produce using all of its factors efficiently.
    B) show that the opportunity cost of more guns increases, but that of more butter decreases as more of each good is produced..
    C) indicate that society wants butter more than guns.
    D) indicate constant costs for guns and increasing costs for butter.

    Ans: A
    Difficulty: Medium

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41. (Exhibit: Guns and Butter) This production possibilities curve is:
    A) linear and because of the constant cost and
    B) bowed in toward the origin because of increasing opportunity costs.
    C) bowed in toward the origin because of constant cost of guns and butter.
    D) bowed out from the origin because of increasing opportunity costs.

    Ans: D
    Difficulty: Medium

42. (Exhibit: Guns and Butter) If the economy were operating at point B, producing 16 units of guns and 12 units of butter per period, a decision to move to point E and produce 18 units of butter:
    A) indicates you can have more butter and guns simultaneously.
    B) makes it clear that this economy experiences decreasing opportunity costs.
    C) involves a loss of 8 units of guns per period.
    D) involves a loss of 4 units of guns per period.

    Ans: C
    Difficulty: Medium

43. (Exhibit: Guns and Butter) The combination of guns and butter at point H:
    A) can be obtained, but would cost too much.
    B) cannot be attained given the level of technology and the factors of production available.
    C) has no meaning since it does not relate to the preferences of consumers.
    D) Is attainable but would increase unemployment.

    Ans: B
    Difficulty: Medium

44. (Exhibit: Guns and Butter) If the economy were producing 8 units of guns and 12 units of butter per period:
    A) this is a possible choice, but would involve unemployment and/or inefficiency.
    B) the notion of increasing opportunity cost is invalidated.
    C) the economy is still efficient but has made a decision not to buy as much as it could.
    D) something must be done to reduce the amount of employment.

    Ans: A
    Difficulty: Medium

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45. (Exhibit: Guns and Butter) A movement from producing 12 units of guns and 16 units of butter per period to point B means a:
    A) gain of 4 units of guns and a loss of 6 units of butter per period.
    B) gain of 2 units of guns and a loss of 4 units of butter per period.
    C) loss of 4 units of butter and a gain of 4 units of guns per period.
    D) loss of 2 units of guns and a gain of 4 units of butter per period.

    Ans: C
    Difficulty: Medium

46. (Exhibit: Guns and Butter) The maximum amounts of guns and butter this economy can produce is:
    A) 18 units of guns and 0 units of butter per period.
    B) 0 units of guns and 20 units of butter per period.
    C) 16 units of guns and 12 units of butter per period.
    D) all of the above combinations are maximum possible combinations.

    Ans: D
    Difficulty: Hard

47. If an economy has to sacrifice only one unit of good X for each unit of good Y produced throughout the relevant range, then its production possibilities curve has a(n):
    A) zero slope.
    B) constant, negative slope.
    C) increasing, negative slope.
    D) decreasing, negative slope.

    Ans: B
    Difficulty: Medium

48. If Farmer Sam MacDonald can produce 200 pounds of cabbages and 0 pounds of potatoes or 0 pounds of cabbages and 100 pounds of potatoes and faces a linear production possibilities curve for his farm, the opportunity cost of producing an additional pound of potatoes is _____ pound(s) of cabbage.
    A) 1/2
    B) 2
    C) 100
    D) 200

    Ans: B
    Difficulty: Hard

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49. If Farmer Sam MacDonald can produce 200 pounds of cabbages and 0 pounds of potatoes or 0 pounds of cabbages and 100 pounds of potatoes and faces a linear possibilities curve for his farm, the opportunity cost of producing an additional pound of cabbage is _____ pound(s) of potatoes.
A) 1/2
B) 2
C) 100
D) 200

Ans: A
Difficulty: Hard

50. If the production possibilities curve were a straight line sloping down from left to right, this would suggest that:
A) more of both goods could be produced moving along the curve.
B) the two products must have the same price.
C) no factor of production has any particular comparative advantage over other resources.
D) the utility of the two goods must be equal to consumers.

Ans: C
Difficulty: Hard

51. The slope of a typical production possibilities curve is:
A) 0.
B) vertical.
C) positive.
D) negative.
Ans: D
Difficulty: Medium

Use the following to answer questions 52-55:

Exhibit: Production Possibilities Schedule 2

	V	W	X	Y	Z
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

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52. (Exhibit: Production Possibilities Schedule 2) If the economy is producing at alternative X, the opportunity cost to it of producing at Y instead of X is _____ units of consumer goods per period.
A) 0
B) 6
C) 8
D) 14

Ans: B
Difficulty: Medium

53. (Exhibit: Production Possibilities Schedule 2) If an economy is producing at alternative W, the opportunity cost to it of producing at X is _____ unit(s) of consumer goods per period.
A) 0
B) 1
C) 4
D) 18

Ans: C
Difficulty: Medium

54. (Exhibit: Production Possibilities Schedule 2) A move from alternative Y to alternative X would:
A) result in greater unemployment.
B) decrease potential growth.
C) increase potential growth.
D) result in greater underemployment.

Ans: B
Difficulty: Medium

55. (Exhibit: Production Possibilities Schedule 2) The production of 14 units of consumer goods and 1 unit of capital goods per period would:
A) result in full employment.
B) result in no unused resources.
C) result in some unused or inefficiently used resources.
D) increase economic growth.

Ans: C
Difficulty: Medium

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56. An economy is said to have a comparative advantage in producing a particular good if it:
    A) can produce more of all goods than another economy.
    B) can produce less of all goods than another economy.
    C) has the highest cost for producing that good.
    D) has the lowest cost for producing that good.

    Ans: D
    Difficulty: Easy

57. An economy that has the lowest cost for producing a particular good is said to have a(n):
    A) technological advantage.
    B) comparative advantage.
    C) convex news production possibilities curve.
    D) all of the above are correct and

    Ans: B
    Difficulty: Easy

58. The concept of comparative advantage is based upon:
    A) absolute labor productivity.
    B) relative labor costs.
    C) dollar prices of labor.
    D) relative opportunity costs.

    Ans: D
    Difficulty: Hard

59. Comparative advantage leads to producing at a:
    A) higher opportunity cost.
    B) lower opportunity cost.
    C) higher dollar cost.
    D) point where costs just begin to fall.

    Ans: B
    Difficulty: Medium

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60. An economy is said to have a comparative advantage in the production of a good if it can:
    A) produce that good with more resources than another economy.
    B) produce that good with a higher opportunity cost than another economy.
    C) produce that good outside its production possibilities curve.
    D) produce the good at a lower opportunity cost than another economy.

    Ans: D
    Difficulty: Medium

61. The law of increasing opportunity costs is a result of the fact that:
    A) the value of the dollar has declined over time.
    B) wage rates rise as the economy reaches full employment.
    C) consumers tend to value a good more when they don't have much of it.
    D) resources are not equally productive in all output categories.

    Ans: D
    Difficulty: Medium

62. When moving along a production possibilities curve, the opportunity cost to society of getting more of the good on the horizontal axis:
    A) is constant.
    B) is measured in dollar terms.
    C) is measured by the amount of the other good that must be given up.
    D) usually decreases.

    Ans: C
    Difficulty: Medium

63. The law of increasing opportunity cost means that:
    A) higher wages, rents, and interest will increase opportunity costs.
    B) opportunity cost will decrease the more you decide to produce more of one good along a production possibilities curve.
    C) opportunity cost increases when you produce more of one good while moving along a production possibilities curve.
    D) costs of production decrease at first, but then eventually rise.

    Ans: C
    Difficulty: Medium

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64. If an economy has to sacrifice increasing amounts of good X for each additional unit of good Y produced, then its production possibilities curve is:
    A) bowed out from the origin.
    B) bowed in toward the origin.
    C) a straight line.
    D) a vertical line.

    Ans: A
    Difficulty: Medium

65. The proposition that states that as output increases for one good in an economy that is on its production possibilities curve, the cost of additional units of the good on the horizontal axis will be greater and greater is the:
    A) law of absolute advantage.
    B) law of increasing opportunity cost.
    C) law of policy ineffectiveness.
    D) law of demand.

    Ans: B
    Difficulty: Easy

66. The law of increasing opportunity cost is associated with the slope of the:
    A) demand curve.
    B) supply curve.
    C) output curve.
    D) production possibilities curve.

    Ans: D
    Difficulty: Medium

67. The fact that a society's production possibilities curve is bowed out from the origin of a graph demonstrates the law of:
    A) increasing opportunity cost.
    B) decreasing opportunity cost.
    C) constant opportunity cost.
    D) convex opportunity cost.

    Ans: A
    Difficulty: Medium

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68. The economy's factors of production are not equally suitable for producing different types of goods. This principle generates:
    A) economic growth.
    B) technical efficiency.
    C) resource underutilization.
    D) the law of increasing opportunity cost.

    Ans: D
    Difficulty:
    Medium

69. The law of increasing opportunity cost says that:
    A) opportunity costs of production always tend to increase.
    B) increases in wages cause increases in the opportunity costs of production.
    C) as output increases for one good on its production possibilities curve, the opportunity cost of additional units of the other good will be greater and greater.
    D) along a production possibilities curve, as output increases in the production of one good, the opportunity costs of additional units of the other good will be less and less.

    Ans: C
    Difficulty: Easy

70. In the 1980s, the federal government undertook a major build-up of the military sector, leading to reports that prices charged by military contractors were spiraling upward. According to production possibilities analysis, this result is not surprising due to:
    A) the law of increasing opportunity cost.
    B) economic efficiency.
    C) technical efficiency.
    D) resource underutilization.

    Ans: A
    Difficulty: Hard

71. If a production possibilities curve were bowed in or convex to the origin of a graph, it would demonstrate:
    A) increasing opportunity cost.
    B) decreasing opportunity cost.
    C) constant opportunity cost.
    D) fluctuating opportunity cost.

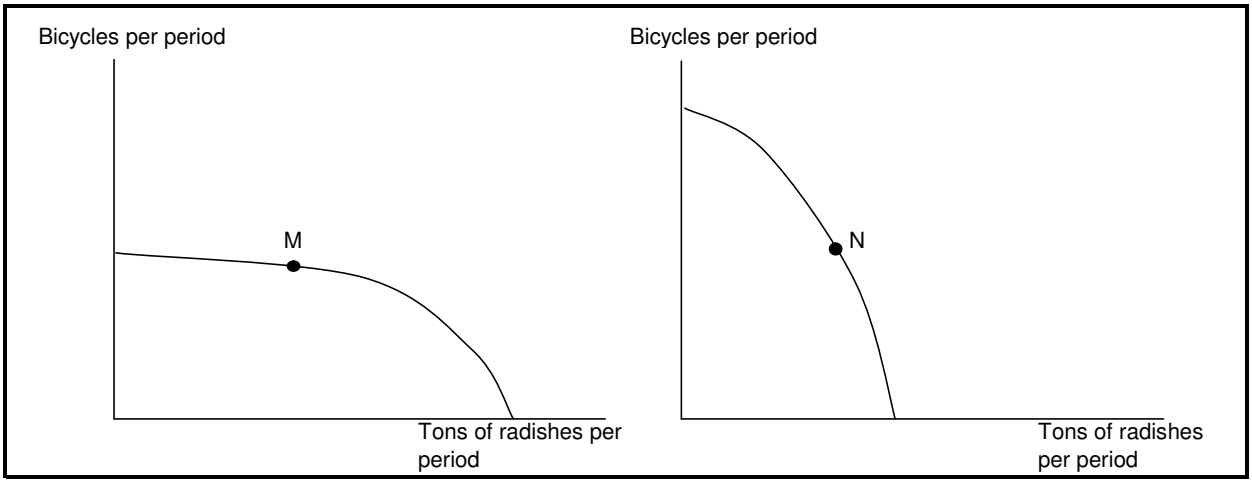
    Ans: B
    Difficulty: Hard

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Use the following to answer questions 72-74:

Exhibit: Bicycles and Radishes 1



72. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. The opportunity cost of producing an additional ton of radishes would be greater in:
    A) Country A.
    B) Country B.
    C) neither; the opportunity cost would be the same in both countries.
    D) there is not enough information given to answer the question.

    Ans: B
    Difficulty: Hard

73. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. Suppose Country A discovered a new technology that greatly increased its ability to produce bicycles. This would:
    A) lower the opportunity cost of producing radishes in Country A.
    B) increase the opportunity cost of producing radishes in Country A.
    C) have no effect on the opportunity cost of producing radishes in country A.
    D) increase the opportunity cost of producing radishes in Country B.

    Ans: B
    Difficulty: Hard

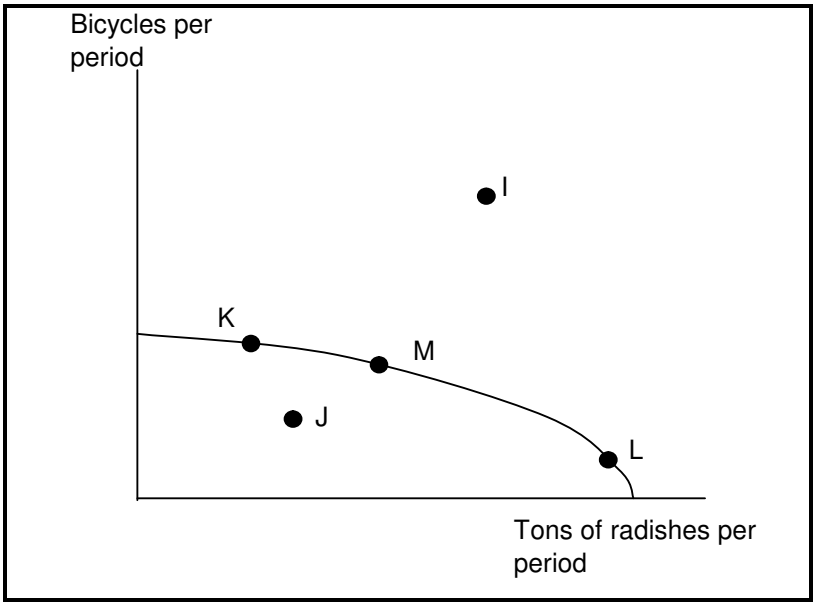
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74. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. Suppose Country B wants to be able to produce more radishes and more bicycles. To do this, it must:
A) Use its resources more efficiently.
B) achieve full employment in its use of resources.
C) acquire more capital, more labor, more natural resources, and/or better technology.
D) do all of the above.

Ans: C
Difficulty: Hard

Use the following to answer questions 75-76:

Exhibit: Bicycles and Radishes 2



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75. (Exhibit: Bicycles and Radishes 2) In the country depicted in this exhibit, the opportunity cost of an additional ton of radishes would be greater at:
    A) point K.
    B) point M.
    C) point L.
    D) none of the above points; the opportunity cost is the same at every point on a production possibilities curve.

    Ans: C
    Difficulty: Medium

76. (Exhibit: Bicycles and Radishes 2) The country depicted in this exhibit is currently operating at point M. It could achieve production at point I only if it:
    A) used its resources more efficiently.
    B) devoted more resources to radish production.
    C) devoted more resources to bicycle production.
    D) increased the quantities of capital, natural resources, or labor available or improved its technology.

