

# TEST BANK



## Economics Today



Roger LeRoy  
**MILLER**

14<sup>th</sup>  
edition

The Other Side of Japan's Bubble

Is Japan Still a Super Power?

How is China's Growth Slowing?

Why is the U.S. Economy Growing?

What is the Role of the Federal Reserve?

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# Chapter 2

## Scarcity and the World of Trade-Offs

### 2.1 Scarcity

1) The most basic concept in economics is

- A) wealth.
- B) income.
- C) scarcity.
- D) spending.

Answer: C

*Diff: 1*

*Question Status: Previous Edition*

2) Scarcity

- A) exists in all human societies.
- B) is a problem for less-developed nations only.
- C) used to be a problem, but is not an issue for modern industrial nations.
- D) afflicts greedy people only.

Answer: A

*Diff: 1*

*Question Status: Previous Edition*

3) Scarcity affects

- A) only rich people.
- B) only poor people.
- C) only middle income people.
- D) all people.

Answer: D

*Diff: 1*

*Question Status: Previous Edition*

4) Scarcity is

- A) a shortage of goods and services.
- B) poverty and misery.
- C) a situation in which the resources for producing the goods and services that people desire are sufficient to satisfy people's desires.
- D) a situation in which the resources needed for producing the goods and services that people desire are insufficient to satisfy all wants.

Answer: D

Diff: 1

Question Status: New

5) Scarcity implies that

- A) people should limit their wants, since shortages exist.
- B) firms should be more efficient when producing goods.
- C) people must make choices.
- D) nonrenewable resources should never be used.

Answer: C

Diff: 1

Question Status: Revised

6) Economic goods are

- A) abundant goods, about which we must constantly make decisions about their best use.
- B) all things from which individuals derive satisfaction or happiness.
- C) goods that are scarce, for which the quantity demanded exceeds the quantity supplied at zero price.
- D) goods that are scarce, for which the quantity demanded exceeds the quantity supplied at any price.

Answer: C

Diff: 1

Question Status: New

7) Scarcity exists because

- A) the world is too small.
- B) people are too greedy and refuse to share what they have with others.
- C) human wants are greater than what can be produced with the limited resources available.
- D) not enough new technology is being used to eliminate scarcity.

Answer: C

Diff: 1

Question Status: Previous Edition

- 8) Extremely cold winter weather destroys oranges on the trees in Florida. The freeze caused
- A) scarcity because there are less oranges now than people want.
  - B) scarcity because people have to switch to other types of citrus fruits.
  - C) shortages because the number of oranges is less than people had expected.
  - D) shortages because the orange growers will have less income.

Answer: C

Diff: 2

Question Status: Previous Edition

- 9) The existence of scarcity means that
- A) there are not enough resources to satisfy unlimited human wants.
  - B) firms will increase their production to eliminate the scarcity.
  - C) the government will step in to eliminate the scarcity.
  - D) firms working with the government will allocate resources to eliminate the scarcity.

Answer: A

Diff: 2

Question Status: Revised

- 10) Jane is a top-level executive and is very rich. Jane just ordered a car only to be told that she will have to wait three weeks for it to be delivered. Which of the following statements is true?
- A) The car is not a scarce good.
  - B) The car is a scarce good.
  - C) Because Jane has unlimited funds, she incurs no opportunity cost in buying the car.
  - D) Jane paid too much for a car that wasn't ready on time.

Answer: B

Diff: 2

Question Status: Previous Edition

- 11) Scarcity and a shortage differ in that
- A) scarcity is caused by natural disasters and shortages are caused by mistakes people make.
  - B) scarcity is a condition of human life while shortages are usually temporary phenomena related to an imbalance in supply and demand.
  - C) scarcity is a type of shortage but shortage is a broader concept.
  - D) shortages apply to resource markets while scarcity applies to product markets.

Answer: B

Diff: 3

Question Status: Revised

12) There are not enough of four goods to satisfy the wants of people. For good A, this is true when the price is \$10. This is true for good B at a price of \$1, for good C at a price of 25 cents, and for good D at a price of zero. Which situation reflects scarcity rather than shortage?

- A) A
- B) B
- C) C
- D) D

Answer: D

Diff: 3

Question Status: Previous Edition

13) Production refers to

- A) physically producing material goods only.
- B) any activity carried on by a firm, whether a corporation, partnership, or sole proprietorship.
- C) any activity that results in the conversion of resources into goods and services that can be consumed.
- D) any activity that causes a material conversion of manufactured goods.

Answer: C

Diff: 1

Question Status: Previous Edition

14) Which of the following activities are production?

- A) Combining flour, milk, and eggs to make cookies.
- B) Moving coal from southern Illinois to an electrical power plant in northern Illinois.
- C) Taking ice cubes from a tray to put in a drink.
- D) All of the above are production.

Answer: D

Diff: 2

Question Status: Previous Edition

15) Resources are also known as

- A) minerals.
- B) factories.
- C) factors of production.
- D) stocks, bonds, and other financial instruments.

Answer: C

Diff: 1

Question Status: Previous Edition

16) By going to school an individual will obtain which resource?

- A) Money
- B) Physical capital
- C) Knowledge
- D) Human capital

Answer: D

*Diff: 1*

*Question Status: Revised*

17) A tractor used to prepare land for planting is called

- A) land.
- B) labor.
- C) physical capital.
- D) human capital.

