

**TEST BANK**

# Macroeconomics

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10e

## Chapter 02 Resource Utilization

### Multiple Choice Questions

1. Our economy \_\_\_\_\_ operates on its production possibility curve.
  - A. always
  - B. sometimes
  - C. never
  
2. Which statement is true?
  - A. Entrepreneurial ability is in short supply in the U.S.
  - B. Land, labor and capital may be considered passive resources.
  - C. The concept of opportunity cost is irrelevant when there is scarcity.
  - D. None of these statements are true.
  
3. Which one of the following is the most accurate?
  - A. In recent years our economy was at full employment until 2010.
  - B. Our economy operated outside of its production possibilities curve in 2009 and 2010.
  - C. Our economy is currently operating on its production possibilities curve.
  - D. Our economy is currently operation inside its production possibilities curve.
  
4. In our economy
  - A. there is no need to economize.
  - B. we rarely have to economize.
  - C. only the rich have to.
  - D. nearly everyone has to economize.
  
5. The term "the affluent society" was coined by
  - A. Michael Harrington.
  - B. John Kenneth Galbraith.
  - C. Karl Marx.
  - D. Adam Smith.

6. Each of the following is an example of an economic resource except
- A. land.
  - B. money.
  - C. capital.
  - D. labor.
7. Statement I. Employment discrimination causes underemployment.  
Statement II. The concept of opportunity cost has little validity in the global economy.
- A. Statement I is true and statement II is false.
  - B. Statement II is true and statement I is false.
  - C. Both statements are true.
  - D. Both statements are false.
8. Our economy would be operating at full employment with labor unemployment rate of \_\_\_\_ percent and a capacity utilization rate of \_\_\_\_\_ percent.
- A. 5; 95
  - B. 5; 85
  - C. 10; 95
  - D. 10; 85
9. Which statement is true?
- A. On the production possibilities frontier we have zero unemployment.
  - B. On the production possibilities frontier 95 percent of the labor force is employed.
  - C. To get out of a recession, we must produce at some point beyond our production possibilities frontier.
  - D. To have economic growth, we must push the production possibilities frontier inward.
10. In order to raise our rate of economic growth we would need to
- A. increase the level of capital.
  - B. reduce the level of labor.
  - C. spend more on military goods.
  - D. spend more on consumer goods.

11. The main reason our standard of living is so much higher than that of India and China is that we have more

- A. land.
- B. labor.
- C. capital.
- D. money.

12. Which statement is true?

- A. It is easier to attain full employment than full production.
- B. Employment discrimination no longer exists in the U.S. labor market.
- C. We are usually operating on our production possibilities frontier.
- D. None of these statements are true.

13. The main effect of employment discrimination is

- A. Unemployment.
- B. Underemployment.
- C. Greater efficiency.
- D. Greater production.

14. We temporarily operated outside our production possibilities frontier in

- A. 1933.
- B. 1943.
- C. 1973.
- D. 1982.

15. Which statement is true?

- A. The economic problem is limited to poverty.
- B. Scarcity is no longer an economic problem in the United States.
- C. If we all had more money there would be less scarcity.
- D. None of these statements are true.

16. Statement I. When U.S. unemployment rate is five percent, it attains full employment.  
Statement II. Full employment and full production mean virtually the same thing.

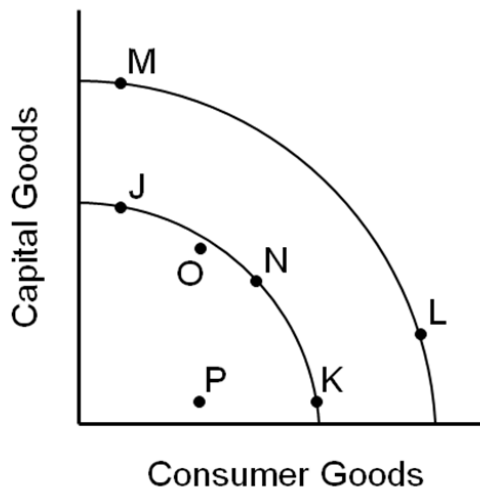
- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

17. Statement I. Entrepreneurial ability is not a resource.  
Statement II. Virtually all of our resources are buried under the ground.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

18. Which statement is true?

- A. We are usually inside our production possibilities curve.
- B. We are usually outside our production possibilities curve.
- C. We are usually on our production possibilities curve.
- D. None of the statements are true.



19. Which movement between two points represents economic growth?

- A. J to K
- B. K to L
- C. L to M
- D. M to N

20. Assuming the inner curve is our current production possibilities frontier, our economy usually operates at \_\_\_\_.

- A. Point P
- B. Point O
- C. Point N
- D. Point L

21. Assuming the inner curve is our current production possibilities frontier, points J, N and K represent

- A. an inefficient use of resources.
- B. an output that is not possible to produce.
- C. points of unemployed resources.
- D. points of fully employed resources.

22. Assuming the inner curve is our current production possibilities frontier, which of the following points would eventually lead to the greatest level of economic growth?

- A. Point J
- B. Point N
- C. Point K
- D. Point P

23. A movement from point J to point M would represent

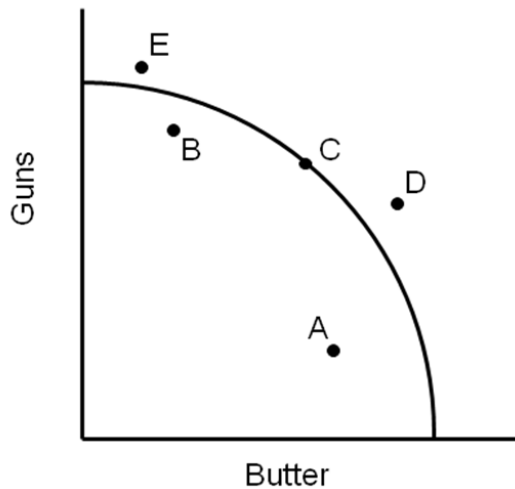
- A. an increase in consumer goods, but not capital goods.
- B. an increase in capital goods, but not consumer goods.
- C. an increase in both capital goods and consumer goods.
- D. no increase in either capital goods or consumer goods.

24. A movement from point N to point L would represent
- A. an increase in both consumer goods and capital goods.
  - B. a decrease in both consumer goods and capital goods.
  - C. an increase in consumer goods, but a decrease in capital goods.
  - D. an increase in capital goods, but a decrease in consumer goods.
25. The opportunity cost of a movement from point N to J would
- A. be the lost production of some capital goods.
  - B. be the lost production of some consumer goods.
  - C. be slower economic growth in the future.
  - D. not involve any sacrifice of either capital or consumer goods.
26. If a nation is currently operating at a point inside its production possibilities curve, it
- A. can increase the output of one good without decreasing the output of the other good.
  - B. has fully employed resources.
  - C. has no inefficiently employed resources.
  - D. is operating at full potential.
  - E. must reduce the output of one good to produce more of another good.
27. Which of the following is not demonstrated by a production possibility curve?
- A. Scarcity
  - B. Opportunity cost
  - C. Necessity for choice due to scarcity
  - D. Price
28. People are forced to economize because of
- A. competition.
  - B. pressure to conform.
  - C. scarcity.
  - D. the absence of money.
  - E. the presence of taxes.

29. Our basic economic problem would be solved if
- A. everyone were given \$500,000.
  - B. our population stopped growing.
  - C. all sickness and disease were wiped out.
  - D. our wants could be satisfied with available resources.

30. If the economy is operating at a 7 percent unemployment rate we are operating
- A. inside the production possibilities curve.
  - B. on the production possibilities curve.
  - C. outside the production possibilities curve.

31. Which is the most accurate statement?
- A. In order to have full production, there must be full employment.
  - B. In order to have full employment, there must be full production.
  - C. Both statements are accurate.
  - D. Neither statement is accurate.





32. In 1939 the U.S. economy was operating at point \_\_\_\_\_.

- A. A
- B. B
- C. C
- D. D
- E. E

33. In 1944 the U.S. economy was temporarily operating at point \_\_\_\_\_.

- A. A
- B. B
- C. C
- D. D

34. We can increase our rate of economic growth by

- A. devoting more of our output to capital goods.
- B. devoting more of our output to improving our technology.
- C. devoting more of our output to improving the quality of our labor force.
- D. all of the choices are true.

35. Assuming that a society always operates on its production possibilities curve, an outward shift of the curve implies

- A. economic growth has occurred.
- B. the society is making more efficient use of its available resources.
- C. consumer demand has increased.
- D. the present value of capital resources has increased.

36. Resources include

- A. land, labor and money.
- B. entrepreneurship and capital.
- C. capital and money.
- D. corporations and partnerships.
- E. monopoly and perfect competition.

37. The study of economics

- A. is a very narrow endeavor.
- B. is a way of analyzing decision-making processes caused by scarcity.
- C. focuses on how a business should function.
- D. is concerned with proving that capitalism is better than socialism.

38. Economic growth can be shown by \_\_\_\_\_ production possibilities curve.

- A. an outward shift of the
- B. an inward shift of the
- C. a movement from one point to another along the
- D. a movement to a point inside the

39. Economic growth is difficult for poor countries because

- A. governments must fund capital production and research out of tax revenues.
- B. resources must be taken away from consumer goods to pay for technology.
- C. resources must be taken away from consumer goods to pay for capital goods.
- D. those wealthy enough to invest in domestic industries may choose to invest abroad instead.
- E. All of the choices are true.

40. Our economy is generally operating \_\_\_\_\_ the production possibilities curve.

- A. inside
- B. outside
- C. on

41. Economic growth occurs when

- A. a large part of a country's population is poor.
- B. a society sacrifices an amount of one good for more of another along its production possibility frontier.
- C. a society acquires additional resources or when its technology advances.
- D. there is unemployment of labor but other resources are used efficiently.
- E. the combinations of goods and services that can be produced decreases.

42. If you own a building and you decide to use that building to open a restaurant,
- A. there are no sunk costs involved in this decision.
  - B. there is no opportunity cost of using this building for a restaurant because you own it.
  - C. the only cost relevant to this decision is the price you paid for the building.
  - D. there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.
43. Which of the following is an example of opportunity cost?
- A. The income that could have been earned by working full-time instead of going to college.
  - B. The decline in the grades of a student athlete that occurs because she decides to spend more time practicing sports than on her academic work.
  - C. The value of other things you could have done with the same time and money it cost you to go to the movies.
  - D. The value of the next-best bundle of goods and services that could have been produced instead of using those resources to put astronauts on the moon.
  - E. All of the choices are examples of opportunity cost.
44. The opportunity cost for a student of attending college for a year is measured by
- A. the benefit received by the student.
  - B. the tuition paid for the year.
  - C. the value of the most valued opportunity foregone by attending college.
  - D. the total money outlays associated with attending college.
45. The economic problem is essentially one of deciding how to make the best use of
- A. limited resources to satisfy limited wants.
  - B. unlimited resources to satisfy limited wants.
  - C. limited resources to satisfy unlimited wants.
  - D. unlimited resources to satisfy unlimited wants.

46. Jeff's entertainment budget is divided between \$8 movie tickets and \$40 hockey tickets. The opportunity cost to Jeff of going to an extra hockey game is

- A. four fewer \$10 pizzas.
- B. five movies.
- C. 20 DVD rentals (costing \$2 each).
- D. all of the choices are true.

47. An inward shift in the entire production possibilities frontier

- A. represents economic growth.
- B. means that the economy can produce more of both goods.
- C. occurs if there is an increase in the capital stock.
- D. takes place if there is an expansion in the labor force.
- E. means that previous levels of production are now unobtainable.

48. Entrepreneurship is

- A. the financial capital necessary to launch a new business.
- B. the talent to develop new products and processes and to organize production to make goods and services available.
- C. unskilled labor.
- D. the physical capital resources used to produce goods and services.

49. Which of the following statements about the concept of opportunity cost is true?

- A. The opportunity cost of a decision only includes monetary outlays.
- B. The opportunity cost of a decision is the next best foregone alternative.
- C. Some decisions have zero opportunity cost.
- D. The opportunity cost of a college education is measured by the payments for tuition and books.

50. The statement "By the time our grandchildren are born, scarcity will not be a problem" is

- A. possible only if technology advances at a great pace.
- B. true, because we will learn to limit our wants in the future.
- C. true, because by that time everyone's basic needs will be met.
- D. false, because people always want more than there is available.