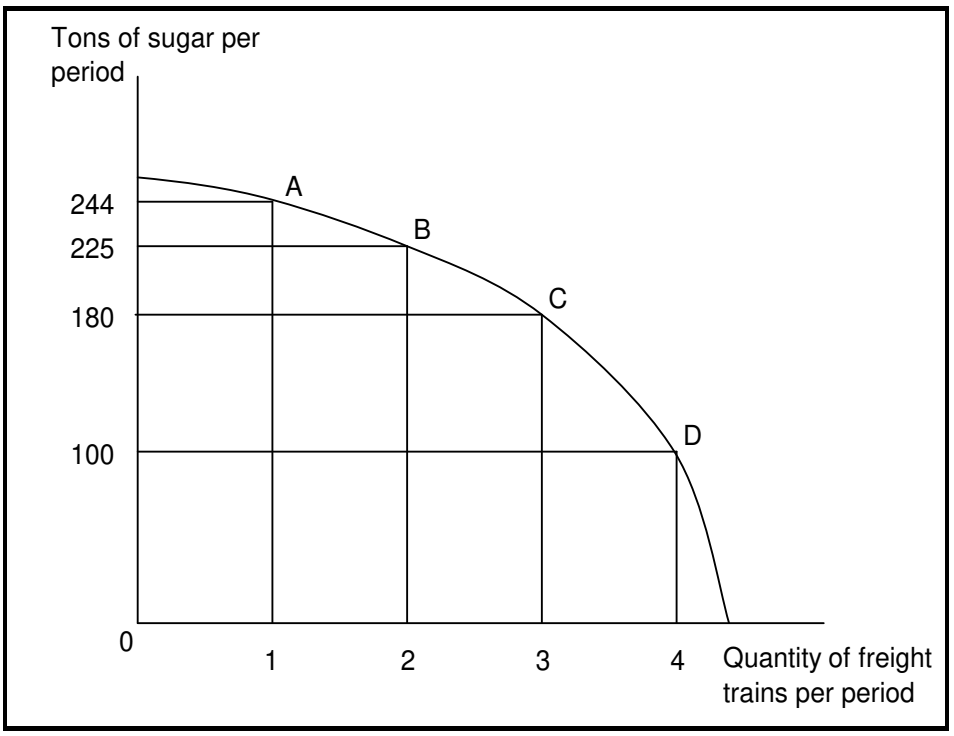
    Ans: D
    Difficulty: Medium

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Use the following to answer questions 77-82:

Exhibit: Sugar and Freight Trains



77. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point A, producing 244 tons of sugar and 1 freight train. The opportunity cost of producing the second freight train is:
    A) 225 tons of sugar.
    B) 25 tons of sugar.
    C) 19 tons of sugar.
    D) 6 tons of sugar.

    Ans: C
    Difficulty: Hard

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78. (Exhibit: Sugar and Freight Trains) The downward slope of the production possibilities curve implies:
    A) resources in the economy are scarce.
    B) the economy must be controlled by the government.
    C) sugar is more important than freight trains.
    D) the economy produces more sugar than freight trains.

    Ans: A
    Difficulty: Medium

79. (Exhibit: Sugar and Freight Trains) Suppose the economy is producing 180 tons of sugar and 2 freight trains. This implies that:
    A) the economy is operating at full employment.
    B) the economy is operating efficiently.
    C) the economy is not producing as much as it could.
    D) economic growth would help the economy move to its production possibilities curve.

    Ans: C
    Difficulty: Medium

80. (Exhibit: Sugar and Freight Trains) The "bowed-out" shape of the production possibilities curve shown here demonstrates:
    A) that freight trains cost more than sugar.
    B) that sugar costs more than freight trains.
    C) that the opportunity cost of additional freight trains increases as the economy produces more and more of them.
    D) that the opportunity cost of additional freight trains decreases as the economy produces more and more of them.

    Ans: C
    Difficulty: Medium

81. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point B. The opportunity cost of producing the third freight train would be:
    A) 6 tons of sugar.
    B) 19 tons of sugar.
    C) 45 tons of sugar.
    D) 80 tons of sugar.

    Ans: C
    Difficulty: Hard

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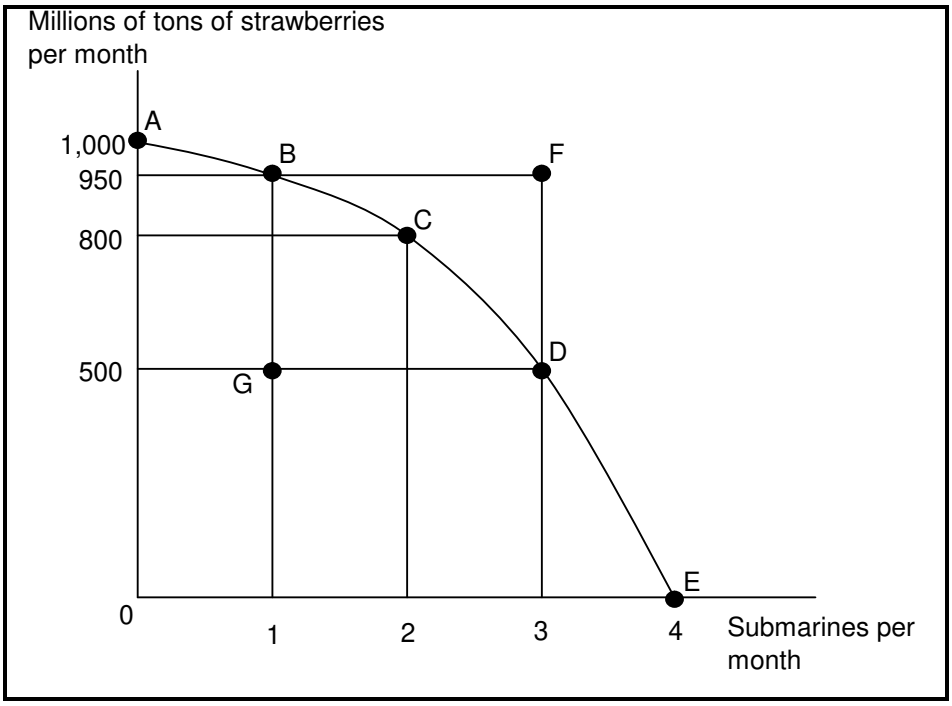
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82. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point C. The opportunity cost of producing the fourth freight train would be:
A) 19 tons of sugar.
B) 45 tons of sugar.
C) 80 tons of sugar.
D) 3 freight trains.

Ans: C
Difficulty: Hard

Use the following to answer questions 83-87:

Exhibit: Strawberries and Submarines



83. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point G. This implies that:
A) the economy can move to a point such as C only if it improves its technology.
B) the economy is experiencing unemployment and/or inefficient allocation of resources.
C) the economy lacks the resources to achieve a combination such as C.
D) people in this economy don't really like strawberries and submarines.

Ans: B
Difficulty: Medium

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84. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point A. The first submarine, which is achieved at point B, would have an opportunity cost of _____ million tons of strawberries.
A) 50
B) 150
C) 400
D) 950

Ans: A
Difficulty: Medium

85. (Exhibit: Strawberries and Submarines) As the economy moves from point A towards, say, point D, it will find that the opportunity cost of each additional submarine:
A) falls.
B) rises.
C) remains unchanged.
D) none of the above

Ans: B
Difficulty: Medium

86. (Exhibit: Strawberries and Submarines) The downward slope of the production possibilities curve implies that resources:
A) must be used efficiently.
B) are scarce.
C) should not be wasted.
D) should be allocated so that approximately equal amounts of both goods are produced.

Ans: B
Difficulty: Medium

87. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point C. Achieving production at point F would require:
A) that the economy achieve full employment and an efficient allocation of resources.
B) that the economy reduce its production of strawberries.
C) that the economy reduce its production of submarines.
D) that the economy improve its technology or increase the quantities of factors of production it has.

Ans: D
Difficulty: Medium

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88. In general, production possibilities curves are "bowed out" because:
    A) it's wasteful to produce too much of any one good.
    B) people generally prefer to consume goods in appropriate combinations.
    C) of the law of increasing opportunity cost.
    D) of the law of demand.

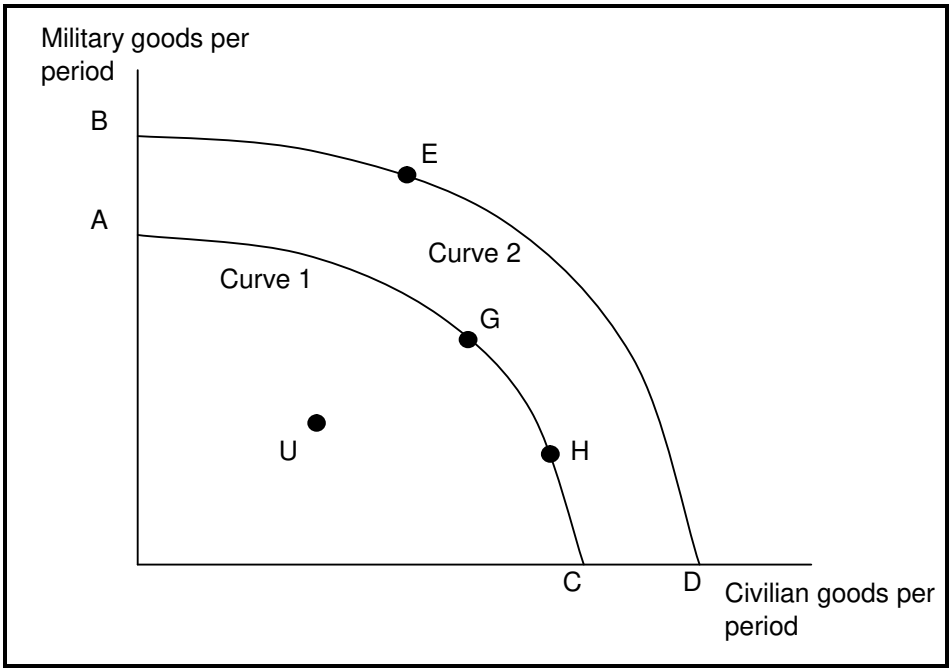
    Ans: C
    Difficulty: Medium

89. If an economy is producing a level of output that is on its production possibilities curve, the economy
    A) has idle resources.
    B) has idle resources but is using resources efficiently.
    C) has no idle resources but is using them inefficiently.
    D) has no idle resources and is using resources efficiently.

    Ans: D
    Difficulty: Medium

Use the following to answer questions 90-94:

Exhibit: Production Possibilities Curve—Military and Civilian Goods



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90. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) A movement from point G to H on Curve 1 would:
A) require giving up military goods in order to get more civilian goods.
B) indicate that, in this economy, there is no scarcity.
C) require giving up civilian goods to get more military goods.
D) require greater efficiency in the production of civilian goods.

Ans: A
Difficulty: Medium

91. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) If an economy is at point U, and its production possibilities curve is Curve 1, this would indicate that:
A) resources are fully employed.
B) economic growth has taken place.
C) there is inefficiency and/or unemployment.
D) the economy is maximizing its economic objectives.

Ans: C
Difficulty: Medium

92. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) If the economy is represented by Curve 1, then:
A) point E is unattainable at the present time.
B) point G is superior to point H.
C) point H is superior to point G.
D) factors of production are not being used efficiently.

Ans: A
Difficulty: Medium

93. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) A movement from point G to point U could be a representation of what happened during:
A) World War II.
B) the Great Depression.
C) the postwar expansion following World War II.
D) a period of rapid economic growth.

Ans: B
Difficulty: Hard

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94. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) The movement from point G on Curve 1 to point E on Curve 2 means that the:
    A) economy has grown.
    B) economy has become less efficient.
    C) quality and/or the quantity of the factors of production has decreased.
    D) demand for military goods has risen.

    Ans: A
    Difficulty: Hard

95. If all factors of production that are available for use under current market conditions are being utilized, then the economy has:
    A) economic growth.
    B) comparative advantage.
    C) full employment.
    D) inefficient production.

    Ans: C
    Difficulty: Easy

96. If an economy is producing a combination of goods that places it on the production possibilities curve, then it has:
    A) economic growth.
    B) full employment.
    C) inefficiency.
    D) idle factors of production.

    Ans: B
    Difficulty: Medium

97. If an economy is producing a combination of goods that places it inside the production possibilities curve, then it has:
    A) economic growth.
    B) full employment.
    C) efficiency.
    D) idle factors of production or inefficient use of resources.

    Ans: D
    Difficulty: Medium

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98. Inefficient production or unemployment exists when the economy is _____ the production possibilities curve.
    A) operating inside
    B) operating on
    C) operating outside
    D) moving along

    Ans: A
    Difficulty: Medium

99. Efficient production exists when the economy is:
    A) operating inside its production possibilities curve.
    B) operating on its production possibilities curve.
    C) operating outside its production possibilities curve.
    D) moving beyond its production possibilities curve.

    Ans: B
    Difficulty: Medium

100. If an economy is operating efficiently and with full employment, the production of more of one commodity will necessarily lead to less of something else being produced because of:
    A) the unlimited wants of people.
    B) perfectly adaptability of resources in the production of various goods.
    C) scarcity.
    D) the lack of money capital.

    Ans: C
    Difficulty: Medium

101. Assume an economy is operating on its production possibilities curve, which shows the production of military and civilian goods. If the output of military goods is increased, the output of civilian goods:
    A) will increase too.
    B) will not change.
    C) must decrease.
    D) may increase or decrease.

    Ans: C
    Difficulty: Medium

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102. When making a choice to do more of one activity, the highest-valued other choice society does not make is called _____ , and it is measured _____ .
A) opportunity cost; in terms of the money it costs
B) increasing cost; in terms of the amount of money spent doing so
C) constant cost; by the slope of the production possibilities curve at that level
D) opportunity cost; by the slope of the production possibilities curve at that level

Ans: D
Difficulty: Hard

103. If an economy is operating on its production possibilities curve, it is:
A) efficient and fully employed.
B) fully employed but not necessarily efficient.
C) efficiently producing but not necessarily fully employed.
D) inevitably going to grow in the future.

Ans: A
Difficulty: Medium

104. Any point inside a production possibilities curve indicates:
A) unemployment and/or inefficiency.
B) that the law of increasing opportunity costs is no longer valid.
C) that society doesn't want more of either good.
D) that economic growth is no longer possible.

Ans: A
Difficulty: Medium

105. Efficient production implies that it is:
A) possible to produce more of all goods and services.
B) it is possible to produce more of one good without producing less of another.
C) not possible to produce more of one good without producing less of another good.
D) producing at a combination of goods which lies between the production possibilities curve and the origin.

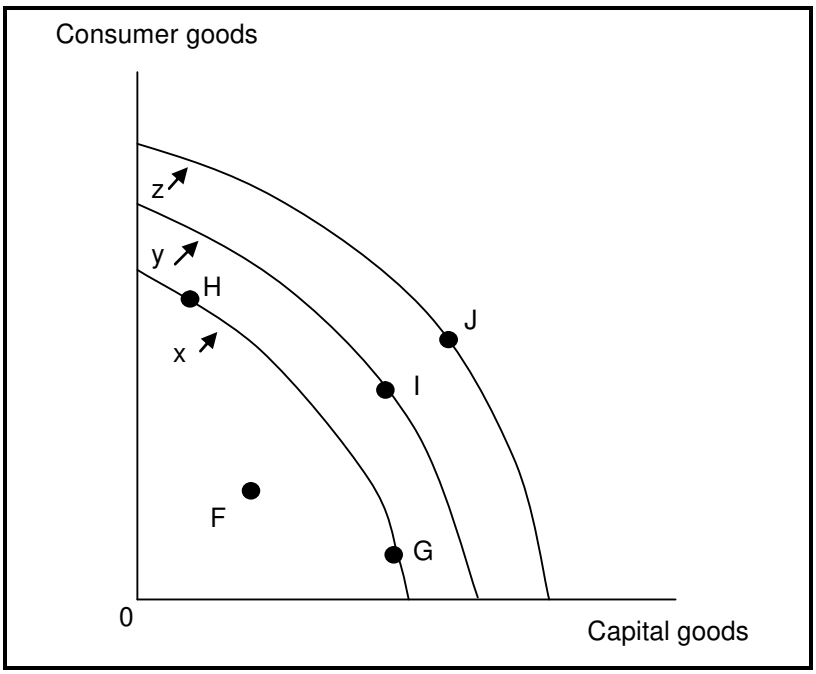
Ans: C
Difficulty: Medium

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Use the following to answer questions 106-108:

Exhibit: Production Possibilities Curve 1



106. (Exhibit: Production Possibilities Curve 1) Resource underutilization occurs at point _____ with respect to Curve _____ .
A) I; y
B) I; x
C) J; z
D) F; x

Ans: D
Difficulty: Hard

107. (Exhibit: Production Possibilities Curve 1) Efficiency is achieved at point _____ with respect to Curve _____.
A) G; y
B) I; z
C) H; x
D) F; x

Ans: C
Difficulty: Hard

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108. (Exhibit: Production Possibilities Curve 1) If the economy is currently facing production possibilities Curve x, it is more likely to achieve Curve z in the future if it allocates resources to produce at point:
A) F.
B) G.
C) H.
D) I.