Answer: C

*Diff: 1*

*Question Status: Revised*

18) Naturally occurring diamonds are an example of

- A) land.
- B) labor.
- C) physical capital.
- D) human capital.

Answer: A

*Diff: 1*

*Question Status: Revised*

19) A man-made resource such as a building or a machine is an example of which resource?

- A) Entrepreneurial ability
- B) Labor
- C) Physical capital
- D) Human capital

Answer: C

*Diff: 1*

*Question Status: Revised*

20) Which of the following is not an economic resource?

- A) Money
- B) Low-skilled labor
- C) Coal
- D) An engineer

Answer: A

Diff: 1

Question Status: Revised

21) A person goes to college to become an engineer. This is an example of an

- A) investment in physical capital.
- B) investment in human capital.
- C) increase in entrepreneurship.
- D) increase in labor.

Answer: B

Diff: 2

Question Status: Previous Edition

22) An irrigation system is installed on a farm in North Dakota. This is an example of which factor of production?

- A) Labor
- B) Land
- C) Human capital
- D) Physical capital

Answer: D

Diff: 2

Question Status: Previous Edition

23) Which of the following is not an example of investment in human capital?

- A) A medical student's internship
- B) The purchase of a personal computer for playing games
- C) A mechanic attends a training workshop on a new type of engine
- D) Johnny learns how to read

Answer: B

Diff: 2

Question Status: Revised

- 24) Juanita has just opened a new business selling pet supplies through the Internet.
- A) Juanita is an entrepreneur.
  - B) Juanita is not providing economic goods since people purchase the goods.
  - C) Juanita is not providing economic goods since pet supplies are not being sold in a store.
  - D) Juanita is not an entrepreneur since there are other businesses that sell pet supplies.

Answer: A

Diff: 2

Question Status: Revised

- 25) Which of the following is a true statement?
- A) All goods are economic goods.
  - B) All economic goods are goods, but not all goods are economic goods.
  - C) Economic goods and goods mean the same thing.
  - D) Economic goods do not include services while goods do include services.

Answer: B

Diff: 1

Question Status: Previous Edition

- 26) Which of the following is **not** an economic good?
- A) A haircut
  - B) Broccoli
  - C) A sunset
  - D) Education

Answer: C

Diff: 2

Question Status: Previous Edition

- 27) John has decided to view the solar eclipse tomorrow. The eclipse is an example of
- A) a good.
  - B) an economic good.
  - C) a service.
  - D) entrepreneurship.

Answer: A

Diff: 1

Question Status: Previous Edition



28) A typical economic good has which one of the following characteristics?

- A) Quantity demanded exceeds quantity supplied at a zero price.
- B) Quantity supplied exceeds quantity demanded at a zero price.
- C) It uses no resources to produce.
- D) It was never scarce.

Answer: A

Diff: 2

Question Status: Revised

29) A waitress brings a free glass of wine when you sit down in a restaurant. This glass of wine is

- A) a service because the waitress carried it instead of making it.
- B) a good, but not an economic good because there is no price charged for the wine.
- C) a nongood because there is no price charged for the wine.
- D) an economic good because wine is produced with scarce resources, even if it is free to you.

Answer: D

Diff: 2

Question Status: Previous Edition

30) Which of the following is not a service?

- A) Physical labor purchased by a producer.
- B) Things purchased by a consumer that do not have physical characteristics.
- C) A diamond used in an engagement ring.
- D) Tasks performed by someone else.

Answer: C

Diff: 1

Question Status: Revised

31) When an employee at a grocery store scans the price of your items, bags the groceries, and collects your paper, the individual has provided

- A) physical capital.
- B) entrepreneurship.
- C) a service.
- D) land.

Answer: C

Diff: 1

Question Status: Revised

32) Distinguish between scarcity and a shortage.

Answer: Scarcity exists because the wants of human beings are unlimited while resources are limited. A shortage is not the same thing as scarcity. A shortage exists when people have to wait in line for things, especially on a temporary basis. Scarcity relates to the poor but also to the rich; scarcity is a fact of life that affects everyone. A shortage is when quantity demanded for a good or service is greater than its quantity supplied.

*Diff: 2*

*Question Status: Revised*

33) Are all goods economic goods? Are all economic goods also goods? Explain.

Answer: Not all goods are economic goods. Economic goods are a subset of all goods, and are produced from scarce resources. Sunlight is an example of a good that is not an economic good. Hence, the second question is correctly answered "yes."

*Diff: 1*

*Question Status: Previous Edition*

## 2.2 Wants and Needs

1) Wants

- A) is another term for needs.
- B) refer to services while needs refer to goods.
- C) is the term used by economists instead of needs because needs are not objectively definable.
- D) are used by economists and refer to the same thing as needs when used by psychologists.

Answer: C

*Diff: 1*

*Question Status: Previous Edition*

2) Human beings

- A) have unlimited wants.
- B) think they have unlimited wants, but really have limited needs.
- C) have limited wants, but unlimited needs.
- D) know what their needs are, but do not know what their wants are.

Answer: A

*Diff: 2*

*Question Status: Previous Edition*

- 3) Economists are concerned with an individual's
- A) needs because needs represent the most important goods to an individual.
  - B) needs because economists define needs to be the goods people need to survive.
  - C) wants because, unlike needs, wants lead to shortages in the economy.
  - D) wants because the existence of wants leads to scarcity.