51. The opportunity cost of producing one additional truck is
- A. the profit that could have been earned from selling that truck.
  - B. the amount of other goods that could not be produced because productive resources were used instead to produce that truck.
  - C. the price of the truck.
  - D. all of the choices are true.
52. The reason that opportunity costs arise is that
- A. people have unlimited wants.
  - B. there are no alternative decisions that could be made.
  - C. an economy relies on money to facilitate exchange of goods and services.
  - D. resources are scarce.
53. A small economy produces only pizzas and jeans. If resources are used inefficiently in the economy,
- A. it will be possible to produce more pizzas without decreasing the production of jeans.
  - B. the economy will be operating at a point on its production possibilities curve.
  - C. the economy will be operating at a point outside its production possibilities curve.
  - D. it will not be possible to produce more jeans or pizzas.
54. If an economy is operating on its production possibility frontier, which of the following statements is true?
- A. Products are produced using inefficient production technology.
  - B. The capacity utilization rate is less than full production.
  - C. The economy's labor force is fully employed.
  - D. A fall in the price of an input will enable the economy to produce outside the production possibility frontier.
55. Which of the following is not a factor of production?
- A. Land
  - B. Money
  - C. Capital
  - D. Labor
  - E. Entrepreneurship

56. The existence of unemployment can be illustrated on a production possibilities curve by a(n)

- A. point below or inside the surface of the curve.
- B. inward shift of the curve.
- C. movement down along the curve if consumer goods are represented on the vertical axis and capital on the horizontal axis.
- D. movement up along the curve if consumer goods are represented on the vertical axis and capital on the horizontal axis.

57. Which of the following will shift an economy's production possibilities curve outward?

- A. An improvement in technology
- B. An increase in the unemployment rate
- C. A decrease in land, labor or capital
- D. A decrease in the unemployment rate

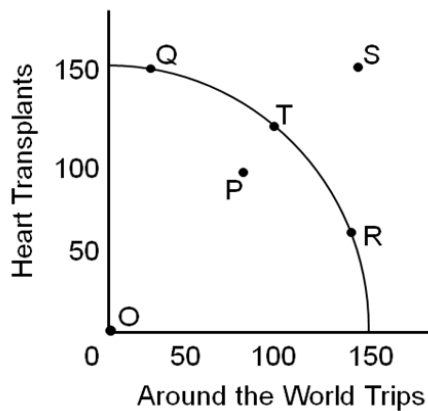
58. The production possibilities curve illustrates the basic principle that

- A. an economy's capacity to produce increases in proportion to its population size.
- B. if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- C. an economy will automatically seek that level of output at which all of its resources are employed.
- D. the production of more of any one good will in time require smaller and smaller sacrifices of other goods.

59. A production possibilities curve shows

- A. that in order to acquire more of one good, none of the alternative good must be given up.
- B. that in order to acquire more of one good, some of the alternative good must be given up.
- C. that any amount of goods could be produced by society if people worked harder.
- D. various combinations of guns and butter that can be produced under conditions of 6 percent unemployment.

60. The production possibilities curve tells us that if full employment exists and a nation wishes to permanently increase its production of military goods, it must
- A. also increase its production of nonmilitary goods.
  - B. reduce its output of nonmilitary goods.
  - C. suffer inflation.
  - D. suffer unemployment.



61. If our economy was operating at point O (where the two axes come together), we would have an unemployment rate of \_\_\_\_\_ percent.
- A. 0
  - B. 5
  - C. 50
  - D. 95
  - E. 100

62. Point P represents
- A. a severe recession.
  - B. where our economy usually operates.
  - C. inflation.
  - D. full employment.

63. If we were at point \_\_\_\_\_ it would be possible to produce more heart transplants and more round-the-world trips.

- A. P
- B. Q
- C. R
- D. S

64. If we are currently at point T, we can get to point S in the long run

- A. through economic growth over a period of years.
- B. immediately by using our resources more efficiently.
- C. immediately by reducing the unemployment rate.
- D. immediately through technological development.
- E. only if there is a depression.

65. We could increase the production of both heart transplants and round-the-world trips if we moved to point T from point

- A. P.
- B. Q.
- C. R.
- D. S.

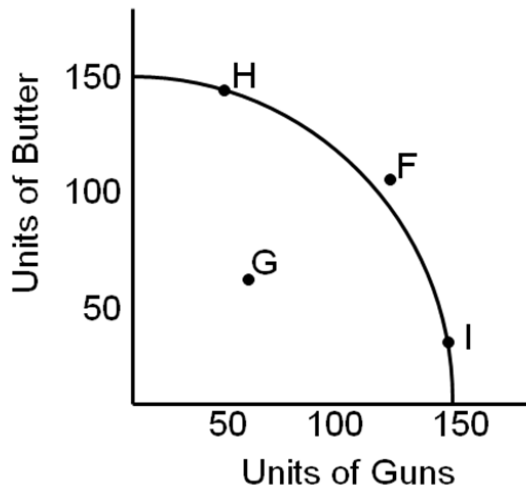
66. If we moved from point T to point R we would be

- A. giving up trips for more transplants.
- B. giving up transplants for more trips.
- C. gaining both trips and transplants.
- D. losing both trips and transplants.

67. The opportunity cost of moving from point T to point Q would be

- A. giving up trips around the world.
- B. giving up heart transplants.
- C. gaining trips around the world.
- D. gaining heart transplants.





68. If our economy were operating on its production possibilities frontier, it would have the best chance of temporarily reaching point F if

- A. we were at war.
- B. we were in a depression.
- C. we were in a period of inflation.
- D. we invested more in plant and equipment.

69. Which point best represents our economy in a depression?

- A. Point H
- B. Point F
- C. Point I
- D. Point G

70. During most of our involvement in World War II we temporarily operated at point

- A. F.
- B. G.
- C. H.
- D. I.

71. A move from point H to I would

- A. raise employment substantially.
- B. raise employment slightly.
- C. lower employment slightly.
- D. lower employment substantially.
- E. have no effect on employment.

72. Point F

- A. is where our economy operates most of the time.
- B. is unattainable.
- C. represents a severe recession.
- D. can be temporarily attained under unusual circumstances.

73. Improving the education level of the labor force will

- A. shift the production possibilities curve inward.
- B. not shift the production possibilities curve since the total size of the labor force has not been changed.
- C. shift the production possibilities curve outward.
- D. cause a movement from a point inside the production possibilities curve to a point on the curve.

74. Unlimited wants need not be a problem if

- A. resources are also unlimited.
- B. resources are flexible in what they can do.
- C. resources are basic energy resources like oil.
- D. resources are human resources such as skilled labor.
- E. resources cannot be captured in a war.

75. Individuals are forced to make choices because

- A. human wants are limited.
- B. the supply of resources is infinite.
- C. wants are unlimited and resources are scarce.
- D. resources are unlimited.

76. Which of the following would an economist classify as capital?

- A. A public corporation's employees
- B. A share of stock
- C. A computer used by an accountant
- D. A deposit of silver

77. Entrepreneurs

- A. receive most of their income through inheritance.
- B. receive interest payments for their services.
- C. undertake risky activities in order to earn profits.
- D. are unemployed except during economic boom periods.

78. Scarcity exists because

- A. of unlimited resources.
- B. human wants are enormous relative to the means available to satisfy them.
- C. production is limited only by technology and human energy.
- D. advertising creates unnatural desires for surplus goods.

79. A political candidate promises voters more funding for AIDS research and child care and assures them they will not have to sacrifice any other goods or services to obtain the additional programs.

- A. This may be possible if the economy has unemployed resources.
- B. This is possible only in a fully employed economy.
- C. This is possible if the economy is producing on its production possibilities curve.
- D. None of the choices are possible.

80. Statement I. Labor and capital are resources.

Statement II. Scarcity has been largely eliminated from our economy.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

81. Which of the following demonstrates opportunity cost?

- A. With a new strain of wheat, the wheat crop of Canada grows by 20% with no change in the productive resources devoted to wheat farming.
- B. A tax cut increases people's purchases of consumer goods and decreases state expenditures on education.
- C. The ravages of World War II reduced Japan's ability to produce goods.
- D. Flora gets a 10% raise and increases her expenditures on movies.

82. In 1943-1945

- A. there was substantial unemployment in the U.S.
- B. there was substantial excess plant and equipment in the U.S.
- C. the U.S. had not yet completed its recovery from the depression.
- D. we were temporarily operating at a point beyond our production possibilities frontier.

83. Every social system confronts scarcity and so must

- A. produce only free goods.
- B. try to produce outside its production possibilities frontiers.
- C. economize.
- D. allocate goods by government edict.

84. \_\_\_\_\_ is attained when the maximum possible output of any one good is produced, given the output of other goods.

- A. Productive efficiency
- B. Economic growth
- C. Opportunity cost
- D. Employment discrimination

85. Statement I. Our economy only rarely attains productive efficiency.

Statement II. The U.S. economy reached productive efficiency from mid-1997 through early 2001.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

86. Which statement is true?

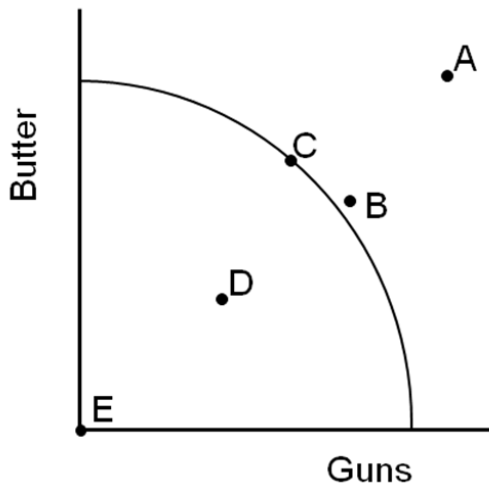
- A. Productive efficiency has never been achieved.
- B. The U.S. economy achieved productive efficiency from mid-1997 through mid-2001.
- C. The U.S. economy achieved productive efficiency from 1980 to 1997.
- D. Our economy generally attains productive efficiency.

87. In the 1950s

- A. more women were unemployed than underemployed.
- B. more women were underemployed than unemployed.
- C. about the same number of women were unemployed as underemployed.

88. In the context of the global economy, our capacity utilization rate \_\_\_\_\_ than it was just a few decades ago.

- A. is much more important
- B. is much less important
- C. has the same importance



89. Which point shows where our economy was operating during the low point of the Great Depression?

- A. Point A
- B. Point B
- C. Point C
- D. Point D
- E. Point E

90. Which point shows where our economy was temporarily operating during World War II, when we had reduced our unemployment rate to about two percent?

- A. Point A
- B. Point B
- C. Point C
- D. Point D

91. Which point shows where our economy would have a 100 percent unemployment rate?

- A. Point A
- B. Point B
- C. Point C
- D. Point D
- E. Point E

92. Which set of points would show a movement from depression to full employment?

- A. A movement from Point C to B
- B. A movement from Point B to A
- C. A movement from Point C to E
- D. A movement from Point D to C

93. Under the current economic situation, which point would represent an unattainable combination of resources?

- A. Point A
- B. Point D
- C. Point C
- D. Point E

94. Statement I. As long as we are on our production possibilities frontier, we can produce as many guns and as much butter as we want.

Statement II. In theory, a nation may be on its production possibilities frontier; in practice, no nation has ever attained this economic state.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

95. Which one of the following is the most accurate?

A. Half of recent college graduates under 25 are in positions that do not require college degrees.

B. The outlook for college graduates in 2009 & 2010 was just as bright as graduates in 2006 & 2007.

C. Despite the recession, nearly all college graduates of the class of 2010 found jobs appropriate to their training and educational backgrounds.

D. All of these statements are true.

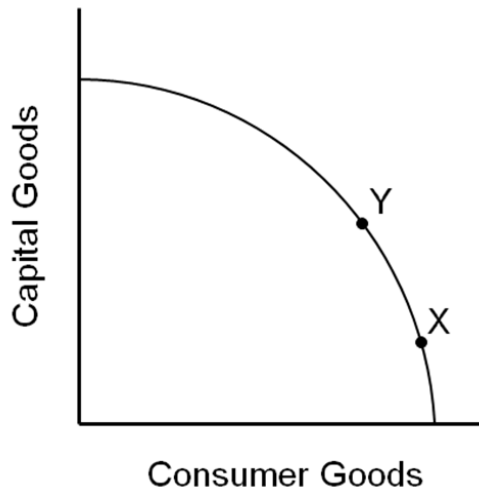
96. The central fact of economics is

- A. production.
- B. distribution.
- C. equilibrium.
- D. efficiency.
- E. scarcity.

97. Statement I. Resources are often referred to as "the means of production."

Statement II. Capital is a resource.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.



98. Imagine that country X is at point X of this production possibilities frontier and country Y is at point Y.

- A. Country X will probably grow faster than country Y.
- B. Country Y will probably grow faster than country X.
- C. The two countries will probably grow at about the same speed.
- D. There is no way of predicting which country will grow faster.