Ans: B
Difficulty: Hard

109. Specialization arises because
A) some people don't like doing some tasks.
B) differences in the costs of production give some producers a comparative advantage in the production of particular goods or services.
C) the government directs resources into certain activities.
D) inefficient production forces producers to trade.

Ans: B
Difficulty: Medium

110. The cost of the Great Depression between 1929 and 1942 was a loss of:
A) more than the United States ultimately spent on World War II.
B) over $15 trillion in today's dollars.
C) the output that otherwise would have been produced by the 50 percent of the nation's workers who had lost their jobs.
D) both B and C are true.

Ans: A
Difficulty: Hard

111. During the Great Depression:
A) By 1933, 25 percent of the nation's workers had lost their jobs.
B) output reached its lowest level in 1929.
C) the production possibilities curve shifted sharply inward, which explains the drop in output, jobs, and overall prosperity.
D) firms increased output but used fewer workers.

Ans: A
Difficulty: Easy

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112. A student receives a bachelor's degree in economics and then achieves gainful employment as an economic analyst with a Fortune 500 company. This new worker is likely to enhance the economy's productivity through:
A) scarcity.
B) free goods.
C) stable prices.
D) specialization of labor.

Ans: D
Difficulty: Medium

113. Two friends, one an engineer and the other an accountant, decide to form a partnership. If the accountant takes care of the books and the engineer runs the factory, they are likely to enhance the economy's productivity through:
A) scarcity.
B) specialization of labor.
C) a shift in the production possibilities curve.
D) a movement along the production possibilities curve.

Ans: B
Difficulty: Medium

114. International trade is possible in part through:
A) inefficiently employing resources.
B) restricting the rate of growth of output.
C) generalization in the production of all goods.
D) specialization in the production of goods.

Ans: D
Difficulty: Medium

115. By specializing in the production of particular goods, a nation is:
A) less likely to make efficient use of available resources.
B) more likely to engage in international trade.
C) able to become self-sufficient.
D) unable to develop a comparative advantage.

Ans: B
Difficulty: Medium

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116. By specializing in the production of particular goods in which it has a comparative advantage, a nation is:
A) less likely to make efficient use of available resources.
B) less likely to engage in international trade.
C) able to become self-sufficient.
D) able to operate efficiently.

Ans: D
Difficulty: Medium

117. Countries import some goods and export other goods primarily because of:
A) unemployment.
B) self-sufficiency.
C) comparative advantage.
D) the law of increasing opportunity cost.

Ans: C
Difficulty: Medium

118. Britain imports some goods and exports other goods primarily because of:
A) free goods.
B) specialization.
C) unemployment.
D) self-sufficiency.

Ans: B
Difficulty: Medium

119. If the opportunity cost of manufacturing machinery is lower in the United States than in Britain and the opportunity cost of manufacturing sweaters is higher in the United States than in Britain, then the United States will:
A) export both sweaters and machinery to Britain.
B) import both sweaters and machinery from Britain.
C) export sweaters to Britain and import machinery from Britain.
D) import sweaters from Britain and export machinery to Britain.

Ans: D
Difficulty: Hard

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120. If the opportunity cost of manufacturing machinery is higher in the United States than in Britain and the opportunity cost of manufacturing sweaters is lower in the United States than in Britain, then the United States will:
A) export both sweaters and machinery to Britain.
B) import both sweaters and machinery from Britain.
C) export sweaters to Britain and import machinery from Britain.
D) import sweaters from Britain and export machinery to Britain.

Ans: C
Difficulty: Hard

121. Trade can be beneficial to an economy because:
A) it results in a more efficient use of the combined resources of some of the trading countries, even though it reduces efficiency in others.
B) more goods and services can be obtained at lower opportunity cost.
C) it prevents specialization in those activities in which countries have a comparative advantage.
D) It prevents unemployment.

Ans: B
Difficulty: Medium

122. If wages are higher in the United States than in Brazil, then:
A) trade is still beneficial to the United States and Brazil.
B) Brazil will not have a comparative advantage in the production of any good.
C) the United States cannot have a comparative advantage in the production of any good.
D) trade with Brazil will clearly lower wages in the United States.

Ans: A
Difficulty: Hard

123. The gains or benefits from trade are:
A) A result of more efficient resource utilization.
B) based on different wage rates in different countries.
C) greater when rich nations trade with poor nations.
D) based on the principle of absolute advantage.

Ans: A
Difficulty: Hard

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124. Assume that Brazil gives up 3 automobiles for each ton of coffee it produces, while Peru gives up 7 automobiles for each ton of coffee it produces.
    A) Brazil has a comparative advantage in automobile production and should specialize in coffee.
    B) Brazil has a comparative advantage in coffee production and should specialize in the production of automobiles.
    C) Brazil has a comparative advantage in coffee production and should specialize in coffee production.
    D) Brazil has a comparative advantage in automobile production and should specialize in automobile production.

    Ans: C
    Difficulty: Hard

125. If countries do not engage in international trade:
    A) they give up the ability to specialize in production.
    B) worldwide levels of production are lower.
    C) the world will be operating inside its production possibilities curve.
    D) all of the above are true.

    Ans: D
    Difficulty: Medium

126. Economists are generally in support of:
    A) government restrictions on trade.
    B) free international trade.
    C) tariffs to restrict trade.
    D) subsidizing exports.

    Ans: B
    Difficulty: Medium

127. If two countries participate in free trade:
    A) every individual in each country will benefit.
    B) both countries as a whole may gain from the trade.
    C) one country will benefit, but the other country will experience reduced welfare..
    D) neither country will benefit.

    Ans: B
    Difficulty: Medium

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128. When a nation experiences economic growth:
    A) its production possibilities curve shifts outward.
    B) its production possibilities curve shifts inward.
    C) it has been able to reach full employment.
    D) it has moved to a more consumer-oriented position on its production possibilities curve.

    Ans: A
    Difficulty: Medium

129. The process through which an economy's production possibilities curve is shifted outward is:
    A) comparative advantage.
    B) economic growth.
    C) full employment.
    D) specialization.

    Ans: B
    Difficulty: Easy

130. An increase in capital goods and a decrease in consumer goods will:
    A) eventually lead to a shift to the right of the production possibilities curve.
    B) increase a nation's capacity to produce.
    C) lead to more rapid economic growth.
    D) do all of the above.

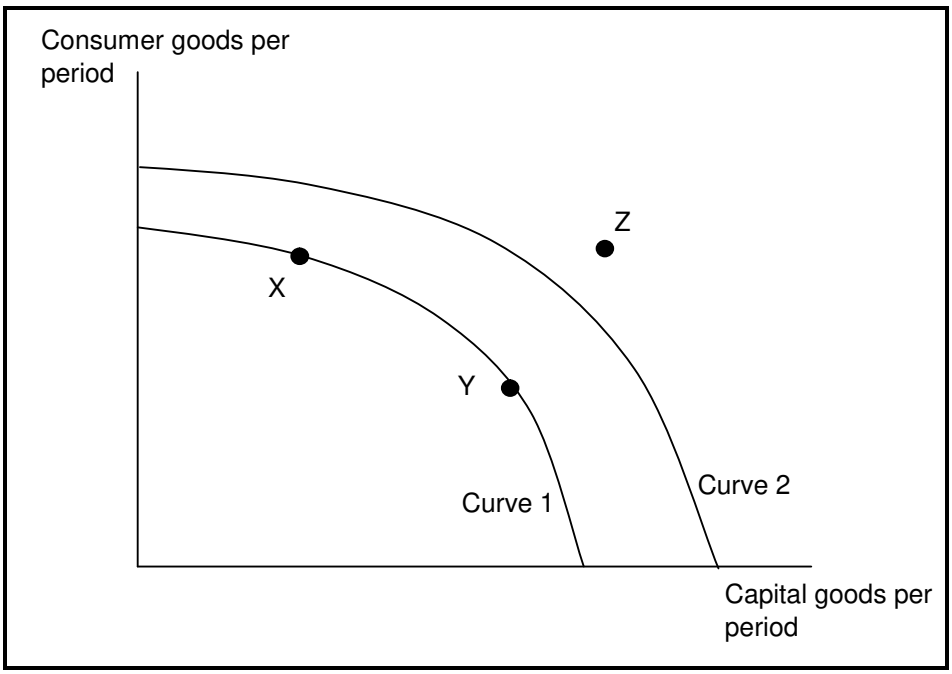
    Ans: D
    Difficulty: Hard

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Use the following to answer questions 131-134:

Exhibit: Consumer and Capital Goods



131. (Exhibit: Consumer and Capital Goods) If the economy is operating at point Y on currently relevant Curve 1, this means that:
A) the economy is at full employment and is efficient.
B) the economy is less than fully employed.
C) the economy is not efficient.
D) economic growth is not possible in the future.

Ans: A
Difficulty: Medium

132. (Exhibit: Consumer and Capital Goods) The movement from Curve 1 to Curve 2 indicates:
A) economic growth.
B) going from unemployment to full employment.
C) a decrease in the level of technology.
D) instability.

Ans: A
Difficulty: Medium

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133. (Exhibit: Consumer and Capital Goods) Point Z:
A) is unattainable, all other things unchanged.
B) is attainable if the economy is able to get to full employment.
C) is attainable if the quantity and/or quality of factors decreases.
D) will be attained as soon as the economy becomes efficient and moves to Curve 2.

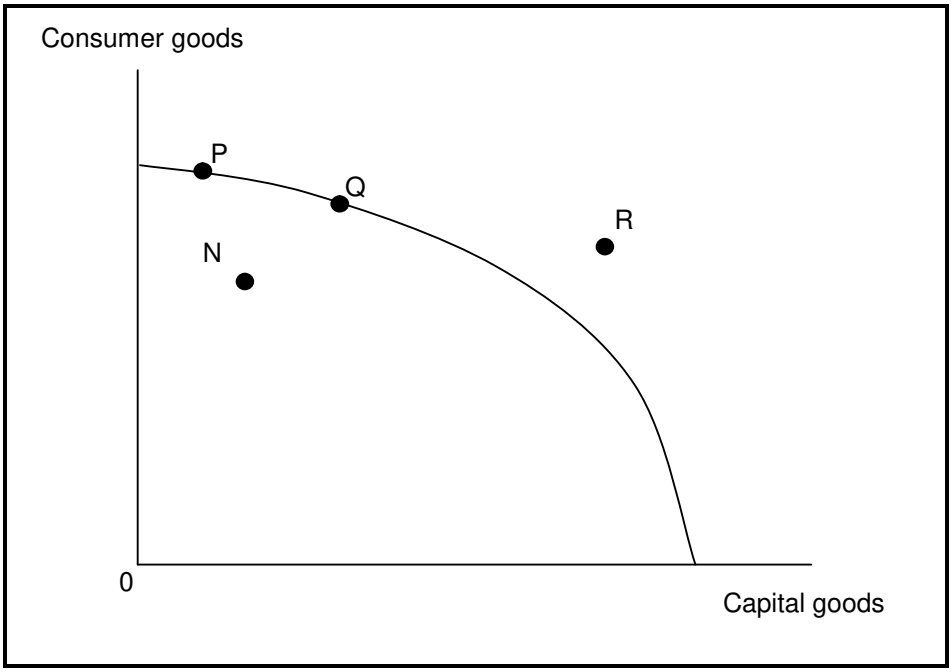
Ans: A
Difficulty: Medium

134. (Exhibit: Consumer and Capital Goods) If the economy is on Curve 1, it:
A) will grow more quickly if it chooses point X.
B) will move to Curve 2 more quickly if it chooses point Y.
C) will find that choosing either point X or point Y will result in the same growth rate.
D) is at full employment at point X, but has unemployment at point Y.

Ans: B
Difficulty: Hard

Use the following to answer questions 135-139:

Exhibit: Production Possibilities Curve 2



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135. (Exhibit: Production Possibilities Curve 2) The economy will experience its greatest growth by operating at point:
A) N.
B) P.
C) Q.
D) R.

Ans: C
Difficulty: Medium

136. (Exhibit: Production Possibilities Curve 2) The economy will experience its least growth by operating at point:
A) N.
B) P.
C) Q.
D) R.

Ans: B
Difficulty: Medium

137. (Exhibit: Production Possibilities Curve 2) If conditions remain the same, the point representing an unattainable combination of consumer goods and capital goods is point:
A) N.
B) P.
C) Q.
D) R.

Ans: D
Difficulty: Medium

138. (Exhibit: Production Possibilities Curve 2) The point representing a combination of consumer goods and capital goods that can be attained only by economic growth is point:
A) N.
B) P.
C) Q.
D) R.

Ans: D
Difficulty: Medium

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139. (Exhibit: Production Possibilities Curve 2) The point representing a combination of consumer goods and capital goods that would result from underutilization or inefficient use of society's available resources is point:
A) N.
B) P.
C) Q.
D) R.

Ans: A
Difficulty: Medium

140. If the United States decides to allocate more resources to capital goods and less to consumer goods, the United States will obtain a greater degree of:
A) economic growth.
B) full employment.
C) price stability.
D) technical efficiency.

Ans: A
Difficulty: Medium

141. One reason you go to college is to improve your employment opportunities and obtain a higher income in the future. In the context of production possibilities, this is most comparable to:
A) producing at any point on the production possibilities curve.
B) producing at a point inside the production possibilities curve.
C) producing relatively more consumer goods and relatively fewer capital goods.
D) producing relatively more capital goods and relatively fewer consumer goods.

Ans: D
Difficulty: Hard

142. Increases in resources or improvements in technology will tend to cause a society's production possibilities curve to:
A) shift inward to the left.
B) shift outward to the right.
C) remain unchanged.
D) become vertical.

Ans: B
Difficulty: Medium

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143. A source of economic growth is:
A) idle factors of production.
B) unemployment.
C) more money.
D) more factors of production.

Ans: D
Difficulty: Medium

144. A source of economic growth is:
A) advances in technology.
B) unemployment.
C) more money.
D) idle factors of production.

Ans: A
Difficulty: Medium

145. A movement along the production possibilities curve would be a result of:
A) unemployment.
B) inflation.
C) changes in prices.
D) changes in the combinations of the two goods produced.

Ans: D
Difficulty: Medium

146. Capital, labor, and natural resources combine to produce goods and services. Which of the following will not lead to an increase in the ability of an economy to produce goods and services?
A) increased training for workers
B) establishing a more productive technology
C) new government restrictions on which technologies may be used to produce goods and services
D) discovery of new oil reserves

Ans: C
Difficulty: Hard

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147. The role of government in shifting the production possibilities curve to the right is considered:
A) supporting economic growth.
B) redistributing income.
C) providing certain goods and services.
D) enforcing private property rights.

Ans: A
Difficulty: Medium

148. Governments often establish rules that influence how an economy operates. Which of the following rules will most likely increase the ability of society to produce goods and services?
A) laws allowing discrimination against women.
B) providing tax incentives to encourage education by workers
C) environmental regulations that prevent the use of industrial solvents in production
D) increasing taxes on the formation of new capital

Ans: B
Difficulty: Hard

149. The best example of an increase in capital is:
A) The discovery of new oil reserves.
B) new computer software.
C) legal immigration of computer programmers.
D) conversion of military facilities to civilian uses.

Ans: B
Difficulty: Medium

150. Technological improvements will:
A) leave the production possibilities curve unchanged.
B) shift the production possibilities curve inward.
C) shift the production possibilities curve to outward.
D) necessarily lead to increased unemployment.