Answer: D

Diff: 2

Question Status: Revised

### 2.3 Scarcity, Choice, and Opportunity Cost

- 1) For every choice a person makes it can be assumed that
- A) the chooser has full knowledge of the situation.
  - B) some opportunity cost was involved.
  - C) there is a fifty-fifty chance the choice was the wrong one.
  - D) a good is involved and satisfaction is gained.

Answer: B

Diff: 1

Question Status: Revised

- 2) The concept of opportunity cost exists because
- A) of scarcity.
  - B) goods have different prices.
  - C) of shortages.
  - D) the value of services is hard to determine.

Answer: A

Diff: 1

Question Status: Previous Edition

- 3) Opportunity cost is
- A) the cost of producing all goods and services in the United States.
  - B) the value of the next-best alternative that must be sacrificed to satisfy a want.
  - C) the fixed cost of production.
  - D) the value of the most useful alternative that must be sacrificed to obtain something or satisfy a want.

Answer: B

Diff: 1

Question Status: New

4) Which of the following statements is not true about opportunity cost?

- A) Cost is always foregone opportunity.
- B) Opportunity cost is the next best alternative.
- C) John wants a burger and fries. The concept of opportunity cost applies even though he has enough money to buy both.
- D) Opportunity cost exists only for goods with monetary values.

Answer: D

Diff: 2

Question Status: Revised

5) Opportunity cost is

- A) the combined value of all the alternatives not selected.
- B) the same thing as the money price of a good.
- C) the value of the next best alternative which was given up.
- D) based on the intrinsic value of the good itself.

Answer: C

Diff: 1

Question Status: Previous Edition

6) Steve and Karen decide to attend the same concert when they are each given free tickets to it. We know that

- A) both bear the same opportunity cost because they are seeing the same thing.
- B) both bear the same opportunity cost because the tickets have the same face value.
- C) both bear an opportunity cost that depends on what each person is giving up to attend the concert.
- D) neither bears an opportunity cost since the tickets were given free to them.

Answer: C

Diff: 2

Question Status: Previous Edition

7) Samia has decided that with the two hours in between classes she can do one of 3 things. She has ranked her choices, from highest to lowest as, (1) chat with her friends, (2) study economics or (3) take a nap. The opportunity cost of chatting with her friends is:

- A) the combined value of studying economics and taking a nap.
- B) the value of studying economics, the next best use of time.
- C) the value of chatting with her friends.
- D) zero since she does not pay her friends to talk to her.

Answer: B

Diff: 2

Question Status: Revised

8) Which of the following is a true statement?

- A) Cost is always measured in the nation's currency.
- B) Opportunity cost is an objective measure since the cost of an activity is the same for everyone.
- C) The less alternatives there are the greater the cost.
- D) Opportunity cost is always a foregone opportunity.

Answer: D

Diff: 2

Question Status: Revised

9) Opportunity cost exists because

- A) of scarcity.
- B) prices must adjust to eliminate shortages.
- C) production could not occur without the opportunity cost of using resources.
- D) the value of economic goods is positive while the value of goods is zero.

Answer: A

Diff: 1

Question Status: Revised

10) It is not uncommon for people to say something like, "If we can put a man on the moon we should be able to . . .," followed by the person's favorite project. What response can you, as a budding economist, make to this person?

Answer: Society must make choices, and when it chooses one thing, it must give up something else. Resources were used to get people to the moon, and these resources are not available to do other useful things. The fact that we put a man on the moon means that there are some other things we can't do.

Diff: 3

Question Status: Previous Edition

## 2.4 The World of Trade-Offs

1) People always face trade-offs because

- A) they always have more than one use for their time and money.
- B) they buy goods with money.
- C) trading takes place in a market economy.
- D) they can make themselves better off through trade.

Answer: A

Diff: 2

Question Status: Revised

2) Which of the following sets of terms describes the problem of scarcity in economics?

- A) Goods, land, and needs
- B) Labor, needs, and opportunity costs
- C) Choices, opportunity costs, and trade-offs
- D) Production, consumption, and wants

Answer: C

Diff: 3

Question Status: Revised

3) Which of the following statements indicates the idea of trade-offs?

- A) "I chose the road less traveled."
- B) "The devil made me do it."
- C) "You've got me under your spell."
- D) "Always give it the best that you can."

Answer: A

Diff: 2

Question Status: Previous Edition

4) The production possibilities curve represents:

- A) the total amount of stocks and bonds that exist in the economy.
- B) the trade-off between human capital and physical capital that exists.
- C) all possible combinations of total output that can be produced.
- D) society's needs.

Answer: C

Diff: 2

Question Status: Previous Edition

5) The production possibilities curve bows out because

- A) production is efficient.
- B) of the law of increasing cost.
- C) production is inefficient.
- D) resources are not being fully utilized.

Answer: B

Diff: 2

Question Status: New

- 6) When deriving the production possibilities curve it is assumed that
- A) the amount of each good that is to be produced is fixed.
  - B) the prices of resources are fixed along the curve.
  - C) most resources can be used to produce only one good.
  - D) resources are efficiently used.