99. Statement I. The definition of economics is that equilibrium is when supply and demand are equal.

Statement II. Human wants are limited because our resources are limited.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.



100. Statement I. Technological advance pushes a country's production possibilities frontier outward.

Statement II. Our economic growth slowed down from the early 1970s compared to the two decades before the 1970s.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

101. Which statement is the most accurate?

- A. A nation's economic capacity expands when the size of the labor force expands.
- B. Our rate of economic growth slows down if we produced too many investment goods and not enough consumer goods.
- C. Our unemployment rate has never fallen below five percent.
- D. We could raise our economic growth rate if Americans would invest less and spend more.

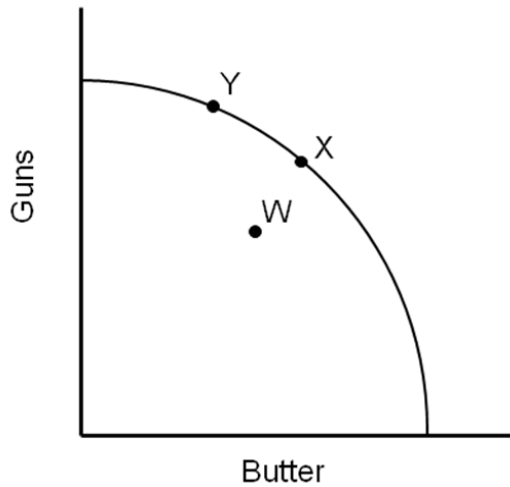
102. Statement I. Full employment and full production mean exactly the same thing.

Statement II. You can attain full employment without attaining full production, but you cannot attain full production without attaining full employment.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

103. Our nation

- A. has sometimes attained productive efficiency.
- B. usually attains productive efficiency.
- C. never attained productive efficiency.



104. The unemployment rate falls when we go from

- A. W to X.
- B. X to W.
- C. X to Y.
- D. Y to X.

105. If war breaks out and the economy is at full employment, we would move from

- A. W to X.
- B. X to W.
- C. X to Y.
- D. Y to X.

106. Which of the following will NOT shift an economy's production possibilities curve outward?

- A. An increase in technology
- B. An improvement in the literacy rate
- C. A reduction in the unemployment rate
- D. An increase in the number of workers available

107. Referring to a production possibilities curve and the goods being compared, depict the economic event. The economy moves from full employment to a serious recession (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

108. Referring to a production possibilities curve and the goods being compared, depict the economic event. The literacy rate increases among workers (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

109. Referring to a production possibilities curve and the goods being compared, depict the economic event. The bubonic plague (Black Death) in the 1300s killed one-third of Europe's population (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

110. Referring to a production possibilities curve and the goods being compared, depict the economic event. The Soviet Union entered World War II at a full employment production level (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

111. Referring to a production possibilities curve and the goods being compared, depict the economic event. Millions of immigrants came to the United States in the second half of the 19th century to work on the transcontinental railroad (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

112. Referring to a production possibilities curve and the goods being compared, depict the economic event. Assuming the United States was producing at full employment levels in the late 1980s, peace breaks out as the Cold War ends (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

113. Referring to a production possibilities curve and the goods being compared, depict the economic event. The AIDS epidemic becomes rampant in America claiming millions of lives (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

114. Referring to a production possibilities curve and the goods being compared, depict the economic event. The increase in government spending due to World War II pulls the U.S. economy out of a depression to full employment of resources (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

115. Referring to a production possibilities curve and the goods being compared, depict the economic event. Computerization in the 1990s launched thousands of new businesses in the United States (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

116. Referring to a production possibilities curve and the goods being compared, depict the economic event. The SARS epidemic spreads rapidly throughout Toronto, Canada claiming millions of lives (capital vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

117. Referring to a production possibilities curve and the goods being compared, depict the economic event. Widespread use of the assembly line revolutionizes U.S. industry in the early 20th century (capital vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

118. Referring to a production possibilities curve and the goods being compared, depict the economic event. Suppose the United States was at full employment in 2003 just before invading Iraq. Although the war was won quickly, winning the peace took a decade (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

119. If the unemployment rate is 7 percent, our economy is operating
- A. inside the production possibility curve.
  - B. on the production possibility curve.
  - C. outside the production possibility curve.
120. If the unemployment rate is 5 percent (full employment), our economy is operating
- A. inside the production curve.
  - B. on the production curve.
  - C. outside the production curve.
121. Which of the following is not an institutional constraint that limits our nation's production possibilities?
- A. Blue laws that restrict bars and liquor stores from opening on Sunday
  - B. Restrictions on child labor
  - C. The fact that Americans dislike working at night or on the weekends
  - D. Workers who are "in between" jobs
122. "The value of the next best alternative" defines
- A. the Law of Increasing Costs.
  - B. the economic problem.
  - C. allocative efficiency.
  - D. opportunity cost.
123. Adam Smith noted in 1776 that
- A. the wealth of nations comes from the money the nations have accumulated.
  - B. the wealth of nations comes from the gold the nations have accumulated.
  - C. the wealth of nations comes from the resources that produce the nation's goods and services.
  - D. the problem of scarcity had been licked.

124. John Maynard Keynes noted that

- A. we could print all the money we want and still have scarcity.
- B. "to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort."
- C. the general notion that scarcity is due to not having enough money is an illusion.
- D. we could print all the money we want and still have scarcity AND the general notion that scarcity is due to not having enough money is an illusion.
- E. we could print all the money we want and still have scarcity AND "to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort."

125. An outward shift in the entire production possibilities frontier

- A. represents economic decline.
- B. means that previous levels of production are now unobtainable.
- C. means that the only way the economy can increase the production of one good is by producing less of an alternative good.
- D. represents economic growth.

126. Which of the following will shift an economy's production possibilities curve inward?

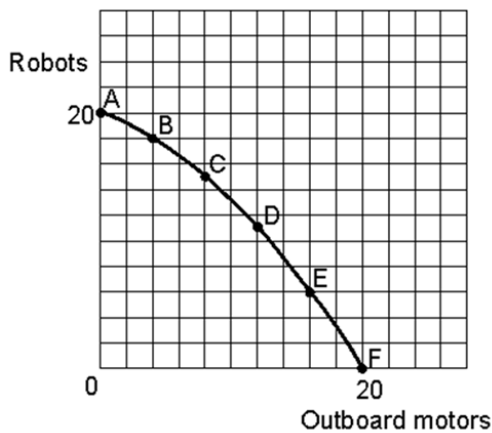
- A. An improvement in technology
- B. An increase in the unemployment rate
- C. A decrease in land, labor or capital
- D. A decrease in the unemployment rate

127. If you kept your money under your mattress rather than keeping it in a savings account at your local bank,

- A. you would not incur an opportunity cost.
- B. the opportunity cost of such an action would be the forgone interest of not putting the money in a savings account.
- C. the opportunity cost of such an action would be the gas money it took to drive to the bank.
- D. None of the choices are true.

128. Which of the following statements about full employment is true?

- A. Liberal economists insist that an unemployment rate of 4 percent constitutes full employment.
- B. Conservative economists feel that an unemployment rate of 6 percent is a realistic portrayal of full employment.
- C. Economists cannot agree on what constitutes full employment, thus 5% represents a reasonable compromise.
- D. All of these choices are true.



129. If the economy were producing at point A and moved to point B the opportunity cost in terms of lost production of robots would be

- A. 1 unit of robots.
- B. 2 units of robots.
- C. 3 units of robots.
- D. 2 units of outboard motors.

130. If the economy were producing at point E and moved to point B the opportunity cost in terms of lost production of outboard motors would be

- A. 16 units of outboard motors.
- B. 14 units of outboard motors.
- C. 12 units of outboard motors.
- D. 10 units of outboard motors.



131. If the economy were producing at 12 units of outboard motors and 8 units of robots
- A. the economy would be at a point inside its production possibilities curve.
  - B. the economy would be at a point outside its production possibilities curve.
  - C. the economy would have unemployed resources.
  - D. the economy would be at a point inside its production possibilities curve AND would have unemployed resources.

132. If the economy were producing at point D and moved to point C the opportunity cost in terms of lost production of outboard motors would be
- A. 2 units of outboard motors.
  - B. 4 units of outboard motors.
  - C. 12 units of outboard motors.
  - D. 11 units of robots.

133. The economy could produce at 8 units of outboard motors and 18 units of robots
- A. immediately only under unusual circumstances such as war.
  - B. if there is economic growth over a period of years.
  - C. under no circumstances.
  - D. immediately only under unusual circumstances such as war AND if there is economic growth over a period of years.

#### Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

134. If the economy were producing at point C and moves to point B

- A. 4 units of capital goods are gained, while the capacity to produce 32 consumer goods are lost.
- B. 16 units of capital goods are gained at an opportunity cost of producing 40 consumer goods.
- C. 16 units of capital goods are gained at an opportunity cost of producing 72 consumer goods.
- D. 4 units of capital goods are gained, while the capacity to produce 72 consumer goods are lost.

135. If the economy produces 12 capital goods and 40 consumer goods,

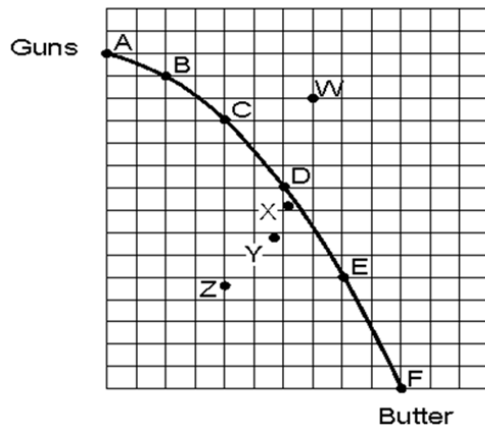
- A. it is producing outside its production possibilities curve.
- B. this combination of output will most likely result in economic growth.
- C. the ability to produce more consumer goods can only be realized by sacrificing capital goods.
- D. this economy has some unemployed resources.

136. If the society chooses point B instead of point C,

- A. economic growth is more likely.
- B. economic growth is less likely.
- C. the chances of achieving economic growth will not be affected.
- D. unemployment will result.

137. If the economy were producing at point E and moves to point D,

- A. resources will shift from producing capital goods to producing consumer goods.
- B. resources will shift from producing consumer goods to producing capital goods.
- C. more capital goods can be produced without any sacrifice in consumer goods production.
- D. more consumer goods can be produced without any sacrifice in capital goods production.



138. If the economy was producing at point X and moved to point Y,
- A. it would have moved from where the economy operates most of the time to a severe recession.
  - B. it would have moved from where the economy operates most of the time to a depression.
  - C. the unemployment rate would increase.
  - D. it would have moved from where the economy operates most of the time to a severe recession AND the unemployment rate would increase.
  - E. it would have moved from where the economy operates most of the time to a depression AND the unemployment rate would increase.

139. The economy could reach point W if it
- A. reduced the unemployment rate.
  - B. achieved economic growth.
  - C. decreased its quantity of land, labor and capital.
  - D. shifted resources from butter production into the manufacturing guns.

140. If the economy was producing at point D and moved to point C
- A. the unemployment rate would increase.
  - B. the unemployment rate would decrease.
  - C. the production possibilities frontier would shift outward.
  - D. the production possibilities frontier would shift inward.
  - E. None of these choices are true.

141. If the economy were producing at point F,
- A. it would not be using its resources efficiently.
  - B. it would be in a recession.
  - C. it could gain units of guns without having to sacrifice units of butter.
  - D. it would be specializing exclusively in butter production.
142. If the economy were producing at point E and moved to point D,
- A. the unemployment rate would increase.
  - B. the unemployment rate would decrease.
  - C. the production possibilities would shift outward.
  - D. the economy would shift resources from producing butter to producing guns.
  - E. the economy would shift resources from producing guns to producing butter.
143. If the economy were at full employment and now producing at point Y,
- A. the unemployment rate would increase.
  - B. the unemployment rate would decrease.
  - C. the production possibilities frontier would have shifted inward.
  - D. the production possibilities frontier would have shifted outward.
  - E. there would be a movement along the frontier.
144. If the economy were producing at point Z and moved to point D,
- A. it could only produce more butter at the sacrifice of some gun production.
  - B. it could only produce more guns at the sacrifice of some butter production.
  - C. it could produce more guns and more butter at the same time.
  - D. it would be impossible to produce more guns without the sacrifice of some butter production.
145. Which statement is true?
- A. Entrepreneurial ability is abundant in the U.S.
  - B. The entrepreneur sets up a business and risks his or her own money.
  - C. Land, labor and capital may be considered passive resources.
  - D. All of the statements are true.