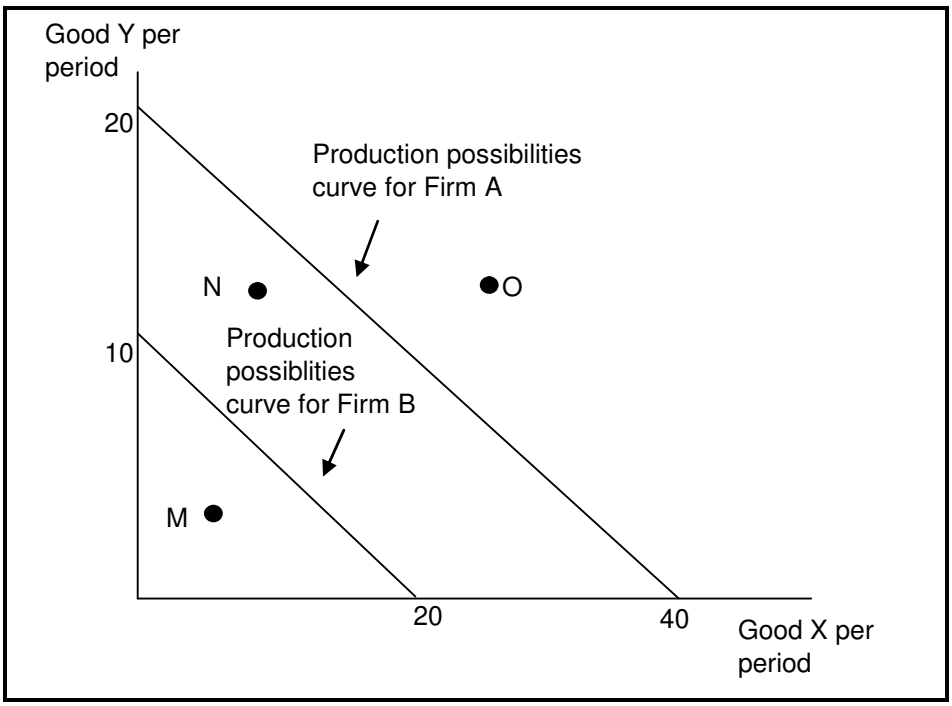
Ans: C
Difficulty: Medium

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Use the following to answer questions 151-154:

Exhibit: Production Possibilities Curve for Firms A and B



151. (Exhibit: Production Possibilities Curve for Firms A and B) It is clear that:
A) Firm A is capable of producing more than Firm B.
B) Firm B is capable of producing more than Firm A.
C) they are capable of producing equal amounts.
D) they will gain from trading with one another.

Ans: A
Difficulty: Hard

152. (Exhibit: Production Possibilities Curve for Firms A and B) In Firm B, the opportunity cost of producing 1 more unit of good X is:
A) 1/2 unit of Y.
B) 2 units of Y.
C) 20 units of Y.
D) 40 units of Y.

Ans: A
Difficulty: Hard

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153. (Exhibit: Production Possibilities Curve for Firms A and B) In Firm B, the opportunity cost of producing 1 more unit of good Y is:
A) 1/2 unit of X.
B) 2 units of X.
C) 20 units of X.
D) not able to be determined.

Ans: B
Difficulty: Hard

154. (Exhibit: Production Possibilities Curve for Firms A and B) In Firm A, the opportunity cost of producing 1 more unit of X in terms of Y:
A) is equal to the opportunity cost in Firm B of producing 1 more unit of X in terms of Y.
B) is less than the opportunity cost in Firm B of producing 1 more unit of X in terms of Y.
C) is greater than the opportunity cost in Firm B of producing 1 more unit of X in terms of Y.
D) cannot be determined.

Ans: A
Difficulty: Hard

155. Which of the following will not lead to economic growth?
A) increased immigration
B) restrictions on international trade
C) introduction of faster computers
D) opening all federal lands to mining

Ans: B
Difficulty: Medium

156. In the Case in Point on economic growth prospects for the United States, economist Robert Gordon expects for the near future:
A) A period of robust growth.
B) A period of secular stagnation.
C) A period of no growth.
D) A period of no technological innovation.

Ans: B
Difficulty: Medium

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157. In a command socialist economy:
A) resources are government owned but individuals make some decisions over their use.
B) resources are government owned and government exercises broad power over their use.
C) resources are privately owned and individuals make decisions over their use.
D) resources are privately owned but government exercises broad power over their use.

Ans: B
Difficulty: Medium

158. The best example of a market capitalist economy is:
A) Russia.
B) China before 1979.
C) Cuba.
D) the United States.

Ans: D
Difficulty: Medium

159. The best example of a command socialist economy is:
A) Russia.
B) China after 1979.
C) Cuba.
D) the United States.

Ans: C
Difficulty: Medium

160. According to the Case in Point on economic growth, which pattern describes the historical record on growth?
A) growth has been strong throughout history
B) growth was robust before the Industrial Revolution
C) growth was very strong between 1870 and 1970
D) none of the above

Ans: C
Difficulty: Hard

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161. In a market capitalist economy:
    A) factors of production are owned privately and decisions about their use are basically made by individuals.
    B) factors of production are owned by the government but decisions about their use are made privately.
    C) private ownership exists but decisions about resource allocation are usually made centrally by the government.
    D) there is no role for the government.

    Ans: A
    Difficulty: Medium

162. In a market capitalist economy:
    A) markets are not competitive.
    B) individual ownership and decision making are relied upon.
    C) consumers have few choices.
    D) the government owns the factors of production.

    Ans: B
    Difficulty: Medium

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163. The North Korean economy is currently classified as:
A) a mixed economy.
B) market capitalism.
C) command socialism.
D) the same kind of economy as Sweden.

Ans: C
Difficulty: Medium

164. In market capitalism:
A) factors of production are privately owned and decisions are made privately.
B) factors of production are owned by the government but decisions are made privately.
C) there is no role for government.
D) the consumer has few choices to make.

Ans: A
Difficulty: Medium

165. The basic economic differences among nations throughout history concerning institutions, philosophy, and ideology mainly focus on:
A) unemployment and inflation.
B) the ownership of factors of production and how they are coordinated in economic activity.
C) the relative shares of agriculture, industry, and service sectors.
D) the opportunity for social mobility.

Ans: B
Difficulty: Hard

166. If an economy's factors of production were owned by the government sector and the coordinating activity was done by a government planning board, the economy would be called:
A) capitalism.
B) market capitalism.
C) command socialism.
D) mixed capitalism.

Ans: C
Difficulty: Medium

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167. According to the textbook, the dramatic global shift toward market capitalist economies in the 1980s and 1990s is in large part the result of:
A) an emphasis on individual ownership and decision making power yielding freedom not available under socialist systems.
B) the philosophical and theoretical arguments of communism and socialism being finally proved correct.
C) the realization that government controls will allocate resources on the basis of comparative advantage.
D) a shift to more capital-intensive production.

Ans: A
Difficulty: Hard

168. Government's role of protecting property rights is considered:
A) enforcing a legal system.
B) providing certain goods and services.
C) redistributing income.
D) maintaining the money supply.

Ans: A
Difficulty: Medium

169. Government's role of providing national defense is considered:
A) enforcing a legal system.
B) providing certain goods and services.
C) redistributing income.
D) expanding economic growth.

Ans: B
Difficulty: Medium

170. Government's role of taxing some citizens and transferring income to others is considered:
A) enforcing a legal system.
B) providing certain goods and services.
C) redistributing income.
D) maintaining the money supply.

Ans: C
Difficulty: Medium

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171. In a market capitalist economy, which of the following is not an accepted role for government?
A) provision of national defense
B) enforcing a legal system
C) establishing policies to encourage full employment
D) All of the above are acceptable roles for government.

Ans: D
Difficulty: Medium

172. There are several advantages that a market economy possesses. These do not include the fact that market economies:
A) tend to result in high living standards.
B) tend to encourage greater economic growth.
C) tend to prevent entrepreneurial activity that would result in large accumulations of wealth in the hands of a few people.
D) none of the above is true

Ans: C
Difficulty: Medium

173. In enforcing the legal system, the government in a market capitalist economy acts to:
A) enforce contracts.
B) enforce property rights.
C) discourage fraud.
D) do all of the above.

Ans: D
Difficulty: Easy

174. When the government provides national defense, it is:
A) providing goods and services.
B) enforcing the legal system.
C) maintaining the money supply.
D) stabilizing the economy.

Ans: A
Difficulty: Easy

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True/False

1. The major difference between natural resources and capital is that the former refers to naturally occurring resources whereas the latter refers to produced resources.

   Ans: True

2. Money is a factor of production because it is part of capital.

   Ans: False

3. Society's production possibilities curve is primarily concerned with answering the economic question of what goods and services a society can produce.

   Ans: True

4. A production possibilities curve measures cost in terms of dollars spent, not in terms of sacrificed alternatives.

   Ans: False

5. The slope of a production possibilities curve is based on opportunity cost.

   Ans: True

6. The law of increasing opportunity cost indicates that the production possibilities curve has a constant slope.

   Ans: False

7. Society can operate on the production possibilities curve only if it has achieved efficiency.

   Ans: True

8. Comparative advantage and trade allow nations to specialize in the production of a larger number of different goods.

   Ans: False

9. If the United States has a lower opportunity cost than Mexico in the production of wheat, then it will import wheat from Mexico.

   Ans: False

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10. There is no role for government in a market capitalist economy.

    Ans: False

11. Natural resources are resources that occur in nature, while capital is a produced good that is used to produce another good.

    Ans: True

12. There is an important role for government in a market capitalist economy.

    Ans: True

13. Inefficiency occurs when an economy is operating outside its production possibilities curve.

    Ans: False

14. The slope of a production possibilities curve is based on opportunity cost.

    Ans: True

15. A production possibilities curve measures opportunity cost in dollar terms.

    Ans: False

16. Improvements in technology will shift the production possibilities curve outward.

    Ans: True

17. Money is considered to be a factor of production.

    Ans: False

18. A point inside the production possibilities curve may indicate that resources are not being used efficiently.

    Ans: True

19. The present position of a nation on its production possibilities curve will influence the future position of the production possibilities curve.

    Ans: True

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20. The production possibilities curve shows various combinations of two products that an economy can produce when there is full employment and economic efficiency.

    Ans: True

21. Without government, the "for whom" question could not be solved.

    Ans: False

22. Government in the United States plays an unimportant role in the economy because the rules for the functioning of the private economy are inherent in the markets themselves.

    Ans: False

23. If the U.S. economy adds to the capital stock, this may require a temporary decrease in the amount of present consumption.

    Ans: True

24. The law of increasing opportunity cost results in a constant slope of the production possibilities curve.

    Ans: False

Short Answer

1. List the three factors of production and explain what they are and their relative function in the production process.

2. Discuss and explain the rationale underlying the law of increasing opportunity cost.

3. Discuss and explain the difference between a market capitalist and a command socialist economy.

4. Discuss and explain under what conditions government participation in the economy has a positive and productive role.

5. Draw a production possibilities curve showing military goods and civilian goods. Show how you would measure the increased output of military goods. Show how you would measure the cost of this increase in military goods in terms of civilian goods. Why does opportunity cost change the way that it does?

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6. Production possibilities curves are bowed out away from the origin. Explain why. Can you think of a situation in which the production possibilities curve is a straight line and has a constant slope?

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Chapter 2: Confronting Scarcity: Choices in Production

Multiple Choice

1. Economic resources used in the production process are called:
   A) free gifts of the natural environment.
   B) factors of production.
   C) consumer items.
   D) money capital.

   Ans: B
   Difficulty: Easy

2. An economic system is the set of rules that define _____ and _____.
   A) resources; prices
   B) who gets to vote; when elections will be held
   C) market prices; factors of production
   D) how an economy's resources are to be owned; how decisions about the resources are to be made

   Ans: D
   Difficulty: Medium

3. The model that shows the goods and services the economy is capable of producing is the model of:
   A) utility.
   B) the fallacy of composition.
   C) production possibilities.
   D) scarcity.

   Ans: C
   Difficulty: Easy

4. Factors of production are:
   A) the resources the economy has available to produce goods and services.
   B) generally unlimited in modern economies.
   C) always employed in modern economies.
   D) the knowledge that can be applied to the production of goods and services.

   Ans: A
   Difficulty: Easy

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5. The three broad types of factors of production are:
   A) capital, labor, and natural resources.
   B) money, profit, and interest.
   C) stocks, bonds, and financial assets.
   D) technology, human capital, and comparative advantage.

   Ans: A
   Difficulty: Easy

6. The three broad types of resources used to produce goods and services are also known as:
   A) economic systems.
   B) factors of production.
   C) production possibilities.
   D) financial capital.

   Ans: B
   Difficulty: Easy

7. Capital is best considered as:
   A) the natural environment.
   B) a factor of production that has been produced.
   C) financial assets.
   D) money.

   Ans: B
   Difficulty: Easy

8. A factor of production that has been produced for use in the production of other goods and services is:
   A) labor.
   B) money.
   C) capital.
   D) natural resources.

   Ans: C
   Difficulty: Easy

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9. Labor is the _____ that can be applied to production.
   A) the natural environment.
   B) produced resources.
   C) financial assets.
   D) human effort.

   Ans: D
   Difficulty: Medium

10. Any factor of production is capital if it:
   A) was produced and can be used to produce other goods and services.
   B) generates utility.
   C) uses human effort to produce goods and services.
   D) is included in financial capital.

   Ans: A
   Difficulty: Medium

11. The factors of production are:
   A) money, labor, natural resources, and capital.
   B) technology, human capital, and natural resources.
   C) money, capital, and natural resources.
   D) labor, capital, and natural resources.

   Ans: D
   Difficulty: Easy

12. A factor of production that is produced in order to produce something else is called:
   A) money.
   B) labor.
   C) technology.
   D) capital.

   Ans: D
   Difficulty: Easy

13. Human effort that can be applied in the production process is called:
   A) natural resources.
   B) technology.
   C) labor.
   D) specialization.

   Ans: C
   Difficulty: Easy

14. Resources from nature that can be used to produce other goods and services are called:
   A) money.

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B) natural resources.
C) labor.
D) capital.

Ans: B
Difficulty: Easy

15. For a factor of production to be called capital it must:
A) be produced.
B) occur in the natural environment.
C) be a part of human skill.
D) be a result of a stock issue.

Ans: A
Difficulty: Easy

16. Which of the following is an example of capital?
A) a gravel truck
B) a savings account
C) a share of General Motors stock
D) a lake

Ans: A
Difficulty: Medium

17. To be considered capital, a factor of production must:
A) have been produced.
B) occur naturally.
C) be part of a factory or building.
D) be a skill or talent possessed by a person.

Ans: A
Difficulty: Medium

18. One of the two criteria for a resource to be considered capital is that it must:
A) occur naturally.
B) be part of a factory or building.
C) be a skill or talent possessed by a person.
D) be possible to use it to produce other goods and services.

Ans: D
Difficulty: Medium

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19. An example of capital is:
    A) cash.
    B) a factory building.
    C) money in a checking account.
    D) the existing state of technology.

    Ans: B
    Difficulty: Medium

20. Increasing the level of education in the United States will:
    A) shift the production possibilities curve to the left.
    B) improve the level of technology.
    C) lead to increased natural resource use.
    D) lead to workers possessing greater human capital.

    Ans: D
    Difficulty: Medium

21. Which of the following is not capital?
    A) a computer in the office of an accountant
    B) a migrant worker in the fields of California
    C) a wrench in an auto-repair shop
    D) a new machine used for producing microchips

    Ans: B
    Difficulty: Easy

22. Two components of labor are:
    A) residential location and education.
    B) natural ability and human capital.
    C) money and financial wealth.
    D) ingenuity and job-specific machinery.

    Ans: B
    Difficulty: Medium

23. The set of acquired skills and abilities that workers bring to the production of goods and services is:
    A) money.
    B) wealth.
    C) human capital.
    D) natural ability.

    Ans: C
    Difficulty: Easy

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24. Human capital is:
    A) the set of acquired skills and abilities that workers bring to the production of goods and services.
    B) the financial wealth the economy has available to produce goods and services.
    C) the ability to produce one of two goods at relatively lower cost.
    D) a factor of production only if it occurs naturally.

    Ans: A
    Difficulty: Easy

25. Technology is:
    A) knowledge that can be applied to the production of goods and services.
    B) generally unlimited in modern economies.
    C) a graphical illustration of the alternative combinations of goods and services an economy can produce.
    D) the resources the economy has available to produce goods and services.

    Ans: A
    Difficulty: Easy

26. Knowledge that can be applied to the production of goods and services is:
    A) natural resources.
    B) specialization.
    C) technology.
    D) comparative advantage.

    Ans: C
    Difficulty: Easy

27. The textbook classifies technology as _____ and entrepreneurs as _____ .
    A) knowledge; persons who seek profit by finding new ways to organize factors of production
    B) capital; labor
    C) labor skills; capital
    D) a factor of production; a factor of production

    Ans: A
    Difficulty: Hard

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28. A person who seeks to earn profits by finding ways to organize factors of production is called a(n):
    A) foreman
    B) finance capitalist.
    C) entrepreneur.
    D) manager.