Answer: D

Diff: 2

Question Status: Previous Edition

- 7) All points inside the production possibilities curve indicate
- A) lack of sufficient supply.
  - B) inefficiency in production.
  - C) the law of increasing relative cost.
  - D) the law of decreasing relative cost.

Answer: B

Diff: 2

Question Status: New

- 8) The curve that represents all possible combinations of goods that can be produced is called
- A) the production possibilities curve.
  - B) the resource allocation curve.
  - C) the efficiency curve.
  - D) the supply curve.

Answer: A

Diff: 1

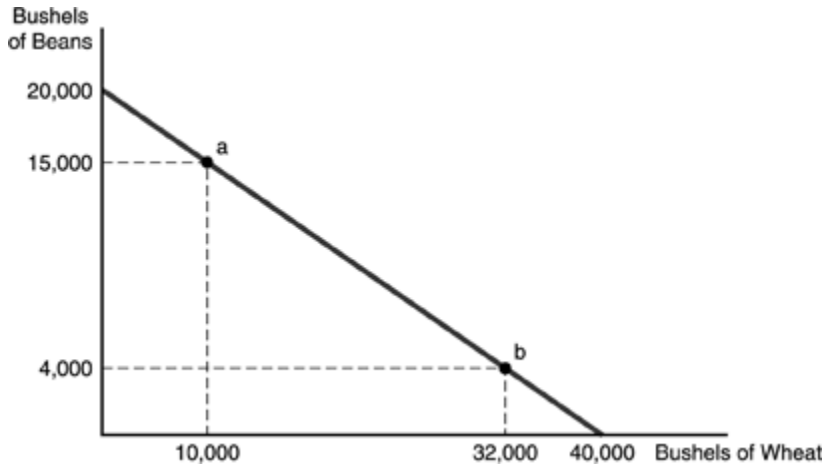
Question Status: Revised

- 9) Generally, if a nation produces more consumer goods than capital goods
- A) more of all goods may be produced in the future.
  - B) less of all goods may be produced in the future.
  - C) about the same amount of capital goods may be produced in the future as are being produced today.
  - D) society will have to forego future consumption of capital goods .

Answer: B

Diff: 1

Question Status: New



10) Refer to the above figure. A farmer has 50 acres of land on which to grow wheat or beans. An acre of land yields 400 bushels of beans or 800 bushels of wheat. Which of the following is a possible combination of beans and wheat that can be grown, assuming the land is farmed efficiently?

- A) 30,000 bushels of each
- B) 20,000 bushels of beans and 40,000 bushels of wheat
- C) 5,000 bushels of beans and 5,000 bushels of wheat
- D) 16,000 bushels of beans and 8,000 bushels of wheat

Answer: D

Diff: 2

Question Status: Revised

11) Refer to the above figure. A farmer has 50 acres of land on which to grow wheat or beans. An acre of land yields 400 bushels of beans or 800 bushels of wheat. Which of the following is a possible combination of beans and wheat that can be grown, assuming the land is farmed efficiently?

- A) 30,000 bushels of each
- B) 15,000 bushels of beans and 10,000 bushels of wheat
- C) 25,000 bushels of beans and 25,000 bushels of wheat
- D) 20,000 bushels of beans and 40,000 bushels of wheat

Answer: B

Diff: 2

Question Status: Previous Edition



- 12) In the above figure, the farmer faces a trade-off between beans and wheat equal to
- A) one-to-one.
  - B) three-to-one.
  - C) one-to-two.
  - D) one-to-four.

Answer: C

Diff: 2

Question Status: Previous Edition

- 13) The above figure is referred to as a(n)
- A) trade-off curve.
  - B) opportunity curve.
  - C) production possibility curve.
  - D) scarcity-shortage curve.

Answer: C

Diff: 1

Question Status: Previous Edition

- 14) Refer to the above figure. If the farmer is growing 8,000 bushels of beans and 8,000 bushels of wheat, then we know that
- A) the farmer is not using resources efficiently.
  - B) the farmer is using more land for wheat than for beans.
  - C) the farmer should increase the amount of wheat grown and reduce the amount of beans.
  - D) the farmer cannot be using the amount of land that was used to construct the curve.

Answer: A

Diff: 3

Question Status: Revised

- 15) Refer to the above figure. If the farmer is producing 4,000 bushels of beans and 38,000 bushels of wheat, then we know the farmer
- A) is using resources efficiently.
  - B) is producing too much wheat.
  - C) is inefficient because point a is the most efficient point on the curve.
  - D) must be using more resources than were assumed available in constructing the graph.

Answer: D

Diff: 3

Question Status: Revised

16) Refer to the above figure. If the farmer has 50 acres of land, the farmer is producing at point a, and an acre of land yields 400 bushels of beans or 800 bushels of wheat, how much land is devoted to the production of wheat?

- A) 8.5 acres
- B) 10 acres
- C) 12.5 acres
- D) 15 acres

Answer: C

*Diff: 2*

*Question Status: Revised*

17) The production possibilities curve demonstrate which of the following concepts?

- A) Scarcity.
- B) Choice.
- C) Trade-offs.
- D) all of the above

Answer: D

*Diff: 1*

*Question Status: Previous Edition*

## 2.5 The Choices Society Faces

1) All of the following are resources EXCEPT

- A) doctors because they perform services.
- B) the land the Statue of Liberty sits on.
- C) the computer in the student computer lab.
- D) money.