146. Which statement is true?

- A. Entrepreneurial ability is considered a passive resource.
- B. All entrepreneurs are inventors.
- C. The entrepreneur has been the central figure in the long economic success in the U.S.
- D. The basic payment made to the owners of capital is rent.

147. Capital refers to

- A. "man"-made goods used to produce other goods or services.
- B. the work and time for which employees are paid.
- C. natural resources as well as "man"-made goods.
- D. the person who assembles the needed resources to start a business.

148. All of the following statements are true about entrepreneurship except:

- A. The entrepreneur assembles the other needed resources.
- B. The entrepreneur risks her or his own money.
- C. The entrepreneur reaps the profits or suffers the losses of the enterprise he or she creates.
- D. The term entrepreneur is synonymous with the term inventor.

149. Which statement about entrepreneurship in America is true?

- A. Alexander Graham Bell and Thomas Edison were two of the most famous American inventors who became entrepreneurs.
- B. The American entrepreneur led the way to the country's economic success.
- C. Often the entrepreneur is an innovator.
- D. The vast majority of entrepreneurs in America either work for themselves or have just one or two employees.
- E. All of the statements are true.

150. Opportunity cost can be best defined as

- A. all sunk costs.
- B. the value of the best alternative given up when making a choice.
- C. the explicit cost of an activity.
- D. the cost of making one additional unit.
- E. the cost of finding profit-making opportunities.

151. The entrepreneur

- A. runs his or her own business and risks his or her own money.
- B. does not necessarily run her or his own business nor risks her or his own money.
- C. runs his or her own business, but does not necessarily risk his or her own money.
- D. does not necessarily run her or his own business, but does risk her or his own money.

152. Examples of employment discrimination would include

- A. the legendary Negro league pitcher Satchel Paige who was not allowed to pitch in the major leagues until he was in his late 40s.
- B. the large majority of women in the 1950s and 1960s who were typists or secretaries.
- C. the attitude that typing, filing and other clerical positions were "women's work".
- D. all of the examples are true.

153. The opportunity cost of owning a car is

- A. the price of the car.
- B. filling the tank twice a week.
- C. the cost of getting your car inspected once a year.
- D. the vacation to Hawaii you had to give up in order to make your car payments.

154. The term "the affluent society"

- A. was coined by Michael Harrington.
- B. implied that the scarcity problem had been licked.
- C. implied that we had conquered poverty.
- D. all of the above.
- E. Answers B and C, but not A.

155. For most of 2009 the U.S. was in a very severe recession, with an unemployment rate approximately \_\_\_\_\_ percent while the capacity utilization rate was below \_\_\_\_\_ percent.

- A. 5; 85
- B. 9; 70
- C. 2; 90
- D. 0; 100

156. Statement I: In the modern global economy, if our steel industry were operating at full capacity we could easily get steel from other steel-producing countries.

Statement II: The only constraints on our production possibilities frontier are physical constraints such as the number of steel factories available, etc.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

157. Statement I: Institutional constraints such as "blue laws" or child labor laws put restrictions on our capacity to produce and thus limit our production possibilities curve.

Statement II: We would be operating at full employment with an unemployment rate of five percent and a capacity utilization rate of 85 percent.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

158. Which statement is true?

- A. On the production possibilities frontier, unemployment is zero percent.
- B. On the production possibilities frontier, 85 percent of the labor force is employed.
- C. To get out of a recession, we must move to some point closer to the production possibilities frontier.
- D. To have economic growth, we must have zero unemployment.

159. Which statement is true?

- A. On the production possibilities frontier, we have five percent unemployment of labor.
- B. On the production possibilities frontier, 85 percent of capital is employed.
- C. If we moved closer to the origin and further away from the production possibilities frontier, unemployment would increase.
- D. To have economic growth, we must push the production possibilities frontier outward.
- E. All of the statements are true.

160. In order to raise our rate of economic growth our country needs to

- A. Spend more on consumer goods.
- B. Use older, tried and true technology.
- C. Have its consumers save less.
- D. Have its business firms invest more.

161. Each of the following statements about capital are correct except

- A. capital is a "man"-made good used to produce other goods and services.
- B. japan has more capital than any other country in the world.
- C. office buildings and shopping malls are examples of capital.
- D. capital is considered a passive resource.

162. Which statement is true?

- A. The U.S. standard of living is higher than that of India because we have more capital.
- B. It is easier to attain full production than full employment.
- C. We often operate outside our production possibility frontier.
- D. All of the statements are true.
- E. The U.S. standard of living is higher than that of India because we have more capital AND we often operate outside our production possibility frontier.

163. We temporarily operated outside the production possibilities frontier for at least two years in which one of the following decades?

- A. The 1930s
- B. The 1940s
- C. The 1970s
- D. The 1980s

164. Why did the U.S. temporarily operate outside the production possibilities frontier in 1942, 1943, and 1944?

- A. The Civil War
- B. World War I
- C. The Great Depression
- D. World War II



165. An improvement in technology will cause the

- A. economy to move down the production possibility frontier.
- B. production possibility frontier to shift inward.
- C. production possibility frontier to shift outward.
- D. economy to move closer to its production possibility frontier.

166. Which one of the following resources is not underemployed?

- A. The use of Manhattan Island in New York City for growing corn.
- B. The use of farmland in the Iowa and Illinois corn belt for buildings to do stock market research.
- C. An automobile factory that is shut down for two months to be retooled for a model change.
- D. Limiting all men to the fields of school teaching and social work.

167. Which statement is true?

- A. Scarcity is simply a lack of money.
- B. Our society has been so affluent in the last 50 years that scarcity is only a minor problem.
- C. The economic problem refers to the problem of poverty.
- D. If scarcity did not exist there would be no need to economize.

168. Statement I: When the unemployment rate is five percent, we are inside our production possibilities frontier.

Statement II: Full production means that the nation's resources are being allocated in the most efficient manner possible.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

169. Which of the following does not illustrate the concept of opportunity cost?

- A. Between 1990 and 1997, the state of California laid off 10,000 of its university employees to have the money to hire 10,000 employees for its prison system.
- B. By reducing its unemployment rate, the United States dramatically increased its production of both civilian and war goods in the early years of World War II.
- C. A computer whiz at M.I.T. gives up her senior year at the university to take a high-paying position at a new company, Socrates.com.
- D. The Secretary of the Interior must choose between enforcing a law that would save the spotted owl, an endangered species or the loss of 500 logging jobs.

170. Who of the following is not an entrepreneur?

- A. Henry Ford (Ford Motor Company)
- B. Tim Berners-Lee (creator of the World Wide Web)
- C. John David Rockefeller (Standard Oil)
- D. Bill Gates (Microsoft)

171. If a nation is currently operating at a point inside its production possibilities curve, it

- A. must shift resources from producing one good to produce more of an alternative good.
- B. is fully employing all of its resources.
- C. is operating beyond its possible capacity.
- D. is utilizing its resources efficiently.
- E. none of the choices are true.

172. A production possibilities frontier demonstrates

- A. that there are limits to what a society can produce.
- B. the various choices a society can make in allocating its resources.
- C. the concept of opportunity cost.
- D. it demonstrates all of the choices stated.

173. Japan could shift its production possibilities curve outward (to the right) if
- A. it could buy some islands in the Pacific Ocean, thus increasing its available amount of land.
  - B. it could devote more of its output to military goods.
  - C. it could devote more of its output to producing consumer goods.
  - D. all of the choices are true.

174. Which of the following events in U.S. history did not create economic growth (shift the production possibilities curve outward)?
- A. The Louisiana Purchase in 1803 that nearly doubled the land mass of the United States.
  - B. Inventions of machines such as Cyrus McCormick's mechanical reaper.
  - C. The introduction of the moving assembly line in automobile production by Henry Olds.
  - D. The dramatic reduction in the U.S. unemployment rate from 1939 to 1941 as we prepared to enter World War II.

175. Which of the following is an example of capital?
- A. Money in a Swiss bank account
  - B. A bulldozer
  - C. A CD by Metallica
  - D. A Dracula costume for Halloween
  - E. A U.S. Savings bond

176. Assuming that a society always operates on its production possibilities curve, an inward shift of the curve implies that
- A. the country's capacity to produce is fixed.
  - B. the country is not using its resources efficiently.
  - C. the country's capacity to produce has contracted.
  - D. All of the choices are true.

177. Statement I: An outward shift in the production possibilities frontier shows economic growth for a country.

Statement II: Our economy generally operates inside the production possibilities frontier.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

178. The economic problem refers to

- A. not having enough money.
- B. the attempt "to secure the greatest amount of pleasure with the least possible outlay".
- C. the notion that the wealth of nations depends on that country's ability to produce goods and services.
- D. the money illusion.
- E. none of the choices are true.

179. Tommy spends most of his monthly budget on \$3 video game rentals or \$6 packets of Pokemon cards. The opportunity cost to Tommy of an extra packet of Pokemon cards is

- A. one video game rental.
- B. two video game rentals.
- C. the cost of the Pokemon cards.
- D. he does not incur an opportunity cost.

180. An inward shift of the production possibilities curve

- A. represents an economic decline.
- B. means that the previous levels of production are now unobtainable except under unusual circumstances such as war.
- C. means that the economy can produce more of both goods.
- D. All of the choices are true.
- E. represents an economic decline AND means that the previous levels of production are now unobtainable except under unusual circumstances such as war.

181. An inward shift of the production possibilities curve could be caused by all of the following except

- A. a war that destroys the nation's bridges, harbors and other infrastructure.
- B. a plague that wipes out one fifth of the population.
- C. a significant rise in the unemployment rate.
- D. 30 years of neglect of the nation's railroad and interstate highway systems.

182. An increase in the rate of economic growth curve could be caused by all of the following except

- A. a national tax that encourages all employers to provide more training and education for employees which leads to an across-the-board upgrade of the skill level of the nation's workforce.
- B. a movement along the production possibilities curve so that the society produces more consumer goods and less capital goods.
- C. an increase in immigration that increases the country's labor force by 20 percent.
- D. an increase in research and development spending for space technology that improves the quality of the nation's capital stock.

183. Which of the following statements about the concept of opportunity cost is true?

- A. The opportunity cost of a decision is the cost of all possible alternatives to the good produced.
- B. Many decisions do not involve an opportunity cost.
- C. If you have an economics final and an American history final tomorrow, the opportunity cost of studying five hours for your economics exam is the five hours you cannot study for your history exam.
- D. The opportunity cost of a college education at a school where you have to drive 100 miles per week is the cost and maintenance of owning an automobile to drive to and from school.

184. The United States was able to produce temporarily outside its production possibilities curve for several years during World War II by doing which of the following?

- A. Recruiting housewives to work in tank and airplane factories.
- B. Convincing workers who qualified for retirement to put off retirement.
- C. Pressing older machinery and equipment into use.
- D. Expansion of the work week.
- E. All of the choices are true

185. A small Caribbean island-country produces only pineapples and rum. If resources are used efficiently in the economy,

- A. it will not be possible to produce more rum without decreasing the production of pineapples.
- B. it will be possible to produce more pineapples without decreasing the production of rum.
- C. it will be producing on its production possibilities curve.
- D. it will not be possible to produce more rum without decreasing the production of pineapples AND it will be producing on its production possibilities curve.
- E. it will be possible to produce more pineapples without decreasing the production of rum AND it will be producing on its production possibilities curve.

186. An increase in the unemployment rate would be shown on a production possibilities curve by

- A. shifting the entire curve outward.
- B. shifting the entire curve inward.
- C. moving from a point on or near the curve to a point closer to the origin, rather than shifting the entire curve.
- D. moving from a point inside the curve to a point on or at least closer to, the curve, rather than shifting the entire curve.

187. Each of the following is an example of capital, except

- A. an office building.
- B. gold in a gold mine.
- C. an assembly line.
- D. a computer system.

188. The opportunity cost of spending four hours at a movie theater watching a double feature the night before a final exam would be

- A. the cost of the movie ticket.
- B. the cost of the subway fare to get to the theater.
- C. the price of the popcorn and candy bars you snuck into the theater.
- D. a higher grade on the exam.
- E. All of the choices are true.

189. An economy operating its plant and equipment at full capacity implies a capacity utilization rate of

- A. 40 percent.
- B. 70 percent.
- C. 85 percent.
- D. 100 percent.

190. Unemployment means

- A. the same as underemployment.
- B. a recession.
- C. slow economic growth.
- D. that not all resources are being used.

191. If we are operating inside our production possibilities frontier,

- A. it is possible the economy is in a recession.
- B. it is possible the economy is in a depression.
- C. it is possible that the economy is in neither a recession or a depression.
- D. All of the choices are correct.