    Ans: C
    Difficulty: Easy

29. One of the two criteria for a resource to be considered as a natural resource is that it must:
    A) have been produced.
    B) not be part of the environment.
    C) be part of a factory or building.
    D) be available for the production of goods and services.

    Ans: D
    Difficulty: Medium

30. One of the two criteria for a resource to be considered as a natural resource is that it must:
    A) have been produced.
    B) be found in nature.
    C) be part of a factory or building.
    D) not be used to produce goods and services.

    Ans: B
    Difficulty: Medium

31. An example of a natural resource is:
    A) oil in the ground.
    B) oil in storage tanks.
    C) a factory.
    D) a computer program.

    Ans: A
    Difficulty: Medium

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32. The difference between iron ore deposits and the steel produced from these deposits that is later used to make factory equipment illustrates the difference between:
    A) labor and a natural resource.
    B) labor and capital.
    C) a natural resource and capital.
    D) a natural resource and entrepreneurship.

    Ans: C
    Difficulty: Hard

33. Improvements in technology provide benefits to:
    A) consumers, through lower prices.
    B) workers, although some jobs may be eliminated.
    C) firms, through lower production costs.
    D) all of the above.

    Ans: D
    Difficulty: Easy

34. Who may benefit from technological progress?
    A) consumers
    B) workers
    C) firms.
    D) all of the above.

    Ans: D
    Difficulty: Medium

35. The production possibilities curve represents the fact that:
    A) the economy will automatically end up at full employment.
    B) an economy's productive capacity increases proportionally with its population.
    C) if all resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
    D) economic production possibilities have no limit.

    Ans: C
    Difficulty: Medium

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Use the following to answer questions 36-38:

Exhibit: Production Possibilities Schedule 1

Alternatives	A	B	C	D	E	F
Consumer goods per period	0	1	2	3	4	5
Capital goods per period	30	28	24	18	10	0

36. (Exhibit: Production Possibilities Schedule 1) If the economy produces 2 units of consumer goods per period, it also can produce at most _____ units of capital goods per period.
A) 30
B) 28
C) 24
D) 18

Ans: C
Difficulty: Hard

37. (Exhibit: Production Possibilities Schedule 1) If the economy produces 10 units of capital goods per period, it also can produce at most _____ unit(s) of consumer goods per period.
A) 5
B) 4
C) 3
D) 2

Ans: B
Difficulty: Hard

38. (Exhibit: Production Possibilities Schedule 1) The opportunity cost of producing the fourth unit of consumer goods is _____ units of capital goods.
A) 2
B) 4
C) 6
D) 8

Ans: D
Difficulty: Hard

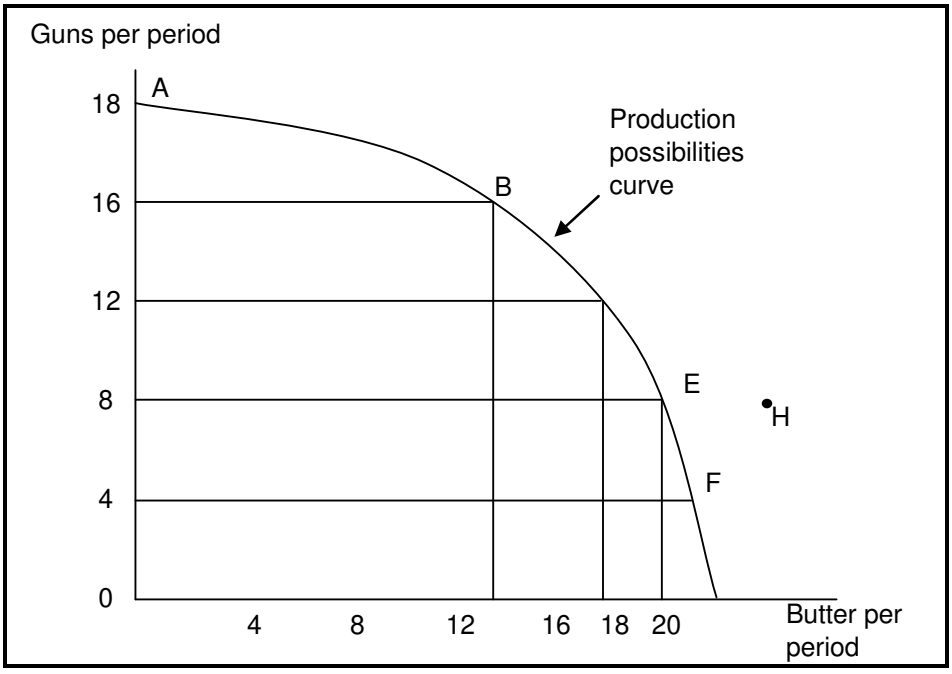
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39. In drawing a production possibilities curve, it is assumed that:
    A) technology does not change.
    B) the economy is fully employed and may not be efficient.
    C) there are increasing qualities of the factors of production.
    D) all of the above are true.

    Ans: A
    Difficulty: Hard

Use the following to answer questions 40-46:

Exhibit: Guns and Butter



40. (Exhibit: Guns and Butter) Points A, B, E, and F:
    A) indicate combinations of guns and butter that society can produce using all of its factors efficiently.
    B) show that the opportunity cost of more guns increases, but that of more butter decreases as more of each good is produced..
    C) indicate that society wants butter more than guns.
    D) indicate constant costs for guns and increasing costs for butter.

    Ans: A
    Difficulty: Medium

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41. (Exhibit: Guns and Butter) This production possibilities curve is:
    A) linear and because of the constant cost and
    B) bowed in toward the origin because of increasing opportunity costs.
    C) bowed in toward the origin because of constant cost of guns and butter.
    D) bowed out from the origin because of increasing opportunity costs.

    Ans: D
    Difficulty: Medium

42. (Exhibit: Guns and Butter) If the economy were operating at point B, producing 16 units of guns and 12 units of butter per period, a decision to move to point E and produce 18 units of butter:
    A) indicates you can have more butter and guns simultaneously.
    B) makes it clear that this economy experiences decreasing opportunity costs.
    C) involves a loss of 8 units of guns per period.
    D) involves a loss of 4 units of guns per period.

    Ans: C
    Difficulty: Medium

43. (Exhibit: Guns and Butter) The combination of guns and butter at point H:
    A) can be obtained, but would cost too much.
    B) cannot be attained given the level of technology and the factors of production available.
    C) has no meaning since it does not relate to the preferences of consumers.
    D) Is attainable but would increase unemployment.

    Ans: B
    Difficulty: Medium

44. (Exhibit: Guns and Butter) If the economy were producing 8 units of guns and 12 units of butter per period:
    A) this is a possible choice, but would involve unemployment and/or inefficiency.
    B) the notion of increasing opportunity cost is invalidated.
    C) the economy is still efficient but has made a decision not to buy as much as it could.
    D) something must be done to reduce the amount of employment.

    Ans: A
    Difficulty: Medium

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45. (Exhibit: Guns and Butter) A movement from producing 12 units of guns and 16 units of butter per period to point B means a:
    A) gain of 4 units of guns and a loss of 6 units of butter per period.
    B) gain of 2 units of guns and a loss of 4 units of butter per period.
    C) loss of 4 units of butter and a gain of 4 units of guns per period.
    D) loss of 2 units of guns and a gain of 4 units of butter per period.

    Ans: C
    Difficulty: Medium

46. (Exhibit: Guns and Butter) The maximum amounts of guns and butter this economy can produce is:
    A) 18 units of guns and 0 units of butter per period.
    B) 0 units of guns and 20 units of butter per period.
    C) 16 units of guns and 12 units of butter per period.
    D) all of the above combinations are maximum possible combinations.

    Ans: D
    Difficulty: Hard

47. If an economy has to sacrifice only one unit of good X for each unit of good Y produced throughout the relevant range, then its production possibilities curve has a(n):
    A) zero slope.
    B) constant, negative slope.
    C) increasing, negative slope.
    D) decreasing, negative slope.

    Ans: B
    Difficulty: Medium

48. If Farmer Sam MacDonald can produce 200 pounds of cabbages and 0 pounds of potatoes or 0 pounds of cabbages and 100 pounds of potatoes and faces a linear production possibilities curve for his farm, the opportunity cost of producing an additional pound of potatoes is _____ pound(s) of cabbage.
    A) 1/2
    B) 2
    C) 100
    D) 200

    Ans: B
    Difficulty: Hard

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49. If Farmer Sam MacDonald can produce 200 pounds of cabbages and 0 pounds of potatoes or 0 pounds of cabbages and 100 pounds of potatoes and faces a linear possibilities curve for his farm, the opportunity cost of producing an additional pound of cabbage is _____ pound(s) of potatoes.
A) 1/2
B) 2
C) 100
D) 200

Ans: A
Difficulty: Hard

50. If the production possibilities curve were a straight line sloping down from left to right, this would suggest that:
A) more of both goods could be produced moving along the curve.
B) the two products must have the same price.
C) no factor of production has any particular comparative advantage over other resources.
D) the utility of the two goods must be equal to consumers.

Ans: C
Difficulty: Hard

51. The slope of a typical production possibilities curve is:
A) 0.
B) vertical.
C) positive.
D) negative.
Ans: D
Difficulty: Medium

Use the following to answer questions 52-55:

Exhibit: Production Possibilities Schedule 2

	V	W	X	Y	Z
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

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52. (Exhibit: Production Possibilities Schedule 2) If the economy is producing at alternative X, the opportunity cost to it of producing at Y instead of X is _____ units of consumer goods per period.
A) 0
B) 6
C) 8
D) 14

Ans: B
Difficulty: Medium

53. (Exhibit: Production Possibilities Schedule 2) If an economy is producing at alternative W, the opportunity cost to it of producing at X is _____ unit(s) of consumer goods per period.
A) 0
B) 1
C) 4
D) 18

Ans: C
Difficulty: Medium

54. (Exhibit: Production Possibilities Schedule 2) A move from alternative Y to alternative X would:
A) result in greater unemployment.
B) decrease potential growth.
C) increase potential growth.
D) result in greater underemployment.

Ans: B
Difficulty: Medium

55. (Exhibit: Production Possibilities Schedule 2) The production of 14 units of consumer goods and 1 unit of capital goods per period would:
A) result in full employment.
B) result in no unused resources.
C) result in some unused or inefficiently used resources.
D) increase economic growth.

Ans: C
Difficulty: Medium

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56. An economy is said to have a comparative advantage in producing a particular good if it:
    A) can produce more of all goods than another economy.
    B) can produce less of all goods than another economy.
    C) has the highest cost for producing that good.
    D) has the lowest cost for producing that good.

    Ans: D
    Difficulty: Easy

57. An economy that has the lowest cost for producing a particular good is said to have a(n):
    A) technological advantage.
    B) comparative advantage.
    C) convex news production possibilities curve.
    D) all of the above are correct and

    Ans: B
    Difficulty: Easy

58. The concept of comparative advantage is based upon:
    A) absolute labor productivity.
    B) relative labor costs.
    C) dollar prices of labor.
    D) relative opportunity costs.

    Ans: D
    Difficulty: Hard

59. Comparative advantage leads to producing at a:
    A) higher opportunity cost.
    B) lower opportunity cost.
    C) higher dollar cost.
    D) point where costs just begin to fall.

    Ans: B
    Difficulty: Medium

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60. An economy is said to have a comparative advantage in the production of a good if it can:
    A) produce that good with more resources than another economy.
    B) produce that good with a higher opportunity cost than another economy.
    C) produce that good outside its production possibilities curve.
    D) produce the good at a lower opportunity cost than another economy.

    Ans: D
    Difficulty: Medium

61. The law of increasing opportunity costs is a result of the fact that:
    A) the value of the dollar has declined over time.
    B) wage rates rise as the economy reaches full employment.
    C) consumers tend to value a good more when they don't have much of it.
    D) resources are not equally productive in all output categories.

    Ans: D
    Difficulty: Medium

62. When moving along a production possibilities curve, the opportunity cost to society of getting more of the good on the horizontal axis:
    A) is constant.
    B) is measured in dollar terms.
    C) is measured by the amount of the other good that must be given up.
    D) usually decreases.

    Ans: C
    Difficulty: Medium

63. The law of increasing opportunity cost means that:
    A) higher wages, rents, and interest will increase opportunity costs.
    B) opportunity cost will decrease the more you decide to produce more of one good along a production possibilities curve.
    C) opportunity cost increases when you produce more of one good while moving along a production possibilities curve.
    D) costs of production decrease at first, but then eventually rise.

    Ans: C
    Difficulty: Medium

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64. If an economy has to sacrifice increasing amounts of good X for each additional unit of good Y produced, then its production possibilities curve is:
    A) bowed out from the origin.
    B) bowed in toward the origin.
    C) a straight line.
    D) a vertical line.

    Ans: A
    Difficulty: Medium

65. The proposition that states that as output increases for one good in an economy that is on its production possibilities curve, the cost of additional units of the good on the horizontal axis will be greater and greater is the:
    A) law of absolute advantage.
    B) law of increasing opportunity cost.
    C) law of policy ineffectiveness.
    D) law of demand.

    Ans: B
    Difficulty: Easy

66. The law of increasing opportunity cost is associated with the slope of the:
    A) demand curve.
    B) supply curve.
    C) output curve.
    D) production possibilities curve.

    Ans: D
    Difficulty: Medium

67. The fact that a society's production possibilities curve is bowed out from the origin of a graph demonstrates the law of:
    A) increasing opportunity cost.
    B) decreasing opportunity cost.
    C) constant opportunity cost.
    D) convex opportunity cost.

    Ans: A
    Difficulty: Medium

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68. The economy's factors of production are not equally suitable for producing different types of goods. This principle generates:
    A) economic growth.
    B) technical efficiency.
    C) resource underutilization.
    D) the law of increasing opportunity cost.

    Ans: D
    Difficulty:
    Medium

69. The law of increasing opportunity cost says that:
    A) opportunity costs of production always tend to increase.
    B) increases in wages cause increases in the opportunity costs of production.
    C) as output increases for one good on its production possibilities curve, the opportunity cost of additional units of the other good will be greater and greater.
    D) along a production possibilities curve, as output increases in the production of one good, the opportunity costs of additional units of the other good will be less and less.

    Ans: C
    Difficulty: Easy

70. In the 1980s, the federal government undertook a major build-up of the military sector, leading to reports that prices charged by military contractors were spiraling upward. According to production possibilities analysis, this result is not surprising due to:
    A) the law of increasing opportunity cost.
    B) economic efficiency.
    C) technical efficiency.
    D) resource underutilization.

    Ans: A
    Difficulty: Hard

71. If a production possibilities curve were bowed in or convex to the origin of a graph, it would demonstrate:
    A) increasing opportunity cost.
    B) decreasing opportunity cost.
    C) constant opportunity cost.
    D) fluctuating opportunity cost.

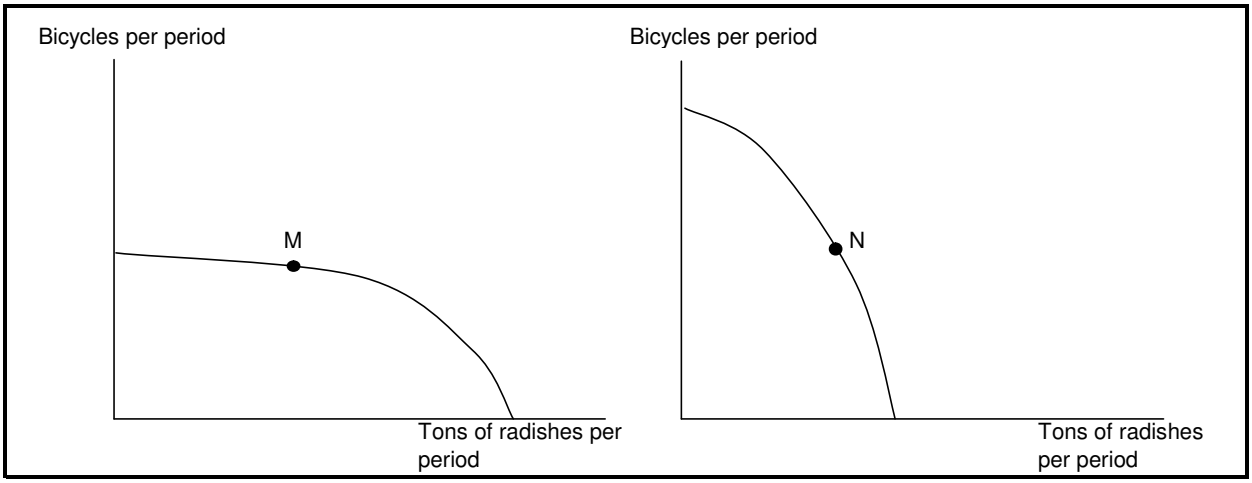
    Ans: B
    Difficulty: Hard

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Use the following to answer questions 72-74:

Exhibit: Bicycles and Radishes 1



72. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. The opportunity cost of producing an additional ton of radishes would be greater in:
    A) Country A.
    B) Country B.
    C) neither; the opportunity cost would be the same in both countries.
    D) there is not enough information given to answer the question.