Answer: D

*Diff: 1*

*Question Status: Previous Edition*

2) A factory can be thought of as a

- A) land and labor combination.
- B) trade-off with land.
- C) physical capital.
- D) type of entrepreneurship.

Answer: C

*Diff: 1*

*Question Status: Revised*

- 3) Which of the following is **not** an assumption used in deriving a production possibility curve?
- A) The labor force is growing at a constant rate.
  - B) Resources are fully employed.
  - C) Technology is constant.
  - D) The quantity of resources is constant.

Answer: A

Diff: 2

Question Status: Revised

- 4) When determining the production possibilities curve
- A) the trade-off between the goods in the economy remains constant.
  - B) the amount of productive resources remains constant.
  - C) the prices of the goods are used.
  - D) the prices of resources are used.

Answer: B

Diff: 1

Question Status: Previous Edition

- 5) Which of the following is an assumption used in deriving a production possibility curve?
- A) Consumers demand more of a good.
  - B) The wages in an industry increase constantly.
  - C) Prices will continue to increase.
  - D) The amount of resources is fixed.

Answer: D

Diff: 2

Question Status: Previous Edition

- 6) All of society's applied knowledge on how to produce goods and services is
- A) held by university professors.
  - B) called technology.
  - C) opportunity cost.
  - D) efficiency.

Answer: B

Diff: 1

Question Status: Revised

7) Economists define technology as

- A) machines such as computers.
- B) entrepreneurship.
- C) absolute advantage.
- D) society's knowledge concerning the production of goods.

Answer: D

Diff: 1

Question Status: Previous Edition

8) A point outside a production possibilities curve indicates

- A) that resources are not being used efficiently.
- B) that resources are being used very efficiently.
- C) opportunity costs are constant.
- D) an output combination that is unobtainable with the current resource and technology levels.

Answer: D

Diff: 2

Question Status: Revised

9) A point inside a production possibilities curve indicates

- A) resources are not being used efficiently.
- B) resources are being used very efficiently.
- C) opportunity costs are constant.
- D) an output combination that is unobtainable with the current resource and technology levels

Answer: A

Diff: 2

Question Status: Previous Edition

10) A point on a production possibilities curve indicates

- A) resources are not being used efficiently.
- B) resources are being used efficiently.
- C) opportunity costs are constant.
- D) an output combination that can be attained only if society gets more resources or there is technological change.

Answer: B

Diff: 2

Question Status: Revised

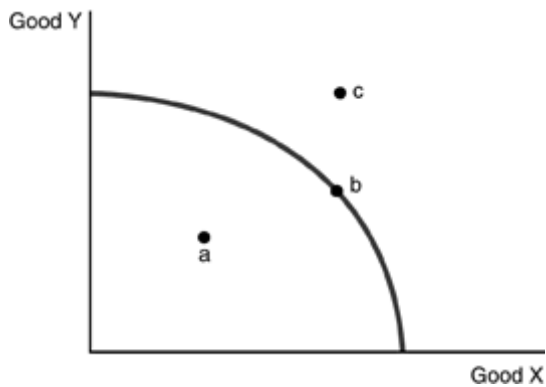
11) An efficient point of production is:

- A) a point on the production possibilities curve.
- B) a point inside the production possibilities curve.
- C) the point where scarcity no longer exists.
- D) the point where we are currently producing.

Answer: A

Diff: 2

Question Status: Previous Edition



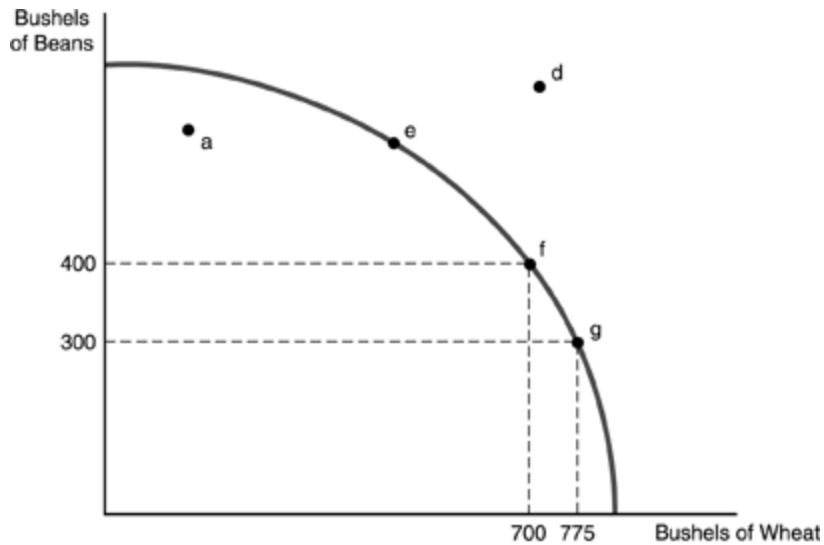
12) Refer to the above figure. Which of the following statements is true?

- A) Point a is efficient, Point b is efficient, point c is inefficient.
- B) Point a is unobtainable, point b is efficient and point c is inefficient.
- C) Point a is inefficient, point b is efficient and point c is unobtainable.
- D) All of the points are efficient.

Answer: C

Diff: 1

Question Status: Previous Edition



13) Refer to the above figure. Which of the following points indicates an efficient use of resources?