192. During 2009 and 2010, \_\_\_\_\_ of Americans under 25 were unemployed.

- A. one-half
- B. one-third
- C. one-quarter
- D. three-quarters

193. The closer we are to the production possibilities frontier and the farther away we are from the origin,

- A. the more unemployment there is.
- B. the less unemployment there is.
- C. the only way to produce more guns will be to give up some butter production.
- D. the only way to produce more butter will be to give up some gun production.

194. Which of the following is the most accurate statement?

- A. Employment discrimination has been diminished, but has not yet been wiped out.
- B. Federal laws do not restrict child labor.
- C. Underemployment of women, blacks and other Americans has increased substantially since the 1950s.
- D. Although there was substantial employment discrimination in the past, there is virtually none today.

195. Suppose you had \$1,000 to spend. You choose to spend the money on new clothes rather than on a new surfboard, your second choice or 1,000 lottery tickets, your third choice.

- A. Your opportunity cost of spending the money on clothes is the \$1,000 spent.
- B. Your opportunity cost of spending the money on clothes is not buying the surfboard.
- C. Your opportunity cost of spending the money on clothes is not buying the surfboard and the lottery tickets.
- D. There is no opportunity cost in this instance.

196. The law of increasing costs is based on each of the following, except

- A. the law of scarcity.
- B. the law of diminishing returns.
- C. diseconomies of scale.
- D. factor suitability.

197. The increasing cost in the law of increasing cost is a(n) \_\_\_\_\_ cost.

- A. average
- B. fixed
- C. opportunity
- D. declining



198. As we move along a production possibilities curve and acquire larger and larger amounts of one good (e.g., guns), the sacrifices of the alternative good (e.g., butter) become larger and larger. This is an illustration of

- A. the law of demand.
- B. the law of large numbers.
- C. the law of supply.
- D. decreasing opportunity costs.
- E. increasing opportunity costs.

199. According to the law of increasing costs, as the United States expends more of its resources on reducing air pollution,

- A. the quantity of other goods that must be given up for further reductions in air pollution will decrease.
- B. the quantity of other goods that must be given up for further reductions in air pollution will increase.
- C. the social cost of additional air pollution will increase.
- D. there will be no change in the marginal cost of reducing air pollution.

200. The law of increasing costs states that

- A. opportunity costs decrease as more of one good is produced.
- B. increasing resource prices are inevitable because of scarcity.
- C. opportunity costs increase as more of one good is produced.
- D. resources can be easily adapted to the production of any good.
- E. economic growth is always associated with inflation.

201. According to the law of increasing costs, as a textile company spends more money to eliminate dust particles from the workplace to increase worker safety

- A. the cost of reducing 70 percent of the dust in the factory will be the same as the cost of reducing the first 50 percent of the dust in the factory.
- B. the cost of reducing 70 percent of the dust in the factory will be less than the cost of reducing the first 50 percent of the dust in the factory.
- C. the cost of reducing 70 percent of the dust in the factory will be greater than the cost of reducing the first 50 percent of the dust in the factory.

202. If the production possibilities frontier were a straight line,  
A. the Law of Increasing Cost would still apply.  
B. the opportunity cost of producing one good would decrease as more of another good is produced.  
C. the opportunity cost of producing one good would increase as more of another good is produced.  
D. the opportunity cost of producing one good would remain the same as more of another good is produced.

203. The Law of Increasing Cost is based upon which of the following?  
A. If units of a resource are added to a fixed proportion of other resources, eventually marginal output will decline.  
B. Economies of scale eventually outweigh diseconomies of scale.  
C. Resources become more suitable for use in the production process as the output of one good expands.  
D. All of the choices are true.

204. Which of the following statements does not reflect the concept of factor suitability?  
A. It is one of the three concepts that explain the Law of Increasing Cost.  
B. If the economy is shifting from butter to gun production, the butter makers will give the gun makers their worst workers.  
C. Too many farmers work one field, eventually it will lead to less production.  
D. All farmland is not equally well-suited for producing corn.

205. The opportunity cost of the war in Iraq would be  
A. The \$5 billion a month that the U.S. spends fighting the war.  
B. How the \$5 billion a month to fight the war might otherwise be spent.  
C. Both of the choices are true.  
D. Neither of the choices are true.

206. Which of the following would NOT be an opportunity cost of fighting the war in Iraq?

- A. The \$5 billion per month spent on research to cure breast cancer.
- B. A \$5 billion per month cut in income taxes.
- C. A \$5 billion per month investment in high speed rail systems between 12 major cities in the country.
- D. The \$5 billion per month cost of fighting the war.
- E. A \$5 billion per month program that invested in low-income housing across the country.

207. Which of the following is(are) the main factor(s) spurring economic growth?

- A. Improving technology.
- B. More and better capital.
- C. More and better labor.
- D. All of these cause economic growth.

208. Writer Thomas Friedman asserts that "America is the greatest engine of innovation that has ever existed and it can't be duplicated anytime soon, because"

- A. of its extreme freedom of thought.
- B. of its emphasis on independent thinking.
- C. of its steady immigration of new minds.
- D. of its risk-taking culture with no stigma attached to trying and failing.
- E. of all of the factors listed.

**Fill in the Blank Questions**

209. During World War II, a nation's opportunity cost of devoting resources to the war effort was \_\_\_\_\_.

\_\_\_\_\_

210. If our unemployment rate is 5% and our capacity utilization rate is 85-90%, our economy is at \_\_\_\_\_.

\_\_\_\_\_

211. If our nation's maximum possible output of any one good is produced, given the output of other goods, we have attained \_\_\_\_\_.

\_\_\_\_\_

212. To raise our rate of economic growth, we need more and better \_\_\_\_\_ as well as more and better \_\_\_\_\_.

\_\_\_\_\_

213. For most of World War II, our economy temporarily operated \_\_\_\_\_ our production possibilities frontier.

\_\_\_\_\_

214. One way to attain a faster rate of economic growth would be to shift some resources from the production of \_\_\_\_\_ goods to the production of \_\_\_\_\_ goods.

\_\_\_\_\_

215. In the American economy, the central figure is the \_\_\_\_\_.

\_\_\_\_\_

216. If our nation is operating at full production, not only are we using our most \_\_\_\_\_ technology, but we are utilizing our land, labor, capital and entrepreneurial ability at their most \_\_\_\_\_.

\_\_\_\_\_

217. Employment discrimination leads to the \_\_\_\_\_ of labor.

\_\_\_\_\_

218. The value of the next best alternative defines \_\_\_\_\_.

\_\_\_\_\_

219. During the Great Depression, our economy operated \_\_\_\_\_ the production possibilities frontier.

\_\_\_\_\_

220. Assuming that full employment of labor is considered 5 percent unemployment, in 1998 and 1999 our economy operated \_\_\_\_\_ the production possibilities frontier.

\_\_\_\_\_

221. The study of the efficient allocation of the scarce means of production toward the satisfaction of human wants defines \_\_\_\_\_.

\_\_\_\_\_

222. The Other America, which challenged the notion that we had conquered poverty, was written by \_\_\_\_\_.

\_\_\_\_\_

223. The four economic resources are: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

\_\_\_\_\_

224. The wealth of nations is determined by the resources available to a nation and was discussed in 1776 by the famous economist, \_\_\_\_\_.

\_\_\_\_\_

225. Andrew Carnegie, Steven Jobs and Sam Walton were all innovators who are also considered \_\_\_\_\_.

\_\_\_\_\_

226. If our unemployment rate is 10 percent and our capacity utilization rate is 70 percent, our economy is in the midst of a \_\_\_\_\_.

\_\_\_\_\_

227. If our unemployment rate is 25 percent and our capacity utilization rate is 50 percent, our economy would be in the midst of a \_\_\_\_\_.

\_\_\_\_\_

228. If our economy is operating at peak efficiency, it is on its \_\_\_\_\_.

\_\_\_\_\_

229. When business firms get to be too big, they are suffering from \_\_\_\_\_.

\_\_\_\_\_

230. Large firms are able to lower their costs by taking advantage of \_\_\_\_\_.

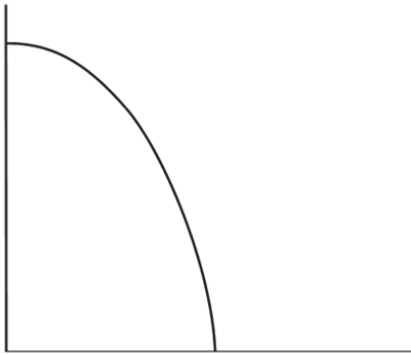
\_\_\_\_\_

231. "As output of one good expands, the opportunity cost of producing additional units of this good increases," is the law of \_\_\_\_\_.

\_\_\_\_\_

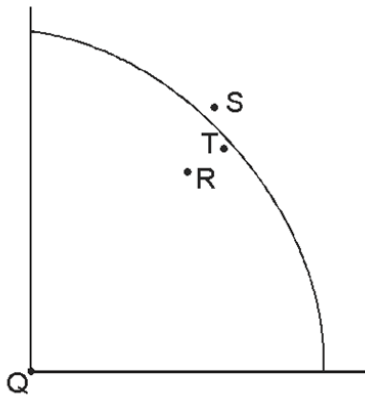
**Short Answer Questions**

Chapter 02 - Resource Utilization



232. Place point X on the graph to indicate full employment, point Y to indicate economic growth and point Z to indicate a bad depression.

233. Place point Q on the graph to indicate an unemployment rate of 100 percent, point R to indicate full employment and point S to indicate where our economy usually operates.



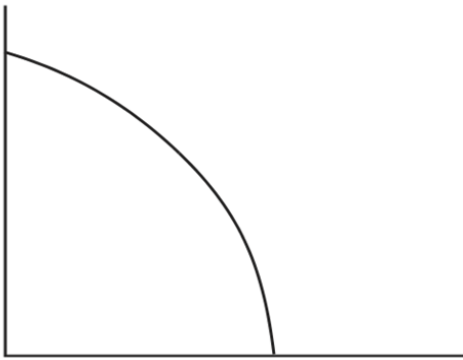
234. How much is the unemployment rate at point Q?

235. If the economy is at point R, most likely this economy is experiencing \_\_\_\_\_.

236. At point S, the economy is operating at approximately \_\_\_\_\_ percent unemployment.



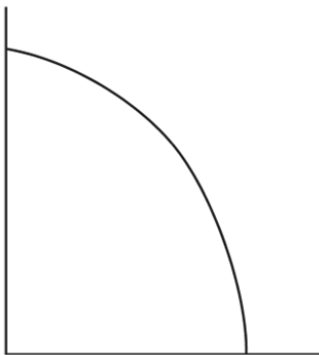
237. The economy usually operates at point \_\_\_\_\_.



238. Place point X on the graph to indicate an unemployment rate of 10 percent.

239. Place point Y on the graph to indicate a deep depression.

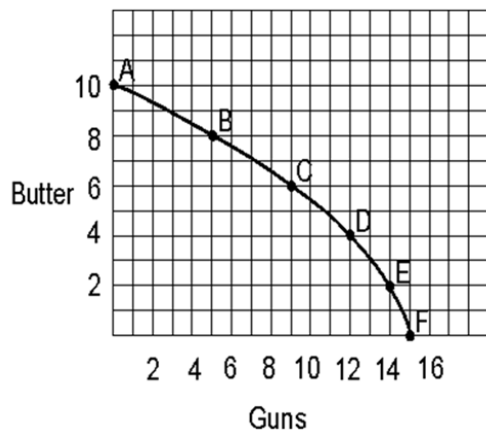
240. Place point Z on the graph to indicate where our economy will most likely operate five years from now if we enjoyed an economic growth rate of 5 percent a year.



241. Place point A on the graph to indicate where our economy operated in 1938.

242. Place point B on the graph to indicate where our economy operated in 1943.

243. Place point C on the graph to indicate where our economy operated in 1997.



244. A country producing a combination of 9 units of guns and 6 units of butter would be \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

245. A country temporarily producing a combination of 12 units of guns and 5 units of butter would be \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

246. A country producing a combination of 5 units of guns and 6 units of butter would be \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

247. If the country represented in this graph now can produce a maximum of 12 units of guns if it shifts all resources to gun production and could produce a maximum of 9 units of butter if it used all its resources for butter production then it would have experienced \_\_\_\_\_.

248. If point C is now 9 units of guns and 8 units of butter, the maximum units of guns possible to produce is 17 and the maximum units of butter possible to produce is 13, the production possibility curve would have shifted \_\_\_\_\_ (outward/inward).