    Ans: B
    Difficulty: Hard

73. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. Suppose Country A discovered a new technology that greatly increased its ability to produce bicycles. This would:
    A) lower the opportunity cost of producing radishes in Country A.
    B) increase the opportunity cost of producing radishes in Country A.
    C) have no effect on the opportunity cost of producing radishes in country A.
    D) increase the opportunity cost of producing radishes in Country B.

    Ans: B
    Difficulty: Hard

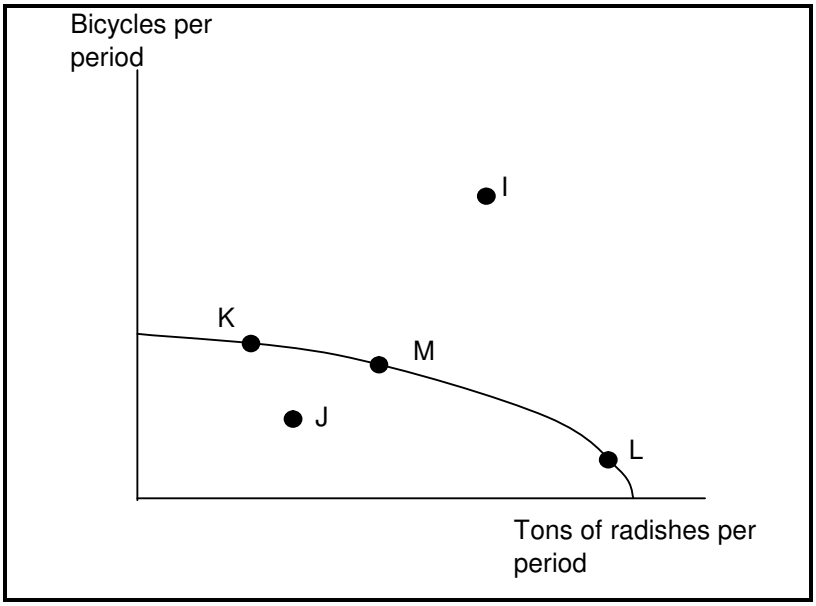
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74. (Exhibit: Bicycles and Radishes 1) The exhibit shows production possibilities curves for two countries that produce only radishes and bicycles. The axes of both graphs are measured in equivalent units. Country A is now operating at point M, and Country B is now operating at point N. Suppose Country B wants to be able to produce more radishes and more bicycles. To do this, it must:
A) Use its resources more efficiently.
B) achieve full employment in its use of resources.
C) acquire more capital, more labor, more natural resources, and/or better technology.
D) do all of the above.

Ans: C
Difficulty: Hard

Use the following to answer questions 75-76:

Exhibit: Bicycles and Radishes 2



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75. (Exhibit: Bicycles and Radishes 2) In the country depicted in this exhibit, the opportunity cost of an additional ton of radishes would be greater at:
    A) point K.
    B) point M.
    C) point L.
    D) none of the above points; the opportunity cost is the same at every point on a production possibilities curve.

    Ans: C
    Difficulty: Medium

76. (Exhibit: Bicycles and Radishes 2) The country depicted in this exhibit is currently operating at point M. It could achieve production at point I only if it:
    A) used its resources more efficiently.
    B) devoted more resources to radish production.
    C) devoted more resources to bicycle production.
    D) increased the quantities of capital, natural resources, or labor available or improved its technology.

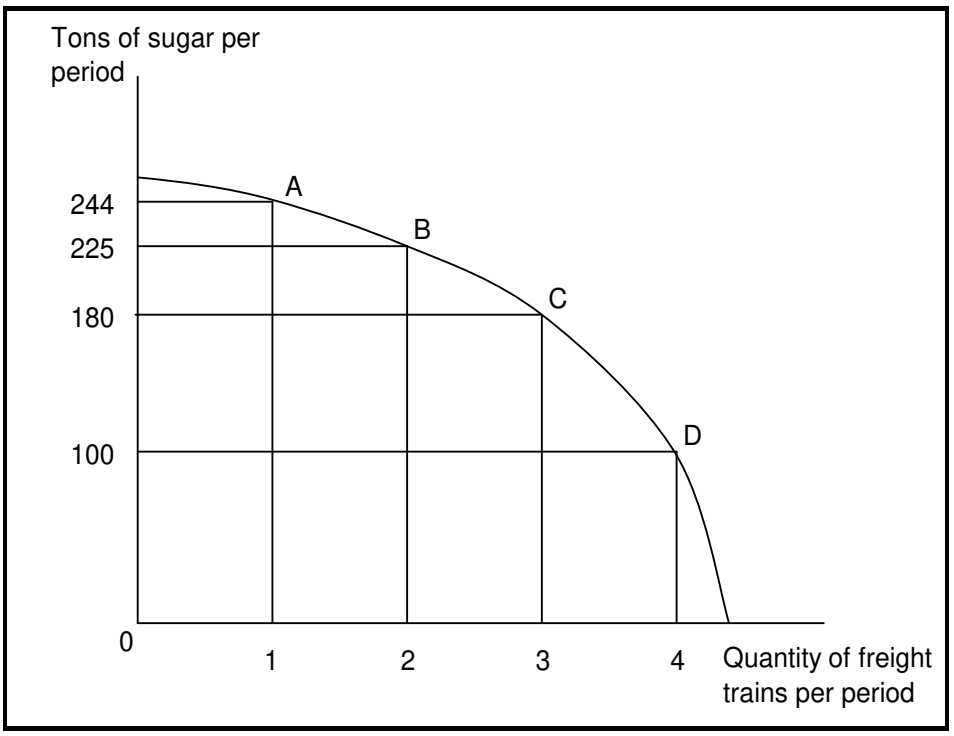
    Ans: D
    Difficulty: Medium

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Use the following to answer questions 77-82:

Exhibit: Sugar and Freight Trains



77. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point A, producing 244 tons of sugar and 1 freight train. The opportunity cost of producing the second freight train is:
    A) 225 tons of sugar.
    B) 25 tons of sugar.
    C) 19 tons of sugar.
    D) 6 tons of sugar.

    Ans: C
    Difficulty: Hard

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78. (Exhibit: Sugar and Freight Trains) The downward slope of the production possibilities curve implies:
    A) resources in the economy are scarce.
    B) the economy must be controlled by the government.
    C) sugar is more important than freight trains.
    D) the economy produces more sugar than freight trains.

    Ans: A
    Difficulty: Medium

79. (Exhibit: Sugar and Freight Trains) Suppose the economy is producing 180 tons of sugar and 2 freight trains. This implies that:
    A) the economy is operating at full employment.
    B) the economy is operating efficiently.
    C) the economy is not producing as much as it could.
    D) economic growth would help the economy move to its production possibilities curve.

    Ans: C
    Difficulty: Medium

80. (Exhibit: Sugar and Freight Trains) The "bowed-out" shape of the production possibilities curve shown here demonstrates:
    A) that freight trains cost more than sugar.
    B) that sugar costs more than freight trains.
    C) that the opportunity cost of additional freight trains increases as the economy produces more and more of them.
    D) that the opportunity cost of additional freight trains decreases as the economy produces more and more of them.

    Ans: C
    Difficulty: Medium

81. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point B. The opportunity cost of producing the third freight train would be:
    A) 6 tons of sugar.
    B) 19 tons of sugar.
    C) 45 tons of sugar.
    D) 80 tons of sugar.

    Ans: C
    Difficulty: Hard

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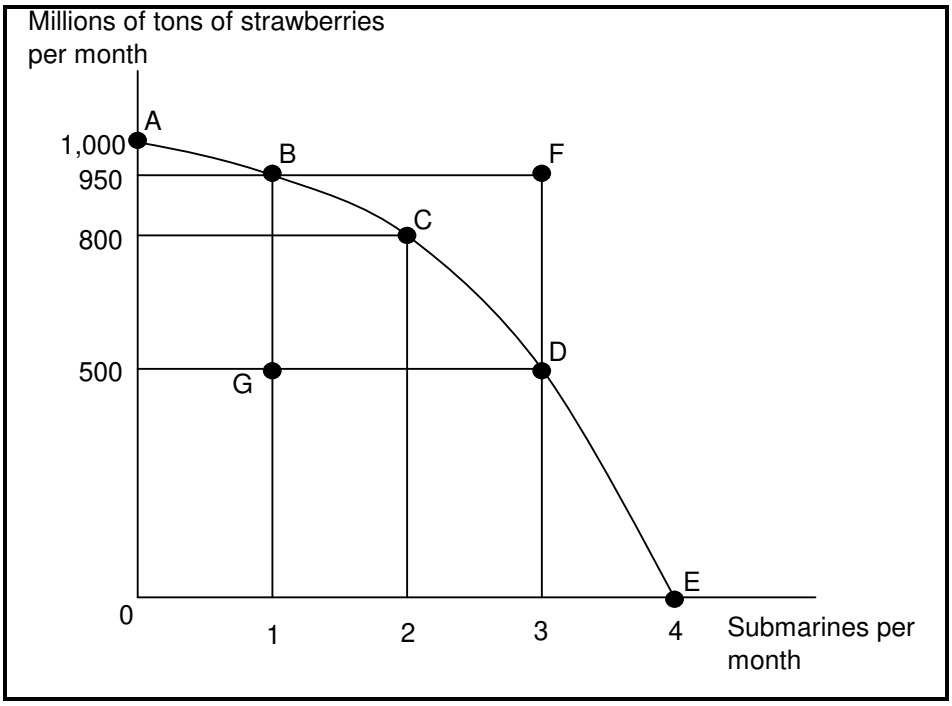
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82. (Exhibit: Sugar and Freight Trains) Suppose the economy is operating at point C. The opportunity cost of producing the fourth freight train would be:
A) 19 tons of sugar.
B) 45 tons of sugar.
C) 80 tons of sugar.
D) 3 freight trains.

Ans: C
Difficulty: Hard

Use the following to answer questions 83-87:

Exhibit: Strawberries and Submarines



83. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point G. This implies that:
A) the economy can move to a point such as C only if it improves its technology.
B) the economy is experiencing unemployment and/or inefficient allocation of resources.
C) the economy lacks the resources to achieve a combination such as C.
D) people in this economy don't really like strawberries and submarines.

Ans: B
Difficulty: Medium

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84. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point A. The first submarine, which is achieved at point B, would have an opportunity cost of _____ million tons of strawberries.
A) 50
B) 150
C) 400
D) 950

Ans: A
Difficulty: Medium

85. (Exhibit: Strawberries and Submarines) As the economy moves from point A towards, say, point D, it will find that the opportunity cost of each additional submarine:
A) falls.
B) rises.
C) remains unchanged.
D) none of the above

Ans: B
Difficulty: Medium

86. (Exhibit: Strawberries and Submarines) The downward slope of the production possibilities curve implies that resources:
A) must be used efficiently.
B) are scarce.
C) should not be wasted.
D) should be allocated so that approximately equal amounts of both goods are produced.

Ans: B
Difficulty: Medium

87. (Exhibit: Strawberries and Submarines) Suppose the economy is now operating at point C. Achieving production at point F would require:
A) that the economy achieve full employment and an efficient allocation of resources.
B) that the economy reduce its production of strawberries.
C) that the economy reduce its production of submarines.
D) that the economy improve its technology or increase the quantities of factors of production it has.

Ans: D
Difficulty: Medium

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88. In general, production possibilities curves are "bowed out" because:
    A) it's wasteful to produce too much of any one good.
    B) people generally prefer to consume goods in appropriate combinations.
    C) of the law of increasing opportunity cost.
    D) of the law of demand.

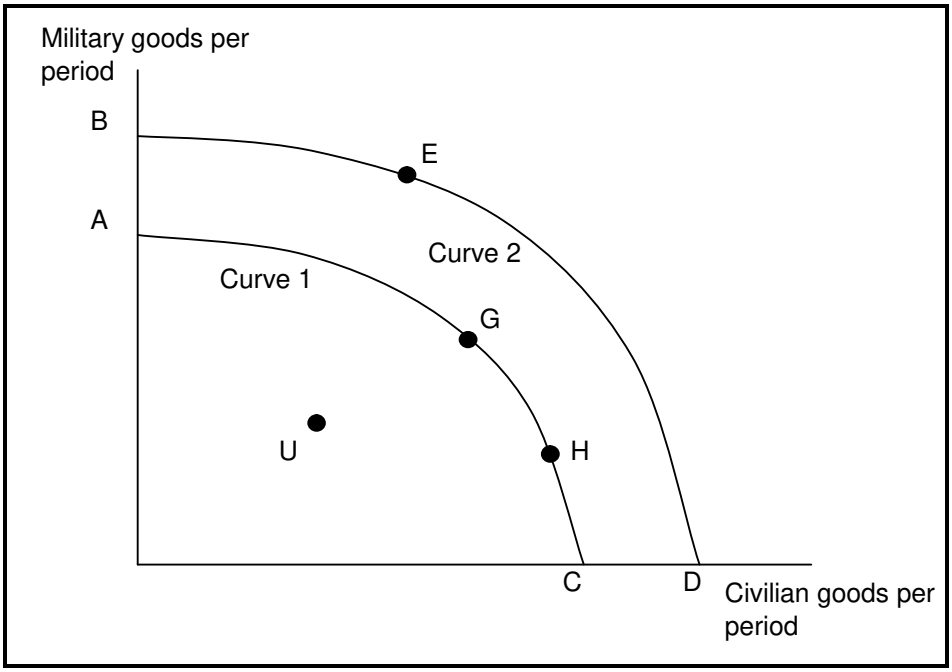
    Ans: C
    Difficulty: Medium

89. If an economy is producing a level of output that is on its production possibilities curve, the economy
    A) has idle resources.
    B) has idle resources but is using resources efficiently.
    C) has no idle resources but is using them inefficiently.
    D) has no idle resources and is using resources efficiently.

    Ans: D
    Difficulty: Medium

Use the following to answer questions 90-94:

Exhibit: Production Possibilities Curve—Military and Civilian Goods



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90. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) A movement from point G to H on Curve 1 would:
A) require giving up military goods in order to get more civilian goods.
B) indicate that, in this economy, there is no scarcity.
C) require giving up civilian goods to get more military goods.
D) require greater efficiency in the production of civilian goods.

Ans: A
Difficulty: Medium

91. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) If an economy is at point U, and its production possibilities curve is Curve 1, this would indicate that:
A) resources are fully employed.
B) economic growth has taken place.
C) there is inefficiency and/or unemployment.
D) the economy is maximizing its economic objectives.

Ans: C
Difficulty: Medium

92. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) If the economy is represented by Curve 1, then:
A) point E is unattainable at the present time.
B) point G is superior to point H.
C) point H is superior to point G.
D) factors of production are not being used efficiently.

Ans: A
Difficulty: Medium

93. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) A movement from point G to point U could be a representation of what happened during:
A) World War II.
B) the Great Depression.
C) the postwar expansion following World War II.
D) a period of rapid economic growth.