- A) a
- B) d
- C) e
- D) More information is needed to answer the question.

Answer: C

Diff: 2

Question Status: Previous Edition

14) Refer to the above figure. Which of the following points indicates an inefficient use of resources?

- A) a
- B) d
- C) e
- D) More information is needed to answer the question.

Answer: A

Diff: 2

Question Status: Previous Edition

15) Refer to the above figure. Which of the following points indicates an unobtainable point of production?

- A) a
- B) d
- C) e
- D) More information is needed to answer the question.

Answer: B

Diff: 2

Question Status: Previous Edition

- 16) Refer to the above figure. The shape of the production possibility curve indicates that production of
- A) wheat is characterized by increasing costs while the production of beans is characterized by decreasing costs.
  - B) wheat is characterized by decreasing costs while the production of beans is characterized by increasing costs.
  - C) both goods are characterized by increasing costs.
  - D) both goods are characterized by decreasing costs.

Answer: C

Diff: 2

Question Status: Previous Edition

- 17) Refer to the above figure. Between points f and g, the opportunity cost of another bushel of wheat is
- A) 3/4 bushel of beans.
  - B) 1 bushel of beans.
  - C) 1.33 bushels of beans.
  - D) 2 bushels of beans.

Answer: C

Diff: 2

Question Status: Revised

- 18) Refer to the above figure. Which of the following would allow society to move to point d?
- A) Producing efficiently
  - B) Concentrating production in wheat
  - C) Increasing the quantity of labor
  - D) Using the best land to produce wheat and the lower quality land to produce beans.

Answer: C

Diff: 2

Question Status: Previous Edition

- 19) Production is efficient when
- A) it generates a point beyond the production possibility curve.
  - B) the maximum output possible is being produced given current levels of resources and technology.
  - C) technological change occurs.
  - D) the maximum amounts of the most important good are produced.

Answer: B

Diff: 1

Question Status: Revised

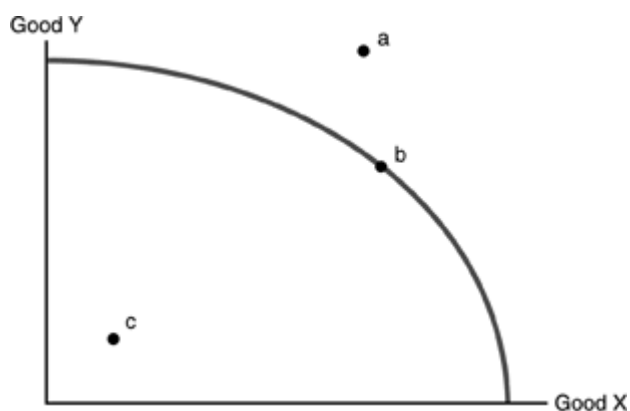
20) Whenever the economy is producing the maximum amount of goods given the level of technology and the amount of resources

- A) the number of resources used should be decreased since society must protect its scarce resources.
- B) the concept of opportunity costs does not exist.
- C) more goods will be available than customers want to buy.
- D) the economy is producing efficiently.

Answer: D

Diff: 1

Question Status: Previous Edition



21) Refer to the above figure. Assume that only two goods can be produced in the economy. Which of the following statements is true?

- A) Points a, b, and c are all obtainable points of production.
- B) Points a and b are obtainable points of production.
- C) Points b and c are obtainable points of production.
- D) Only point b is an obtainable and efficient point of production.

Answer: C

Diff: 2

Question Status: Revised

22) Refer to the above figure. Given our current level of technology and resources, the unobtainable point(s) of production would be

- A) points a and c.
- B) point a.
- C) point b.
- D) point c.

Answer: B

Diff: 2

Question Status: Previous Edition



- 23) Refer to the above figure. We are currently producing at point c. Which of the following statements is true?
- A) Resources are not being efficiently utilized.
  - B) Resources are being efficiently utilized.
  - C) The only way to produce more of Goods X or Y is to have an increase in the amount of resources.
  - D) The Law of Increasing Relative Cost does not hold.

Answer: A

Diff: 2

Question Status: Previous Edition

- 24) All mutually beneficial trades have taken place. This implies that
- A) the production possibilities curve is bowed out.
  - B) society is inside the production possibilities curve.
  - C) economic efficiency prevails in the society.
  - D) society is on the constant cost portion of its production possibilities curve.

Answer: C

Diff: 2

Question Status: Previous Edition

- 25) Technology is
- A) society's pool of knowledge of how to produce goods and services.
  - B) a resource like land or physical capital.
  - C) computers and lasers.
  - D) not obtainable by engaging in activities that increase human capital.

Answer: A

Diff: 1

Question Status: Previous Edition

- 26) If the production possibilities curve is a downward-sloping straight line, then
- A) resources are highly specialized, making it difficult to use them for alternative uses.
  - B) technological change has increased.
  - C) production is efficient only when producing at the mid-point.
  - D) all resources must be perfectly adaptable for alternative uses.

Answer: D

Diff: 2

Question Status: Previous Edition

27) The law of increasing relative cost is due to

- A) scarcity.
- B) inefficient use of technology.
- C) the fact that resources are not perfectly adaptable for alternative uses.
- D) the fact that there are always alternatives and it is costly to figure out which alternative is best.