249. If the country wanted to produce the maximum total number of units of guns and butter combined, it would produce at point(s) \_\_\_\_\_.

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

250. In the table above, points A through F represent \_\_\_\_\_ of resources.

251. If the economy is producing at point B, the opportunity cost of gaining 12 units of consumer goods is \_\_\_\_\_ units of capital goods.

252. If the economy is producing at point D, the opportunity cost of shifting resources from consumer goods to gain 6 capital goods is \_\_\_\_\_ consumer goods.

253. If the economy produces 36 consumer goods and 12 capital goods the economy would be producing \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

254. If the economy produces 27 consumer goods and 12 capital goods, the economy would be producing \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

255. If the economy could produce 42 consumer goods and 12 capital goods, given the current production possibilities curve, the economy would be producing \_\_\_\_\_ (outside/on/inside) the curve.

Hypothetical Production Schedule for Two-Product Economy

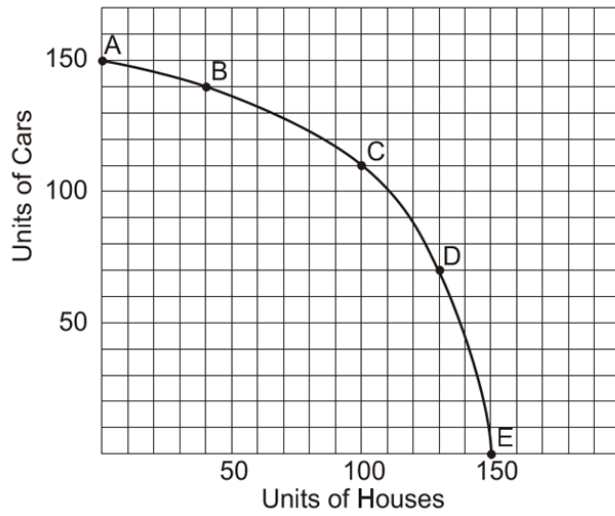
<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

256. What is the opportunity cost of moving from point A to point B?

257. What is the opportunity cost of moving from point D to point C?

258. What is the opportunity cost of moving from point B to point A?

259. What is the opportunity cost of moving from point B to point C?



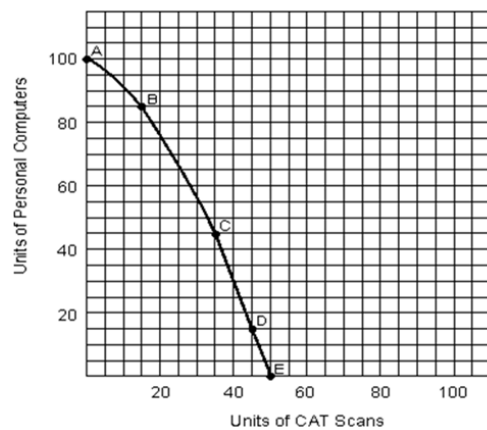
260. What is the opportunity cost of going from point A to point B?



261. What is the opportunity cost of going from point D to point C?

262. What is the opportunity cost of going from point C to point D?

263. What is the opportunity cost of going from point E to point D?



264. What is the opportunity cost of going from point A to point B?

265. What is the opportunity cost of going from point D to point C?

266. What is the opportunity cost of going from point C to point D?

267. What is the opportunity cost of going from point E to point D?

## Chapter 02 Resource Utilization **Answer Key**

### Multiple Choice Questions

1. Our economy \_\_\_\_\_ operates on its production possibility curve.
- A. always
  - B. sometimes**
  - C. never

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-08 Define and explain productive efficiency.*

2. Which statement is true?
- A. Entrepreneurial ability is in short supply in the U.S.
  - B. Land, labor and capital may be considered passive resources.**
  - C. The concept of opportunity cost is irrelevant when there is scarcity.
  - D. None of these statements are true.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

3. Which one of the following is the most accurate?
- A. In recent years our economy was at full employment until 2010.
  - B. Our economy operated outside of its production possibilities curve in 2009 and 2010.
  - C. Our economy is currently operating on its production possibilities curve.
  - D. Our economy is currently operation inside its production possibilities curve.**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Chapter 02 - Resource Utilization

4. In our economy

- A. there is no need to economize.
- B. we rarely have to economize.
- C. only the rich have to.
- D.** nearly everyone has to economize.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-01 Define economics.*

5. The term "the affluent society" was coined by

- A. Michael Harrington.
- B.** John Kenneth Galbraith.
- C. Karl Marx.
- D. Adam Smith.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Define economics.*

6. Each of the following is an example of an economic resource except

- A. land.
- B.** money.
- C. capital.
- D. labor.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

7. Statement I. Employment discrimination causes underemployment.  
Statement II. The concept of opportunity cost has little validity in the global economy.  
**A.** Statement I is true and statement II is false.  
B. Statement II is true and statement I is false.  
C. Both statements are true.  
D. Both statements are false.

*AACSB: Analytic*  
*Bloom's: Remember*  
*Difficulty: Medium*  
*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

8. Our economy would be operating at full employment with labor unemployment rate of \_\_\_\_ percent and a capacity utilization rate of \_\_\_\_\_ percent.  
A. 5; 95  
**B.** 5; 85  
C. 10; 95  
D. 10; 85

*AACSB: Reflective Thinking*  
*Bloom's: Remember*  
*Difficulty: Medium*  
*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

9. Which statement is true?  
A. On the production possibilities frontier we have zero unemployment.  
**B.** On the production possibilities frontier 95 percent of the labor force is employed.  
C. To get out of a recession, we must produce at some point beyond our production possibilities frontier.  
D. To have economic growth, we must push the production possibilities frontier inward.

*AACSB: Reflective Thinking*  
*Bloom's: Remember*  
*Difficulty: Medium*  
*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Chapter 02 - Resource Utilization

10. In order to raise our rate of economic growth we would need to
- A. increase the level of capital.
  - B. reduce the level of labor.
  - C. spend more on military goods.
  - D. spend more on consumer goods.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

11. The main reason our standard of living is so much higher than that of India and China is that we have more
- A. land.
  - B. labor.
  - C. capital.
  - D. money.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

12. Which statement is true?
- A. It is easier to attain full employment than full production.
  - B. Employment discrimination no longer exists in the U.S. labor market.
  - C. We are usually operating on our production possibilities frontier.
  - D. None of these statements are true.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

Chapter 02 - Resource Utilization

13. The main effect of employment discrimination is

- A. Unemployment.
- B. Underemployment.**
- C. Greater efficiency.
- D. Greater production.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

14. We temporarily operated outside our production possibilities frontier in

- A. 1933.
- B. 1943.**
- C. 1973.
- D. 1982.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

15. Which statement is true?

- A. The economic problem is limited to poverty.
- B. Scarcity is no longer an economic problem in the United States.
- C. If we all had more money there would be less scarcity.
- D. None of these statements are true.**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

16. Statement I. When U.S. unemployment rate is five percent, it attains full employment.  
Statement II. Full employment and full production mean virtually the same thing.

- A.** Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

17. Statement I. Entrepreneurial ability is not a resource.  
Statement II. Virtually all of our resources are buried under the ground.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D.** Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

18. Which statement is true?

- A.** We are usually inside our production possibilities curve.
- B. We are usually outside our production possibilities curve.
- C. We are usually on our production possibilities curve.
- D. None of the statements are true.

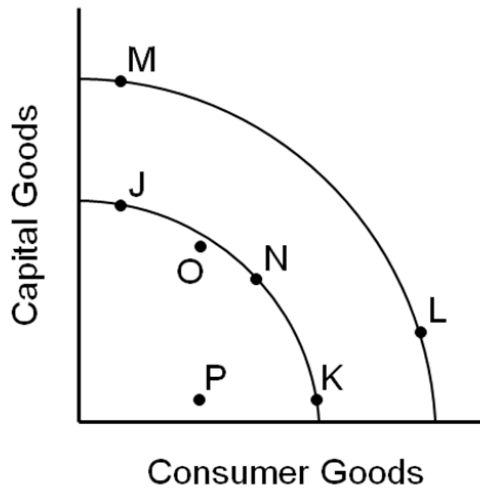
*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-08 Define and explain productive efficiency.*





19. Which movement between two points represents economic growth?
- A. J to K
  - B. K to L**
  - C. L to M
  - D. M to N

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

20. Assuming the inner curve is our current production possibilities frontier, our economy usually operates at \_\_\_\_.
- A. Point P
  - B. Point O**
  - C. Point N
  - D. Point L

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Chapter 02 - Resource Utilization

21. Assuming the inner curve is our current production possibilities frontier, points J, N and K represent

- A. an inefficient use of resources.
- B. an output that is not possible to produce.
- C. points of unemployed resources.
- D.** points of fully employed resources.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

22. Assuming the inner curve is our current production possibilities frontier, which of the following points would eventually lead to the greatest level of economic growth?

- A.** Point J
- B. Point N
- C. Point K
- D. Point P

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

23. A movement from point J to point M would represent

- A. an increase in consumer goods, but not capital goods.
- B.** an increase in capital goods, but not consumer goods.
- C. an increase in both capital goods and consumer goods.
- D. no increase in either capital goods or consumer goods.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Chapter 02 - Resource Utilization

24. A movement from point N to point L would represent
- A. an increase in both consumer goods and capital goods.
  - B. a decrease in both consumer goods and capital goods.
  - C.** an increase in consumer goods, but a decrease in capital goods.
  - D. an increase in capital goods, but a decrease in consumer goods.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

25. The opportunity cost of a movement from point N to J would
- A. be the lost production of some capital goods.
  - B.** be the lost production of some consumer goods.
  - C. be slower economic growth in the future.
  - D. not involve any sacrifice of either capital or consumer goods.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

26. If a nation is currently operating at a point inside its production possibilities curve, it
- A.** can increase the output of one good without decreasing the output of the other good.
  - B. has fully employed resources.
  - C. has no inefficiently employed resources.
  - D. is operating at full potential.
  - E. must reduce the output of one good to produce more of another good.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Chapter 02 - Resource Utilization

27. Which of the following is not demonstrated by a production possibility curve?

- A. Scarcity
- B. Opportunity cost
- C. Necessity for choice due to scarcity
- D.** Price

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

28. People are forced to economize because of

- A. competition.
- B. pressure to conform.
- C.** scarcity.
- D. the absence of money.
- E. the presence of taxes.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

29. Our basic economic problem would be solved if

- A. everyone were given \$500,000.
- B. our population stopped growing.
- C. all sickness and disease were wiped out.
- D.** our wants could be satisfied with available resources.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

Chapter 02 - Resource Utilization

30. If the economy is operating at a 7 percent unemployment rate we are operating  
A. inside the production possibilities curve.  
B. on the production possibilities curve.  
C. outside the production possibilities curve.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

31. Which is the most accurate statement?

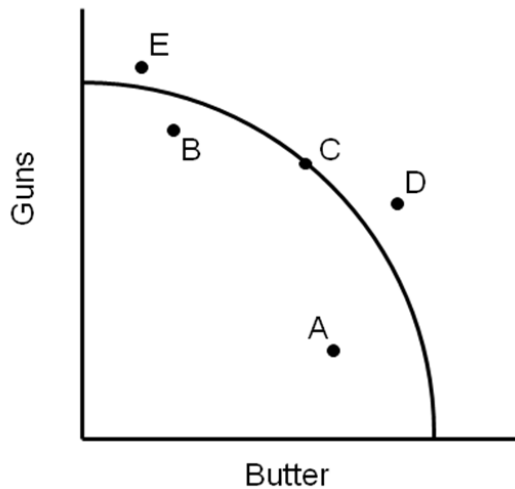
- A. In order to have full production, there must be full employment.  
B. In order to have full employment, there must be full production.  
C. Both statements are accurate.  
D. Neither statement is accurate.

AACSB: Reflective Thinking

Bloom's: Remember

Difficulty: Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.