Ans: B
Difficulty: Hard

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94. (Exhibit: Production Possibilities Curve—Military and Civilian Goods) The movement from point G on Curve 1 to point E on Curve 2 means that the:
    A) economy has grown.
    B) economy has become less efficient.
    C) quality and/or the quantity of the factors of production has decreased.
    D) demand for military goods has risen.

    Ans: A
    Difficulty: Hard

95. If all factors of production that are available for use under current market conditions are being utilized, then the economy has:
    A) economic growth.
    B) comparative advantage.
    C) full employment.
    D) inefficient production.

    Ans: C
    Difficulty: Easy

96. If an economy is producing a combination of goods that places it on the production possibilities curve, then it has:
    A) economic growth.
    B) full employment.
    C) inefficiency.
    D) idle factors of production.

    Ans: B
    Difficulty: Medium

97. If an economy is producing a combination of goods that places it inside the production possibilities curve, then it has:
    A) economic growth.
    B) full employment.
    C) efficiency.
    D) idle factors of production or inefficient use of resources.

    Ans: D
    Difficulty: Medium

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98. Inefficient production or unemployment exists when the economy is _____ the production possibilities curve.
    A) operating inside
    B) operating on
    C) operating outside
    D) moving along

    Ans: A
    Difficulty: Medium

99. Efficient production exists when the economy is:
    A) operating inside its production possibilities curve.
    B) operating on its production possibilities curve.
    C) operating outside its production possibilities curve.
    D) moving beyond its production possibilities curve.

    Ans: B
    Difficulty: Medium

100. If an economy is operating efficiently and with full employment, the production of more of one commodity will necessarily lead to less of something else being produced because of:
    A) the unlimited wants of people.
    B) perfectly adaptability of resources in the production of various goods.
    C) scarcity.
    D) the lack of money capital.

    Ans: C
    Difficulty: Medium

101. Assume an economy is operating on its production possibilities curve, which shows the production of military and civilian goods. If the output of military goods is increased, the output of civilian goods:
    A) will increase too.
    B) will not change.
    C) must decrease.
    D) may increase or decrease.

    Ans: C
    Difficulty: Medium

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102. When making a choice to do more of one activity, the highest-valued other choice society does not make is called _____ , and it is measured _____ .
A) opportunity cost; in terms of the money it costs
B) increasing cost; in terms of the amount of money spent doing so
C) constant cost; by the slope of the production possibilities curve at that level
D) opportunity cost; by the slope of the production possibilities curve at that level

Ans: D
Difficulty: Hard

103. If an economy is operating on its production possibilities curve, it is:
A) efficient and fully employed.
B) fully employed but not necessarily efficient.
C) efficiently producing but not necessarily fully employed.
D) inevitably going to grow in the future.

Ans: A
Difficulty: Medium

104. Any point inside a production possibilities curve indicates:
A) unemployment and/or inefficiency.
B) that the law of increasing opportunity costs is no longer valid.
C) that society doesn't want more of either good.
D) that economic growth is no longer possible.

Ans: A
Difficulty: Medium

105. Efficient production implies that it is:
A) possible to produce more of all goods and services.
B) it is possible to produce more of one good without producing less of another.
C) not possible to produce more of one good without producing less of another good.
D) producing at a combination of goods which lies between the production possibilities curve and the origin.

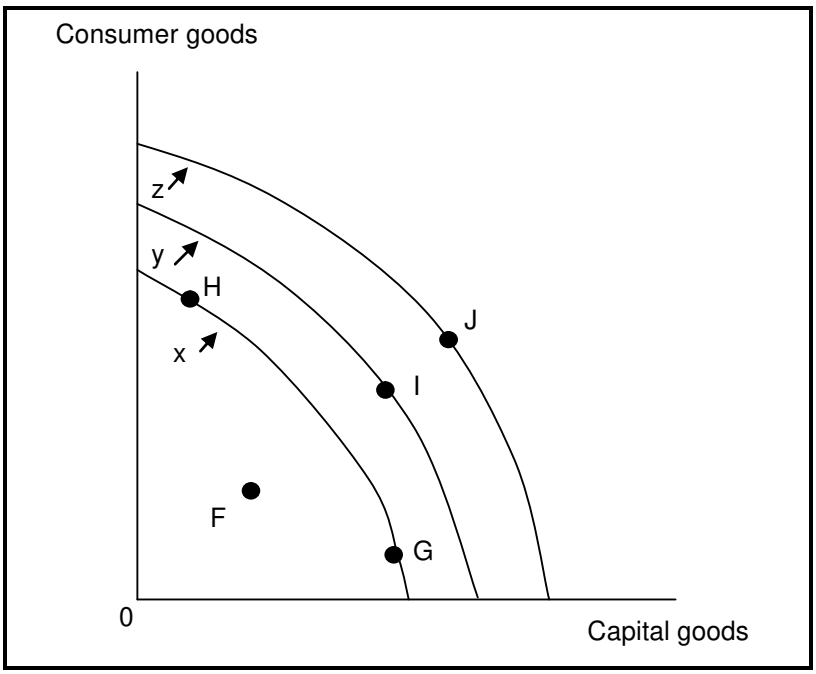
Ans: C
Difficulty: Medium

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Use the following to answer questions 106-108:

Exhibit: Production Possibilities Curve 1



106. (Exhibit: Production Possibilities Curve 1) Resource underutilization occurs at point _____ with respect to Curve _____ .
A) I; y
B) I; x
C) J; z
D) F; x

Ans: D
Difficulty: Hard

107. (Exhibit: Production Possibilities Curve 1) Efficiency is achieved at point _____ with respect to Curve _____.
A) G; y
B) I; z
C) H; x
D) F; x

Ans: C
Difficulty: Hard

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108. (Exhibit: Production Possibilities Curve 1) If the economy is currently facing production possibilities Curve x, it is more likely to achieve Curve z in the future if it allocates resources to produce at point:
A) F.
B) G.
C) H.
D) I.

Ans: B
Difficulty: Hard

109. Specialization arises because
A) some people don't like doing some tasks.
B) differences in the costs of production give some producers a comparative advantage in the production of particular goods or services.
C) the government directs resources into certain activities.
D) inefficient production forces producers to trade.

Ans: B
Difficulty: Medium

110. The cost of the Great Depression between 1929 and 1942 was a loss of:
A) more than the United States ultimately spent on World War II.
B) over $15 trillion in today's dollars.
C) the output that otherwise would have been produced by the 50 percent of the nation's workers who had lost their jobs.
D) both B and C are true.

Ans: A
Difficulty: Hard

111. During the Great Depression:
A) By 1933, 25 percent of the nation's workers had lost their jobs.
B) output reached its lowest level in 1929.
C) the production possibilities curve shifted sharply inward, which explains the drop in output, jobs, and overall prosperity.
D) firms increased output but used fewer workers.

Ans: A
Difficulty: Easy

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112. A student receives a bachelor's degree in economics and then achieves gainful employment as an economic analyst with a Fortune 500 company. This new worker is likely to enhance the economy's productivity through:
A) scarcity.
B) free goods.
C) stable prices.
D) specialization of labor.

Ans: D
Difficulty: Medium

113. Two friends, one an engineer and the other an accountant, decide to form a partnership. If the accountant takes care of the books and the engineer runs the factory, they are likely to enhance the economy's productivity through:
A) scarcity.
B) specialization of labor.
C) a shift in the production possibilities curve.
D) a movement along the production possibilities curve.

Ans: B
Difficulty: Medium

114. International trade is possible in part through:
A) inefficiently employing resources.
B) restricting the rate of growth of output.
C) generalization in the production of all goods.
D) specialization in the production of goods.

Ans: D
Difficulty: Medium

115. By specializing in the production of particular goods, a nation is:
A) less likely to make efficient use of available resources.
B) more likely to engage in international trade.
C) able to become self-sufficient.
D) unable to develop a comparative advantage.

Ans: B
Difficulty: Medium

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116. By specializing in the production of particular goods in which it has a comparative advantage, a nation is:
A) less likely to make efficient use of available resources.
B) less likely to engage in international trade.
C) able to become self-sufficient.
D) able to operate efficiently.

Ans: D
Difficulty: Medium

117. Countries import some goods and export other goods primarily because of:
A) unemployment.
B) self-sufficiency.
C) comparative advantage.
D) the law of increasing opportunity cost.

Ans: C
Difficulty: Medium

118. Britain imports some goods and exports other goods primarily because of:
A) free goods.
B) specialization.
C) unemployment.
D) self-sufficiency.

Ans: B
Difficulty: Medium

119. If the opportunity cost of manufacturing machinery is lower in the United States than in Britain and the opportunity cost of manufacturing sweaters is higher in the United States than in Britain, then the United States will:
A) export both sweaters and machinery to Britain.
B) import both sweaters and machinery from Britain.
C) export sweaters to Britain and import machinery from Britain.
D) import sweaters from Britain and export machinery to Britain.

Ans: D
Difficulty: Hard

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120. If the opportunity cost of manufacturing machinery is higher in the United States than in Britain and the opportunity cost of manufacturing sweaters is lower in the United States than in Britain, then the United States will:
A) export both sweaters and machinery to Britain.
B) import both sweaters and machinery from Britain.
C) export sweaters to Britain and import machinery from Britain.
D) import sweaters from Britain and export machinery to Britain.

Ans: C
Difficulty: Hard

121. Trade can be beneficial to an economy because:
A) it results in a more efficient use of the combined resources of some of the trading countries, even though it reduces efficiency in others.
B) more goods and services can be obtained at lower opportunity cost.
C) it prevents specialization in those activities in which countries have a comparative advantage.
D) It prevents unemployment.

Ans: B
Difficulty: Medium

122. If wages are higher in the United States than in Brazil, then:
A) trade is still beneficial to the United States and Brazil.
B) Brazil will not have a comparative advantage in the production of any good.
C) the United States cannot have a comparative advantage in the production of any good.
D) trade with Brazil will clearly lower wages in the United States.

Ans: A
Difficulty: Hard

123. The gains or benefits from trade are:
A) A result of more efficient resource utilization.
B) based on different wage rates in different countries.
C) greater when rich nations trade with poor nations.
D) based on the principle of absolute advantage.

Ans: A
Difficulty: Hard

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124. Assume that Brazil gives up 3 automobiles for each ton of coffee it produces, while Peru gives up 7 automobiles for each ton of coffee it produces.
    A) Brazil has a comparative advantage in automobile production and should specialize in coffee.
    B) Brazil has a comparative advantage in coffee production and should specialize in the production of automobiles.
    C) Brazil has a comparative advantage in coffee production and should specialize in coffee production.
    D) Brazil has a comparative advantage in automobile production and should specialize in automobile production.

    Ans: C
    Difficulty: Hard

125. If countries do not engage in international trade:
    A) they give up the ability to specialize in production.
    B) worldwide levels of production are lower.
    C) the world will be operating inside its production possibilities curve.
    D) all of the above are true.

    Ans: D
    Difficulty: Medium

126. Economists are generally in support of:
    A) government restrictions on trade.
    B) free international trade.
    C) tariffs to restrict trade.
    D) subsidizing exports.

    Ans: B
    Difficulty: Medium

127. If two countries participate in free trade:
    A) every individual in each country will benefit.
    B) both countries as a whole may gain from the trade.
    C) one country will benefit, but the other country will experience reduced welfare..
    D) neither country will benefit.

    Ans: B
    Difficulty: Medium

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128. When a nation experiences economic growth:
    A) its production possibilities curve shifts outward.
    B) its production possibilities curve shifts inward.
    C) it has been able to reach full employment.
    D) it has moved to a more consumer-oriented position on its production possibilities curve.

    Ans: A
    Difficulty: Medium

129. The process through which an economy's production possibilities curve is shifted outward is:
    A) comparative advantage.
    B) economic growth.
    C) full employment.
    D) specialization.

    Ans: B
    Difficulty: Easy

130. An increase in capital goods and a decrease in consumer goods will:
    A) eventually lead to a shift to the right of the production possibilities curve.
    B) increase a nation's capacity to produce.
    C) lead to more rapid economic growth.
    D) do all of the above.

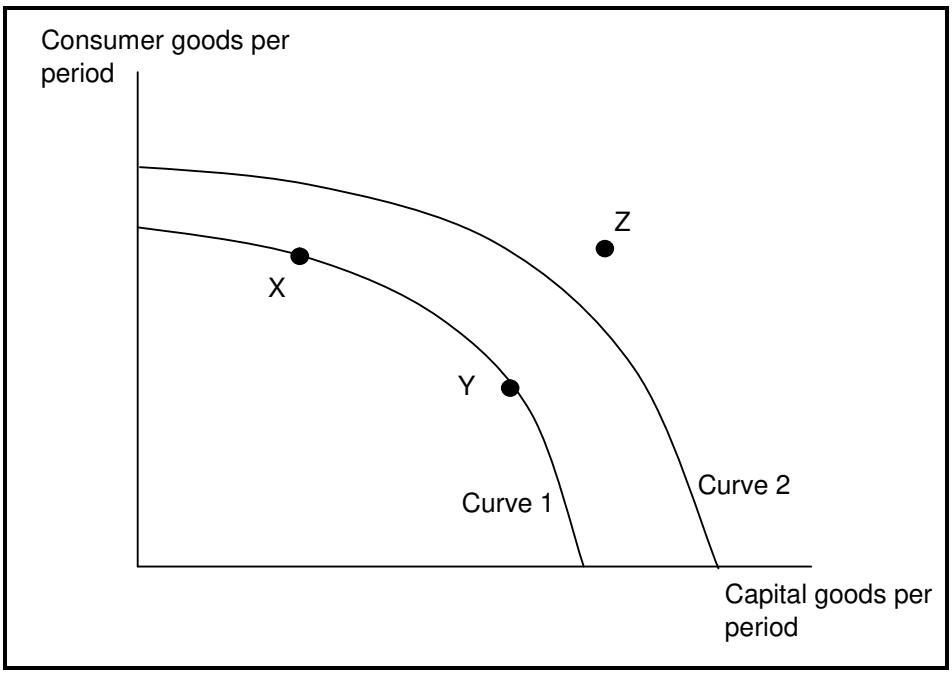
    Ans: D
    Difficulty: Hard

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Use the following to answer questions 131-134:

Exhibit: Consumer and Capital Goods



131. (Exhibit: Consumer and Capital Goods) If the economy is operating at point Y on currently relevant Curve 1, this means that:
A) the economy is at full employment and is efficient.
B) the economy is less than fully employed.
C) the economy is not efficient.
D) economic growth is not possible in the future.

Ans: A
Difficulty: Medium

132. (Exhibit: Consumer and Capital Goods) The movement from Curve 1 to Curve 2 indicates:
A) economic growth.
B) going from unemployment to full employment.
C) a decrease in the level of technology.
D) instability.

Ans: A
Difficulty: Medium

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133. (Exhibit: Consumer and Capital Goods) Point Z:
A) is unattainable, all other things unchanged.
B) is attainable if the economy is able to get to full employment.
C) is attainable if the quantity and/or quality of factors decreases.
D) will be attained as soon as the economy becomes efficient and moves to Curve 2.

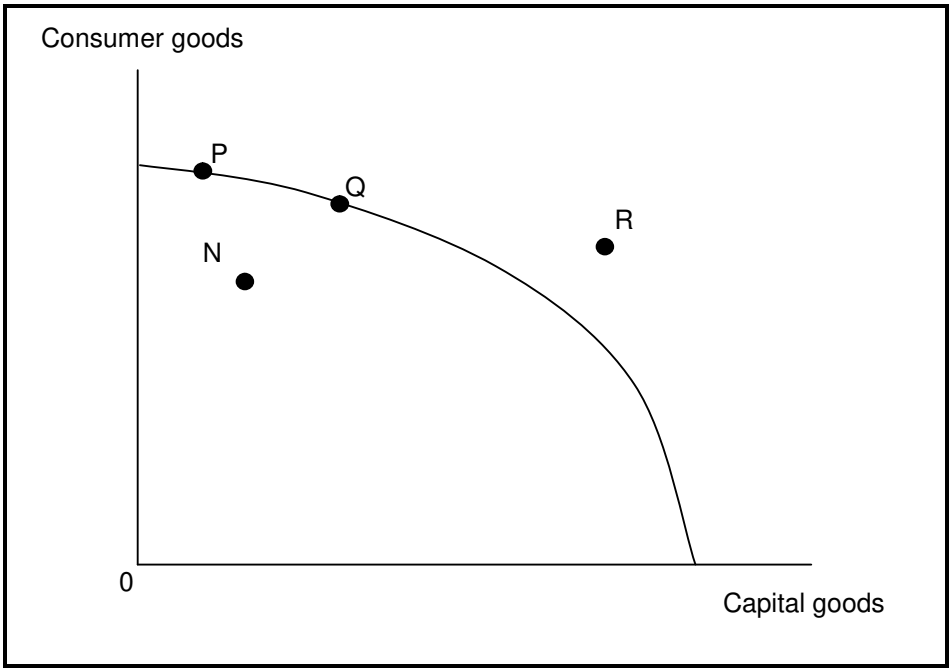
Ans: A
Difficulty: Medium

134. (Exhibit: Consumer and Capital Goods) If the economy is on Curve 1, it:
A) will grow more quickly if it chooses point X.
B) will move to Curve 2 more quickly if it chooses point Y.
C) will find that choosing either point X or point Y will result in the same growth rate.
D) is at full employment at point X, but has unemployment at point Y.