Answer: C

Diff: 2

Question Status: Previous Edition

28) The reason the production possibilities curve is bowed outward (concave) is

- A) the Law of Increasing Cost.
- B) that technology is constantly changing.
- C) that the number of resources is increasing.
- D) that the economy has more capital goods than entrepreneurial effort.

Answer: A

Diff: 2

Question Status: Revised

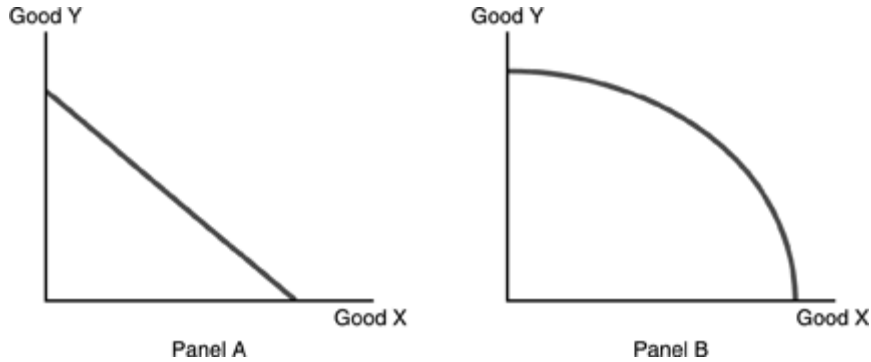
29) It has been noted that some resources are better suited to produce certain goods than other resources. This fact leads to

- A) a linear production possibilities curve.
- B) inefficiency in the economy.
- C) the Law of Increasing Cost.
- D) increases in technology.

Answer: C

Diff: 1

Question Status: Revised



30) Refer to the above figure. The Law of Increasing Costs applies in

- A) Panel A only.
- B) Panel B only.
- C) Panels A and B.
- D) neither Panel A nor B.

Answer: B

Diff: 1

Question Status: Revised

31) Refer to the above figure. Which of the following statements is true?

- A) Panel A does not represent an economy that is producing efficiently while Panel B does.
- B) Panel A represents an economy that has a lower level of technology than Panel B.
- C) Opportunity costs do not apply to Panel A but apply to Panel B.
- D) In Panel A, equal amounts of Y must be given up to obtain equal increments of X while in Panel B increasingly greater amounts of Y must be given up to obtain equal increments of X.

Answer: D

Diff: 3

Question Status: Previous Edition

32) Comparative advantage is

- A) when a country can produce a good at a lower opportunity cost compared to other countries.
- B) when a country can produce all goods quicker than any other country.
- C) when the production possibilities curve shifts outward to the right.
- D) only for individuals and not countries.

Answer: A

Diff: 1

Question Status: Previous Edition

33) If a person can make \$70,000 as an accountant, \$60,000 as a chef, \$20,000 as a mechanic, and nothing as an opera singer, he or she has a comparative advantage in

- A) accounting.
- B) being a chef.
- C) being a mechanic.
- D) opera singing.

Answer: A

Diff: 2

Question Status: Previous Edition

34) Carlos is an executive of a major corporation. Boris is a baker. Carlos's salary is ten times Boris's. Carlos can make a loaf of bread that tastes better than Boris's bread but Boris can bake faster.

- A) Carlos has an absolute and comparative advantage over Boris in making bread.
- B) Carlos has an absolute but not comparative advantage over Boris in making bread.
- C) Carlos had a comparative but not absolute advantage over Boris in making bread.
- D) Carlos does not have an absolute or comparative advantage over Boris in making bread.

Answer: B

Diff: 3

Question Status: Revised

35) Explain what is meant by economic efficiency. Does efficiency imply that the fastest production processes or the most powerful equipment must always be used? Explain.

Answer: Efficiency involves a situation in which a given output is produced at lowest cost. Consequently, the fastest-operating or most powerful equipment may not always be efficient.

Diff: 3

Question Status: Revised

## 2.6 Economic Growth and the Production Possibilities Curve

1) The production possibilities curve will shift outward when

- A) the Law of Increasing Relative Cost takes hold.
- B) the economy is producing efficiently.
- C) we produce more consumption goods over productive investment in equipment.
- D) there is an increase in resources or technology.

Answer: D

Diff: 2

Question Status: Revised

- 2) Economic growth can be pictured in a production possibilities curve diagram by
- A) shifting the production possibilities curve in.
  - B) shifting the production possibilities curve out.
  - C) making the production possibilities curve straighter.
  - D) moving from a point inside the production possibilities curve to a point on the curve.

Answer: B

Diff: 2

Question Status: Previous Edition

- 3) The only way that a society can produce outside the production possibilities curve is
- A) through economic growth.
  - B) by producing efficiently.
  - C) by obeying the Law of Increasing Relative Cost.
  - D) to use the concept of opportunity cost.

Answer: A

Diff: 1

Question Status: Revised

- 4) The use of goods and services for personal satisfaction is known as
- A) the Law of Increasing Relative Cost.
  - B) specialization.
  - C) comparative advantage.
  - D) consumption.

Answer: D

Diff: 1

Question Status: Previous Edition

- 5) The production of capital goods implies less current consumption. Do you agree or disagree? Explain.