Chapter 02 - Resource Utilization

32. In 1939 the U.S. economy was operating at point \_\_\_\_\_.

- A.** A
- B. B
- C. C
- D. D
- E. E

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

33. In 1944 the U.S. economy was temporarily operating at point \_\_\_\_\_.

- A. A
- B. B
- C. C
- D.** D

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

34. We can increase our rate of economic growth by

- A. devoting more of our output to capital goods.
- B. devoting more of our output to improving our technology.
- C. devoting more of our output to improving the quality of our labor force.
- D.** all of the choices are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

35. Assuming that a society always operates on its production possibilities curve, an outward shift of the curve implies

- A. economic growth has occurred.
- B. the society is making more efficient use of its available resources.
- C. consumer demand has increased.
- D. the present value of capital resources has increased.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

36. Resources include

- A. land, labor and money.
- B. entrepreneurship and capital.
- C. capital and money.
- D. corporations and partnerships.
- E. monopoly and perfect competition.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

37. The study of economics

- A. is a very narrow endeavor.
- B. is a way of analyzing decision-making processes caused by scarcity.
- C. focuses on how a business should function.
- D. is concerned with proving that capitalism is better than socialism.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Define economics.*

38. Economic growth can be shown by \_\_\_\_\_ production possibilities curve.

- A. an outward shift of the
- B. an inward shift of the
- C. a movement from one point to another along the
- D. a movement to a point inside the

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

39. Economic growth is difficult for poor countries because

- A. governments must fund capital production and research out of tax revenues.
- B. resources must be taken away from consumer goods to pay for technology.
- C. resources must be taken away from consumer goods to pay for capital goods.
- D. those wealthy enough to invest in domestic industries may choose to invest abroad instead.
- E. All of the choices are true.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

40. Our economy is generally operating \_\_\_\_\_ the production possibilities curve.

- A. inside
- B. outside
- C. on

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*



41. Economic growth occurs when

- A. a large part of a country's population is poor.
- B. a society sacrifices an amount of one good for more of another along its production possibility frontier.
- C.** a society acquires additional resources or when its technology advances.
- D. there is unemployment of labor but other resources are used efficiently.
- E. the combinations of goods and services that can be produced decreases.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

42. If you own a building and you decide to use that building to open a restaurant,

- A. there are no sunk costs involved in this decision.
- B. there is no opportunity cost of using this building for a restaurant because you own it.
- C. the only cost relevant to this decision is the price you paid for the building.
- D.** there is an opportunity cost of using this building for a restaurant because it could have been used in other ways.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

43. Which of the following is an example of opportunity cost?

- A. The income that could have been earned by working full-time instead of going to college.
- B. The decline in the grades of a student athlete that occurs because she decides to spend more time practicing sports than on her academic work.
- C. The value of other things you could have done with the same time and money it cost you to go to the movies.
- D. The value of the next-best bundle of goods and services that could have been produced instead of using those resources to put astronauts on the moon.
- E.** All of the choices are examples of opportunity cost.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

Chapter 02 - Resource Utilization

44. The opportunity cost for a student of attending college for a year is measured by
- A. the benefit received by the student.
  - B. the tuition paid for the year.
  - C.** the value of the most valued opportunity foregone by attending college.
  - D. the total money outlays associated with attending college.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

45. The economic problem is essentially one of deciding how to make the best use of
- A. limited resources to satisfy limited wants.
  - B. unlimited resources to satisfy limited wants.
  - C.** limited resources to satisfy unlimited wants.
  - D. unlimited resources to satisfy unlimited wants.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

46. Jeff's entertainment budget is divided between \$8 movie tickets and \$40 hockey tickets. The opportunity cost to Jeff of going to an extra hockey game is
- A. four fewer \$10 pizzas.
  - B.** five movies.
  - C. 20 DVD rentals (costing \$2 each).
  - D. all of the choices are true.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

Chapter 02 - Resource Utilization

47. An inward shift in the entire production possibilities frontier
- A. represents economic growth.
  - B. means that the economy can produce more of both goods.
  - C. occurs if there is an increase in the capital stock.
  - D. takes place if there is an expansion in the labor force.
  - E.** means that previous levels of production are now unobtainable.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

48. Entrepreneurship is
- A. the financial capital necessary to launch a new business.
  - B.** the talent to develop new products and processes and to organize production to make goods and services available.
  - C. unskilled labor.
  - D. the physical capital resources used to produce goods and services.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

49. Which of the following statements about the concept of opportunity cost is true?
- A. The opportunity cost of a decision only includes monetary outlays.
  - B.** The opportunity cost of a decision is the next best foregone alternative.
  - C. Some decisions have zero opportunity cost.
  - D. The opportunity cost of a college education is measured by the payments for tuition and books.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

Chapter 02 - Resource Utilization

50. The statement "By the time our grandchildren are born, scarcity will not be a problem" is
- A. possible only if technology advances at a great pace.
  - B. true, because we will learn to limit our wants in the future.
  - C. true, because by that time everyone's basic needs will be met.
  - D. false, because people always want more than there is available.**

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

51. The opportunity cost of producing one additional truck is
- A. the profit that could have been earned from selling that truck.
  - B. the amount of other goods that could not be produced because productive resources were used instead to produce that truck.**
  - C. the price of the truck.
  - D. all of the choices are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

52. The reason that opportunity costs arise is that
- A. people have unlimited wants.
  - B. there are no alternative decisions that could be made.
  - C. an economy relies on money to facilitate exchange of goods and services.
  - D. resources are scarce.**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

53. A small economy produces only pizzas and jeans. If resources are used inefficiently in the economy,

- A. it will be possible to produce more pizzas without decreasing the production of jeans.
- B. the economy will be operating at a point on its production possibilities curve.
- C. the economy will be operating at a point outside its production possibilities curve.
- D. it will not be possible to produce more jeans or pizzas.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

54. If an economy is operating on its production possibility frontier, which of the following statements is true?

- A. Products are produced using inefficient production technology.
- B. The capacity utilization rate is less than full production.
- C. The economy's labor force is fully employed.
- D. A fall in the price of an input will enable the economy to produce outside the production possibility frontier.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

55. Which of the following is not a factor of production?

- A. Land
- B. Money
- C. Capital
- D. Labor
- E. Entrepreneurship

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

56. The existence of unemployment can be illustrated on a production possibilities curve by a(n)

- A.** point below or inside the surface of the curve.
- B. inward shift of the curve.
- C. movement down along the curve if consumer goods are represented on the vertical axis and capital on the horizontal axis.
- D. movement up along the curve if consumer goods are represented on the vertical axis and capital on the horizontal axis.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

57. Which of the following will shift an economy's production possibilities curve outward?

- A.** An improvement in technology
- B. An increase in the unemployment rate
- C. A decrease in land, labor or capital
- D. A decrease in the unemployment rate

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

58. The production possibilities curve illustrates the basic principle that

- A. an economy's capacity to produce increases in proportion to its population size.
- B.** if all the resources of an economy are in use, more of one good can be produced only if less of another good is produced.
- C. an economy will automatically seek that level of output at which all of its resources are employed.
- D. the production of more of any one good will in time require smaller and smaller sacrifices of other goods.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

59. A production possibilities curve shows

- A. that in order to acquire more of one good, none of the alternative good must be given up.
- B.** that in order to acquire more of one good, some of the alternative good must be given up.
- C. that any amount of goods could be produced by society if people worked harder.
- D. various combinations of guns and butter that can be produced under conditions of 6 percent unemployment.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

60. The production possibilities curve tells us that if full employment exists and a nation wishes to permanently increase its production of military goods, it must

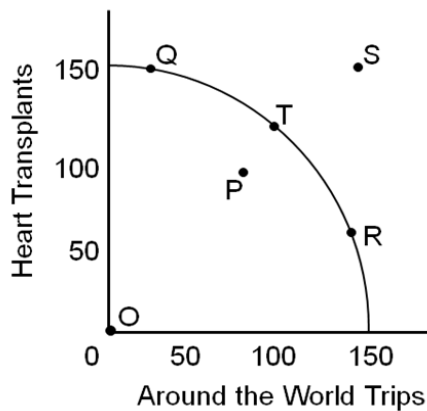
- A. also increase its production of nonmilitary goods.
- B.** reduce its output of nonmilitary goods.
- C. suffer inflation.
- D. suffer unemployment.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*



Chapter 02 - Resource Utilization

61. If our economy was operating at point O (where the two axes come together), we would have an unemployment rate of \_\_\_\_\_ percent.

- A. 0
- B. 5
- C. 50
- D. 95
- E. 100**

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

62. Point P represents

- A. a severe recession.**
- B. where our economy usually operates.
- C. inflation.
- D. full employment.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

63. If we were at point \_\_\_\_ it would be possible to produce more heart transplants and more round-the-world trips.

- A. P**
- B. Q
- C. R
- D. S

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*



Chapter 02 - Resource Utilization

64. If we are currently at point T, we can get to point S in the long run
- A. through economic growth over a period of years.
  - B. immediately by using our resources more efficiently.
  - C. immediately by reducing the unemployment rate.
  - D. immediately through technological development.
  - E. only if there is a depression.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

65. We could increase the production of both heart transplants and round-the-world trips if we moved to point T from point
- A. P.
  - B. Q.
  - C. R.
  - D. S.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

66. If we moved from point T to point R we would be
- A. giving up trips for more transplants.
  - B. giving up transplants for more trips.
  - C. gaining both trips and transplants.
  - D. losing both trips and transplants.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

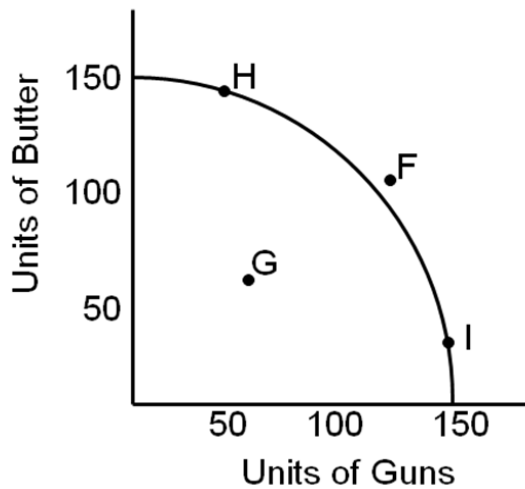
67. The opportunity cost of moving from point T to point Q would be
- A. giving up trips around the world.
  - B. giving up heart transplants.
  - C. gaining trips around the world.
  - D. gaining heart transplants.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.



68. If our economy were operating on its production possibilities frontier, it would have the best chance of temporarily reaching point F if
- A. we were at war.
  - B. we were in a depression.
  - C. we were in a period of inflation.
  - D. we invested more in plant and equipment.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Chapter 02 - Resource Utilization

69. Which point best represents our economy in a depression?

- A. Point H
- B. Point F
- C. Point I
- D.** Point G

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

70. During most of our involvement in World War II we temporarily operated at point

- A.** F.
- B. G.
- C. H.
- D. I.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

71. A move from point H to I would

- A. raise employment substantially.
- B. raise employment slightly.
- C. lower employment slightly.
- D. lower employment substantially.
- E.** have no effect on employment.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Chapter 02 - Resource Utilization

72. Point F

- A. is where our economy operates most of the time.
- B. is unattainable.
- C. represents a severe recession.
- D.** can be temporarily attained under unusual circumstances.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

73. Improving the education level of the labor force will

- A. shift the production possibilities curve inward.
- B. not shift the production possibilities curve since the total size of the labor force has not been changed.
- C.** shift the production possibilities curve outward.
- D. cause a movement from a point inside the production possibilities curve to a point on the curve.

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

74. Unlimited wants need not be a problem if

- A.** resources are also unlimited.
- B. resources are flexible in what they can do.
- C. resources are basic energy resources like oil.
- D. resources are human resources such as skilled labor.
- E. resources cannot be captured in a war.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

Chapter 02 - Resource Utilization

75. Individuals are forced to make choices because
- A. human wants are limited.
  - B. the supply of resources is infinite.
  - C.** wants are unlimited and resources are scarce.
  - D. resources are unlimited.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

76. Which of the following would an economist classify as capital?
- A. A public corporation's employees
  - B. A share of stock
  - C.** A computer used by an accountant
  - D. A deposit of silver

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

77. Entrepreneurs
- A. receive most of their income through inheritance.
  - B. receive interest payments for their services.
  - C.** undertake risky activities in order to earn profits.
  - D. are unemployed except during economic boom periods.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

78. Scarcity exists because

- A. of unlimited resources.
- B.** human wants are enormous relative to the means available to satisfy them.
- C. production is limited only by technology and human energy.
- D. advertising creates unnatural desires for surplus goods.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

79. A political candidate promises voters more funding for AIDS research and child care and assures them they will not have to sacrifice any other goods or services to obtain the additional programs.

- A.** This may be possible if the economy has unemployed resources.
- B. This is possible only in a fully employed economy.
- C. This is possible if the economy is producing on its production possibilities curve.
- D. None of the choices are possible.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

80. Statement I. Labor and capital are resources.

Statement II. Scarcity has been largely eliminated from our economy.