Ans: B
Difficulty: Hard

Use the following to answer questions 135-139:

Exhibit: Production Possibilities Curve 2



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135. (Exhibit: Production Possibilities Curve 2) The economy will experience its greatest growth by operating at point:
A) N.
B) P.
C) Q.
D) R.

Ans: C
Difficulty: Medium

136. (Exhibit: Production Possibilities Curve 2) The economy will experience its least growth by operating at point:
A) N.
B) P.
C) Q.
D) R.

Ans: B
Difficulty: Medium

137. (Exhibit: Production Possibilities Curve 2) If conditions remain the same, the point representing an unattainable combination of consumer goods and capital goods is point:
A) N.
B) P.
C) Q.
D) R.

Ans: D
Difficulty: Medium

138. (Exhibit: Production Possibilities Curve 2) The point representing a combination of consumer goods and capital goods that can be attained only by economic growth is point:
A) N.
B) P.
C) Q.
D) R.

Ans: D
Difficulty: Medium

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139. (Exhibit: Production Possibilities Curve 2) The point representing a combination of consumer goods and capital goods that would result from underutilization or inefficient use of society's available resources is point:
A) N.
B) P.
C) Q.
D) R.

Ans: A
Difficulty: Medium

140. If the United States decides to allocate more resources to capital goods and less to consumer goods, the United States will obtain a greater degree of:
A) economic growth.
B) full employment.
C) price stability.
D) technical efficiency.

Ans: A
Difficulty: Medium

141. One reason you go to college is to improve your employment opportunities and obtain a higher income in the future. In the context of production possibilities, this is most comparable to:
A) producing at any point on the production possibilities curve.
B) producing at a point inside the production possibilities curve.
C) producing relatively more consumer goods and relatively fewer capital goods.
D) producing relatively more capital goods and relatively fewer consumer goods.

Ans: D
Difficulty: Hard

142. Increases in resources or improvements in technology will tend to cause a society's production possibilities curve to:
A) shift inward to the left.
B) shift outward to the right.
C) remain unchanged.
D) become vertical.

Ans: B
Difficulty: Medium

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143. A source of economic growth is:
A) idle factors of production.
B) unemployment.
C) more money.
D) more factors of production.

Ans: D
Difficulty: Medium

144. A source of economic growth is:
A) advances in technology.
B) unemployment.
C) more money.
D) idle factors of production.

Ans: A
Difficulty: Medium

145. A movement along the production possibilities curve would be a result of:
A) unemployment.
B) inflation.
C) changes in prices.
D) changes in the combinations of the two goods produced.

Ans: D
Difficulty: Medium

146. Capital, labor, and natural resources combine to produce goods and services. Which of the following will not lead to an increase in the ability of an economy to produce goods and services?
A) increased training for workers
B) establishing a more productive technology
C) new government restrictions on which technologies may be used to produce goods and services
D) discovery of new oil reserves

Ans: C
Difficulty: Hard

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147. The role of government in shifting the production possibilities curve to the right is considered:
A) supporting economic growth.
B) redistributing income.
C) providing certain goods and services.
D) enforcing private property rights.

Ans: A
Difficulty: Medium

148. Governments often establish rules that influence how an economy operates. Which of the following rules will most likely increase the ability of society to produce goods and services?
A) laws allowing discrimination against women.
B) providing tax incentives to encourage education by workers
C) environmental regulations that prevent the use of industrial solvents in production
D) increasing taxes on the formation of new capital

Ans: B
Difficulty: Hard

149. The best example of an increase in capital is:
A) The discovery of new oil reserves.
B) new computer software.
C) legal immigration of computer programmers.
D) conversion of military facilities to civilian uses.

Ans: B
Difficulty: Medium

150. Technological improvements will:
A) leave the production possibilities curve unchanged.
B) shift the production possibilities curve inward.
C) shift the production possibilities curve to outward.
D) necessarily lead to increased unemployment.

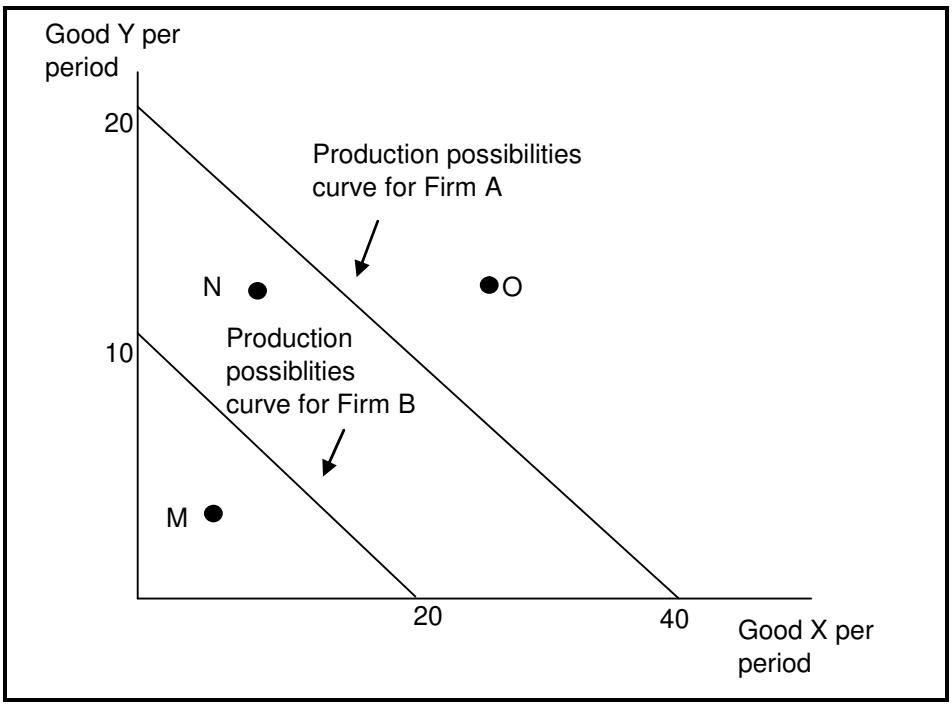
Ans: C
Difficulty: Medium

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Use the following to answer questions 151-154:

Exhibit: Production Possibilities Curve for Firms A and B



151. (Exhibit: Production Possibilities Curve for Firms A and B) It is clear that:
A) Firm A is capable of producing more than Firm B.
B) Firm B is capable of producing more than Firm A.
C) they are capable of producing equal amounts.
D) they will gain from trading with one another.

Ans: A
Difficulty: Hard

152. (Exhibit: Production Possibilities Curve for Firms A and B) In Firm B, the opportunity cost of producing 1 more unit of good X is:
A) 1/2 unit of Y.
B) 2 units of Y.
C) 20 units of Y.
D) 40 units of Y.

Ans: A
Difficulty: Hard

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153. (Exhibit: Production Possibilities Curve for Firms A and B) In Firm B, the opportunity cost of producing 1 more unit of good Y is:
A) 1/2 unit of X.
B) 2 units of X.
C) 20 units of X.
D) not able to be determined.

Ans: B
Difficulty: Hard

154. (Exhibit: Production Possibilities Curve for Firms A and B) In Firm A, the opportunity cost of producing 1 more unit of X in terms of Y:
A) is equal to the opportunity cost in Firm B of producing 1 more unit of X in terms of Y.
B) is less than the opportunity cost in Firm B of producing 1 more unit of X in terms of Y.
C) is greater than the opportunity cost in Firm B of producing 1 more unit of X in terms of Y.
D) cannot be determined.

Ans: A
Difficulty: Hard

155. Which of the following will not lead to economic growth?
A) increased immigration
B) restrictions on international trade
C) introduction of faster computers
D) opening all federal lands to mining

Ans: B
Difficulty: Medium

156. In the Case in Point on economic growth prospects for the United States, economist Robert Gordon expects for the near future:
A) A period of robust growth.
B) A period of secular stagnation.
C) A period of no growth.
D) A period of no technological innovation.

Ans: B
Difficulty: Medium

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157. In a command socialist economy:
A) resources are government owned but individuals make some decisions over their use.
B) resources are government owned and government exercises broad power over their use.
C) resources are privately owned and individuals make decisions over their use.
D) resources are privately owned but government exercises broad power over their use.

Ans: B
Difficulty: Medium

158. The best example of a market capitalist economy is:
A) Russia.
B) China before 1979.
C) Cuba.
D) the United States.

Ans: D
Difficulty: Medium

159. The best example of a command socialist economy is:
A) Russia.
B) China after 1979.
C) Cuba.
D) the United States.

Ans: C
Difficulty: Medium

160. According to the Case in Point on economic growth, which pattern describes the historical record on growth?
A) growth has been strong throughout history
B) growth was robust before the Industrial Revolution
C) growth was very strong between 1870 and 1970
D) none of the above

Ans: C
Difficulty: Hard

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161. In a market capitalist economy:
    A) factors of production are owned privately and decisions about their use are basically made by individuals.
    B) factors of production are owned by the government but decisions about their use are made privately.
    C) private ownership exists but decisions about resource allocation are usually made centrally by the government.
    D) there is no role for the government.

    Ans: A
    Difficulty: Medium

162. In a market capitalist economy:
    A) markets are not competitive.
    B) individual ownership and decision making are relied upon.
    C) consumers have few choices.
    D) the government owns the factors of production.

    Ans: B
    Difficulty: Medium

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163. The North Korean economy is currently classified as:
A) a mixed economy.
B) market capitalism.
C) command socialism.
D) the same kind of economy as Sweden.

Ans: C
Difficulty: Medium

164. In market capitalism:
A) factors of production are privately owned and decisions are made privately.
B) factors of production are owned by the government but decisions are made privately.
C) there is no role for government.
D) the consumer has few choices to make.

Ans: A
Difficulty: Medium

165. The basic economic differences among nations throughout history concerning institutions, philosophy, and ideology mainly focus on:
A) unemployment and inflation.
B) the ownership of factors of production and how they are coordinated in economic activity.
C) the relative shares of agriculture, industry, and service sectors.
D) the opportunity for social mobility.

Ans: B
Difficulty: Hard

166. If an economy's factors of production were owned by the government sector and the coordinating activity was done by a government planning board, the economy would be called:
A) capitalism.
B) market capitalism.
C) command socialism.
D) mixed capitalism.

Ans: C
Difficulty: Medium

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167. According to the textbook, the dramatic global shift toward market capitalist economies in the 1980s and 1990s is in large part the result of:
A) an emphasis on individual ownership and decision making power yielding freedom not available under socialist systems.
B) the philosophical and theoretical arguments of communism and socialism being finally proved correct.
C) the realization that government controls will allocate resources on the basis of comparative advantage.
D) a shift to more capital-intensive production.

Ans: A
Difficulty: Hard

168. Government's role of protecting property rights is considered:
A) enforcing a legal system.
B) providing certain goods and services.
C) redistributing income.
D) maintaining the money supply.

Ans: A
Difficulty: Medium

169. Government's role of providing national defense is considered:
A) enforcing a legal system.
B) providing certain goods and services.
C) redistributing income.
D) expanding economic growth.

Ans: B
Difficulty: Medium

170. Government's role of taxing some citizens and transferring income to others is considered:
A) enforcing a legal system.
B) providing certain goods and services.
C) redistributing income.
D) maintaining the money supply.

Ans: C
Difficulty: Medium

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171. In a market capitalist economy, which of the following is not an accepted role for government?
A) provision of national defense
B) enforcing a legal system
C) establishing policies to encourage full employment
D) All of the above are acceptable roles for government.

Ans: D
Difficulty: Medium

172. There are several advantages that a market economy possesses. These do not include the fact that market economies:
A) tend to result in high living standards.
B) tend to encourage greater economic growth.
C) tend to prevent entrepreneurial activity that would result in large accumulations of wealth in the hands of a few people.
D) none of the above is true

Ans: C
Difficulty: Medium

173. In enforcing the legal system, the government in a market capitalist economy acts to:
A) enforce contracts.
B) enforce property rights.
C) discourage fraud.
D) do all of the above.

Ans: D
Difficulty: Easy

174. When the government provides national defense, it is:
A) providing goods and services.
B) enforcing the legal system.
C) maintaining the money supply.
D) stabilizing the economy.

Ans: A
Difficulty: Easy

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True/False

1. The major difference between natural resources and capital is that the former refers to naturally occurring resources whereas the latter refers to produced resources.

   Ans: True

2. Money is a factor of production because it is part of capital.

   Ans: False

3. Society's production possibilities curve is primarily concerned with answering the economic question of what goods and services a society can produce.

   Ans: True

4. A production possibilities curve measures cost in terms of dollars spent, not in terms of sacrificed alternatives.

   Ans: False

5. The slope of a production possibilities curve is based on opportunity cost.

   Ans: True

6. The law of increasing opportunity cost indicates that the production possibilities curve has a constant slope.

   Ans: False

7. Society can operate on the production possibilities curve only if it has achieved efficiency.

   Ans: True

8. Comparative advantage and trade allow nations to specialize in the production of a larger number of different goods.

   Ans: False

9. If the United States has a lower opportunity cost than Mexico in the production of wheat, then it will import wheat from Mexico.

   Ans: False

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10. There is no role for government in a market capitalist economy.

    Ans: False

11. Natural resources are resources that occur in nature, while capital is a produced good that is used to produce another good.

    Ans: True

12. There is an important role for government in a market capitalist economy.

    Ans: True

13. Inefficiency occurs when an economy is operating outside its production possibilities curve.

    Ans: False

14. The slope of a production possibilities curve is based on opportunity cost.

    Ans: True

15. A production possibilities curve measures opportunity cost in dollar terms.

    Ans: False

16. Improvements in technology will shift the production possibilities curve outward.

    Ans: True

17. Money is considered to be a factor of production.

    Ans: False

18. A point inside the production possibilities curve may indicate that resources are not being used efficiently.

    Ans: True

19. The present position of a nation on its production possibilities curve will influence the future position of the production possibilities curve.

    Ans: True

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20. The production possibilities curve shows various combinations of two products that an economy can produce when there is full employment and economic efficiency.

    Ans: True

21. Without government, the "for whom" question could not be solved.

    Ans: False

22. Government in the United States plays an unimportant role in the economy because the rules for the functioning of the private economy are inherent in the markets themselves.

    Ans: False

23. If the U.S. economy adds to the capital stock, this may require a temporary decrease in the amount of present consumption.

    Ans: True

24. The law of increasing opportunity cost results in a constant slope of the production possibilities curve.

    Ans: False

Short Answer

1. List the three factors of production and explain what they are and their relative function in the production process.

2. Discuss and explain the rationale underlying the law of increasing opportunity cost.

3. Discuss and explain the difference between a market capitalist and a command socialist economy.

4. Discuss and explain under what conditions government participation in the economy has a positive and productive role.

5. Draw a production possibilities curve showing military goods and civilian goods. Show how you would measure the increased output of military goods. Show how you would measure the cost of this increase in military goods in terms of civilian goods. Why does opportunity cost change the way that it does?

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6. Production possibilities curves are bowed out away from the origin. Explain why. Can you think of a situation in which the production possibilities curve is a straight line and has a constant slope?

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