Answer: Yes. Capital goods are goods that are used to produce other goods rather than for the sake of current consumption. The resources used to make capital goods are not available to produce current consumption goods, so there is less current consumption.

Diff: 2

Question Status: Previous Edition

## 2.7 The Trade-Off Between the Present and the Future

1) Capital goods

- A) are a special type of consumption goods.
- B) are consumed because they enhance the enjoyment consumers obtain from other goods and services.
- C) are goods used to make consumer goods and services.
- D) lead to inward shifts of a production possibilities curve.

Answer: C

Diff: 1

Question Status: Previous Edition

2) If a country increased the production of its capital goods then

- A) the more consumption of goods we can have today.
- B) the less consumption we can have today, but we will have more in the future.
- C) the more unemployed resources there will be in the future.
- D) the more unemployed resources there are today.

Answer: B

Diff: 2

Question Status: Previous Edition

3) The opportunity cost of more consumption of goods today is

- A) lower consumption of goods in the future.
- B) fewer capital goods in the future.
- C) more capital goods today.
- D) more unemployment both today and in the future.

Answer: A

Diff: 2

Question Status: Previous Edition

4) Whenever productive resources are used to make capital goods

- A) society is not producing efficiently.
- B) society is giving up current consumption.
- C) the production possibilities curve becomes flatter.
- D) absolute advantage occurs.

Answer: B

Diff: 1

Question Status: Previous Edition

- 5) The more society consumes today,
- A) the more it consumes next year.
  - B) the harder it will be to consume less in the future because people will find it hard to adjust to less.
  - C) the less society can consume in the future.
  - D) the easier it will be to consume less in the future.

Answer: C

Diff: 2

Question Status: Previous Edition

- 6) The trade-off between current consumption and the production of capital goods is also a trade-off between
- A) the future cost for capital goods and future cost of consumption goods.
  - B) having fewer needs and more wants in the future.
  - C) satisfying the needs of the poor and the wants of the wealthy.
  - D) current consumption and future consumption.

Answer: D

Diff: 2

Question Status: Previous Edition

## 2.8 Specialization and Greater Productivity

- 1) With specialization,
- A) opportunity costs tend to be constant.
  - B) there are greater gains in material well being.
  - C) there is more emphasis on self-reliance.
  - D) society is more productive while individuals are less productive.

Answer: B

Diff: 1

Question Status: Previous Edition

- 2) Specialization occurs because
- A) society trades current consumption for future consumption.
  - B) the production possibilities curve tends to be linear.
  - C) people have different skills.
  - D) society produces made the production possibilities curve.

Answer: C

Diff: 1

Question Status: Previous Edition

3) The concept of absolute advantage relies upon

- A) the idea of comparative advantage.
- B) the concept of efficiency as measured by labor productivity.
- C) the idea of opportunity cost.
- D) the concept of economic efficiency as measured on the production possibility curve.

Answer: B

Diff: 1

Question Status: Previous Edition

4) The idea of comparative advantage is related to

- A) the idea of opportunity cost.
- B) the idea of absolute advantage.
- C) using the worker with the most diverse sets of skills.
- D) engineering efficiency.

Answer: A

Diff: 1

Question Status: Previous Edition

5) What is the difference between comparative advantage and absolute advantage?

Answer: Absolute advantage refers to the ability to produce a good with fewer total resources. Comparative advantage is the ability to produce at the lower opportunity cost. A comparative advantage exists when one has to give up fewer units of the other good than another person or country.

Diff: 3

Question Status: Previous Edition

## 2.9 The Division of Labor

1) The division of labor refers to

- A) the separation of blue-collared workers and white-collared workers.
- B) finding the best order of performing tasks.
- C) the separation of workers into union workers and non-union workers.
- D) the assignment of different workers to different tasks.

Answer: D

Diff: 1

Question Status: Previous Edition



2) Division of labor

- A) increases the amount of capital in the economy.
- B) leads to an increase in the amount of output in the economy.
- C) makes economic goods possible.
- D) is not possible for service goods.

Answer: B

Diff: 1

Question Status: Previous Edition

## 2.10 Comparative Advantage and Trade Among Nations

1) Which of the following is a true statement?

- A) Comparative advantage explains trade among nations, but not within nations.
- B) Comparative advantage explains trade within nations, but not among nations.
- C) Comparative advantage explains trade within nations and among nations.
- D) Comparative advantage has nothing to do with trade among nations; it only is concerned with specialization within a firm.

Answer: C

Diff: 2

Question Status: Previous Edition

2) If a CEO can type faster than the secretary

- A) the CEO has a comparative advantage in typing.
- B) the CEO has neither a comparative advantage in typing, nor in management.
- C) the CEO should still continue performing CEO duties since he has a comparative advantage in management, and the secretary should continue typing.
- D) the CEO should still continue performing CEO duties as well as typing since he has a comparative advantage in both management, and typing.

Answer: C

Diff: 2

Question Status: New

3) Politicians often argue that a country's standard of living is reduced when it allows imports into the country. Offer an economically sound counter-argument.

Answer: Specialization of labor is productive, so output is greater when people produce goods for which they have a comparative advantage—that is, goods for which the opportunity cost of producing is lower than in other nations. They trade for those goods for which they do not have a comparative advantage. International trade based on comparative advantage then increases total output of the two countries and can result in higher standards of living for citizens of both countries.

Diff: 2

Question Status: Revised