- A.** Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

81. Which of the following demonstrates opportunity cost?

- A. With a new strain of wheat, the wheat crop of Canada grows by 20% with no change in the productive resources devoted to wheat farming.
- B.** A tax cut increases people's purchases of consumer goods and decreases state expenditures on education.
- C. The ravages of World War II reduced Japan's ability to produce goods.
- D. Flora gets a 10% raise and increases her expenditures on movies.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

82. In 1943-1945

- A. there was substantial unemployment in the U.S.
- B. there was substantial excess plant and equipment in the U.S.
- C. the U.S. had not yet completed its recovery from the depression.
- D.** we were temporarily operating at a point beyond our production possibilities frontier.

The unemployment rate was at less than 2% from 1943-1945.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

83. Every social system confronts scarcity and so must

- A. produce only free goods.
- B. try to produce outside its production possibilities frontiers.
- C.** economize.
- D. allocate goods by government edict.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

84. \_\_\_\_\_ is attained when the maximum possible output of any one good is produced, given the output of other goods.

- A.** Productive efficiency
- B. Economic growth
- C. Opportunity cost
- D. Employment discrimination

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

85. Statement I. Our economy only rarely attains productive efficiency.

Statement II. The U.S. economy reached productive efficiency from mid-1997 through early 2001.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C.** Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

86. Which statement is true?

- A. Productive efficiency has never been achieved.
- B.** The U.S. economy achieved productive efficiency from mid-1997 through mid-2001.
- C. The U.S. economy achieved productive efficiency from 1980 to 1997.
- D. Our economy generally attains productive efficiency.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-08 Define and explain productive efficiency.*



87. In the 1950s

- A. more women were unemployed than underemployed.
- B.** more women were underemployed than unemployed.
- C. about the same number of women were unemployed as underemployed.

AACSB: Reflective Thinking

Bloom's: Remember

Difficulty: Hard

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

88. In the context of the global economy, our capacity utilization rate \_\_\_\_\_ than it was just a few decades ago.

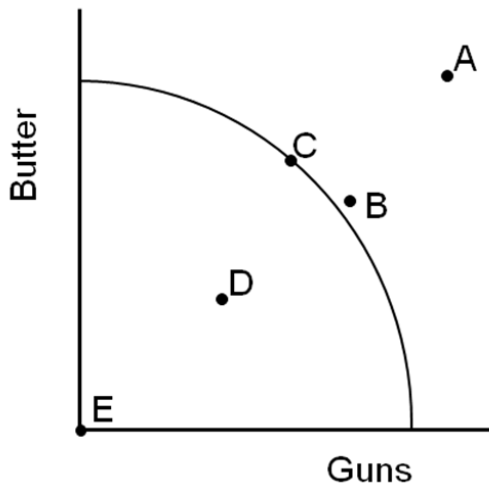
- A. is much more important
- B.** is much less important
- C. has the same importance

AACSB: Reflective Thinking

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.



Chapter 02 - Resource Utilization

89. Which point shows where our economy was operating during the low point of the Great Depression?

- A. Point A
- B. Point B
- C. Point C
- D. Point D**
- E. Point E

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

90. Which point shows where our economy was temporarily operating during World War II, when we had reduced our unemployment rate to about two percent?

- A. Point A
- B. Point B**
- C. Point C
- D. Point D

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

91. Which point shows where our economy would have a 100 percent unemployment rate?

- A. Point A
- B. Point B
- C. Point C
- D. Point D
- E. Point E**

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

92. Which set of points would show a movement from depression to full employment?

- A. A movement from Point C to B
- B. A movement from Point B to A
- C. A movement from Point C to E
- D.** A movement from Point D to C

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

93. Under the current economic situation, which point would represent an unattainable combination of resources?

- A.** Point A
- B. Point D
- C. Point C
- D. Point E

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

94. Statement I. As long as we are on our production possibilities frontier, we can produce as many guns and as much butter as we want.

Statement II. In theory, a nation may be on its production possibilities frontier; in practice, no nation has ever attained this economic state.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D.** Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

95. Which one of the following is the most accurate?

- A.** Half of recent college graduates under 25 are in positions that do not require college degrees.
- B. The outlook for college graduates in 2009 & 2010 was just as bright as graduates in 2006 & 2007.
- C. Despite the recession, nearly all college graduates of the class of 2010 found jobs appropriate to their training and educational backgrounds.
- D. All of these statements are true.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

96. The central fact of economics is

- A. production.
- B. distribution.
- C. equilibrium.
- D. efficiency.
- E.** scarcity.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

97. Statement I. Resources are often referred to as "the means of production."

Statement II. Capital is a resource.

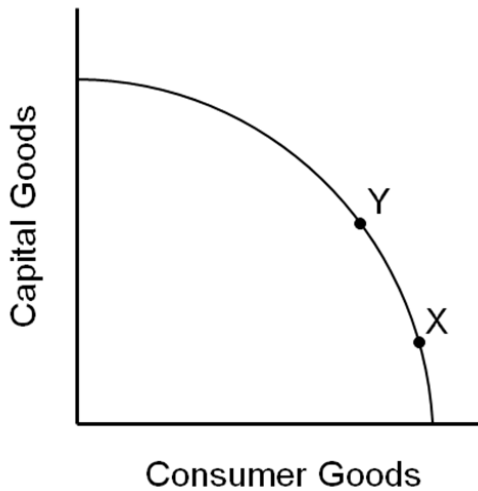
- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C.** Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*



98. Imagine that country X is at point X of this production possibilities frontier and country Y is at point Y.

- A. Country X will probably grow faster than country Y.
- B.** Country Y will probably grow faster than country X.
- C. The two countries will probably grow at about the same speed.
- D. There is no way of predicting which country will grow faster.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

99. Statement I. The definition of economics is that equilibrium is when supply and demand are equal.

Statement II. Human wants are limited because our resources are limited.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D.** Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Hard*

*Learning Objective: 02-01 Define economics.*

100. Statement I. Technological advance pushes a country's production possibilities frontier outward.

Statement II. Our economic growth slowed down from the early 1970s compared to the two decades before the 1970s.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C.** Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

101. Which statement is the most accurate?

- A.** A nation's economic capacity expands when the size of the labor force expands.
- B. Our rate of economic growth slows down if we produced too many investment goods and not enough consumer goods.
- C. Our unemployment rate has never fallen below five percent.
- D. We could raise our economic growth rate if Americans would invest less and spend more.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

102. Statement I. Full employment and full production mean exactly the same thing.

Statement II. You can attain full employment without attaining full production, but you cannot attain full production without attaining full employment.

- A. Statement I is true and statement II is false.
- B.** Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

103. Our nation

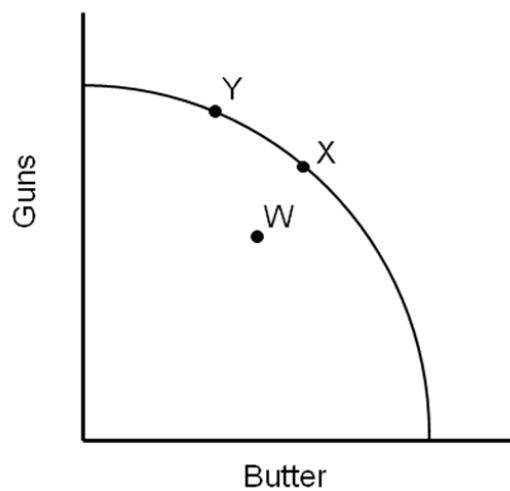
- A. has sometimes attained productive efficiency.
- B. usually attains productive efficiency.
- C. never attained productive efficiency.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-08 Define and explain productive efficiency.*



104. The unemployment rate falls when we go from

- A. W to X.
- B. X to W.
- C. X to Y.
- D. Y to X.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

Chapter 02 - Resource Utilization

105. If war breaks out and the economy is at full employment, we would move from
- A. W to X.
  - B. X to W.
  - C. X to Y.**
  - D. Y to X.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

106. Which of the following will NOT shift an economy's production possibilities curve outward?
- A. An increase in technology
  - B. An improvement in the literacy rate
  - C. A reduction in the unemployment rate**
  - D. An increase in the number of workers available

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

107. Referring to a production possibilities curve and the goods being compared, depict the economic event. The economy moves from full employment to a serious recession (capital goods vs. consumer goods).
- A. A movement from a point inside the curve to a point on or near the curve
  - B. A movement from a point on or near the curve to a point inside the curve**
  - C. A shift in the entire curve to the right (outward)
  - D. A shift in the entire curve to the left (inward)
  - E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*



108. Referring to a production possibilities curve and the goods being compared, depict the economic event. The literacy rate increases among workers (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C.** A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-08 Define and explain productive efficiency.*

109. Referring to a production possibilities curve and the goods being compared, depict the economic event. The bubonic plague (Black Death) in the 1300s killed one-third of Europe's population (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D.** A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

110. Referring to a production possibilities curve and the goods being compared, depict the economic event. The Soviet Union entered World War II at a full employment production level (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E.** A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

111. Referring to a production possibilities curve and the goods being compared, depict the economic event. Millions of immigrants came to the United States in the second half of the 19th century to work on the transcontinental railroad (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C.** A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

112. Referring to a production possibilities curve and the goods being compared, depict the economic event. Assuming the United States was producing at full employment levels in the late 1980s, peace breaks out as the Cold War ends (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E.** A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

113. Referring to a production possibilities curve and the goods being compared, depict the economic event. The AIDS epidemic becomes rampant in America claiming millions of lives (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D.** A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

114. Referring to a production possibilities curve and the goods being compared, depict the economic event. The increase in government spending due to World War II pulls the U.S. economy out of a depression to full employment of resources (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

115. Referring to a production possibilities curve and the goods being compared, depict the economic event. Computerization in the 1990s launched thousands of new businesses in the United States (capital goods vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

116. Referring to a production possibilities curve and the goods being compared, depict the economic event. The SARS epidemic spreads rapidly throughout Toronto, Canada claiming millions of lives (capital vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

117. Referring to a production possibilities curve and the goods being compared, depict the economic event. Widespread use of the assembly line revolutionizes U.S. industry in the early 20th century (capital vs. consumer goods).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C.** A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E. A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

118. Referring to a production possibilities curve and the goods being compared, depict the economic event. Suppose the United States was at full employment in 2003 just before invading Iraq. Although the war was won quickly, winning the peace took a decade (guns vs. butter).

- A. A movement from a point inside the curve to a point on or near the curve
- B. A movement from a point on or near the curve to a point inside the curve
- C. A shift in the entire curve to the right (outward)
- D. A shift in the entire curve to the left (inward)
- E.** A movement along the curve

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

119. If the unemployment rate is 7 percent, our economy is operating

- A.** inside the production possibility curve.
- B. on the production possibility curve.
- C. outside the production possibility curve.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

Chapter 02 - Resource Utilization

120. If the unemployment rate is 5 percent (full employment), our economy is operating
- A. inside the production curve.
  - B.** on the production curve.
  - C. outside the production curve.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

121. Which of the following is not an institutional constraint that limits our nation's production possibilities?
- A. Blue laws that restrict bars and liquor stores from opening on Sunday
  - B. Restrictions on child labor
  - C. The fact that Americans dislike working at night or on the weekends
  - D.** Workers who are "in between" jobs

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-08 Define and explain productive efficiency.*

122. "The value of the next best alternative" defines
- A. the Law of Increasing Costs.
  - B. the economic problem.
  - C. allocative efficiency.
  - D.** opportunity cost.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

123. Adam Smith noted in 1776 that

- A. the wealth of nations comes from the money the nations have accumulated.
- B. the wealth of nations comes from the gold the nations have accumulated.
- C.** the wealth of nations comes from the resources that produce the nation's goods and services.
- D. the problem of scarcity had been licked.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-01 Define economics.*

124. John Maynard Keynes noted that

- A. we could print all the money we want and still have scarcity.
- B. "to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort."
- C. the general notion that scarcity is due to not having enough money is an illusion.
- D.** we could print all the money we want and still have scarcity AND the general notion that scarcity is due to not having enough money is an illusion.
- E. we could print all the money we want and still have scarcity AND "to secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort."

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-01 Define economics.*

125. An outward shift in the entire production possibilities frontier

- A. represents economic decline.
- B. means that previous levels of production are now unobtainable.
- C. means that the only way the economy can increase the production of one good is by producing less of an alternative good.
- D.** represents economic growth.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

126. Which of the following will shift an economy's production possibilities curve inward?

- A. An improvement in technology
- B. An increase in the unemployment rate
- C.** A decrease in land, labor or capital
- D. A decrease in the unemployment rate

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

127. If you kept your money under your mattress rather than keeping it in a savings account at your local bank,

- A. you would not incur an opportunity cost.
- B.** the opportunity cost of such an action would be the forgone interest of not putting the money in a savings account.
- C. the opportunity cost of such an action would be the gas money it took to drive to the bank.
- D. None of the choices are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

128. Which of the following statements about full employment is true?

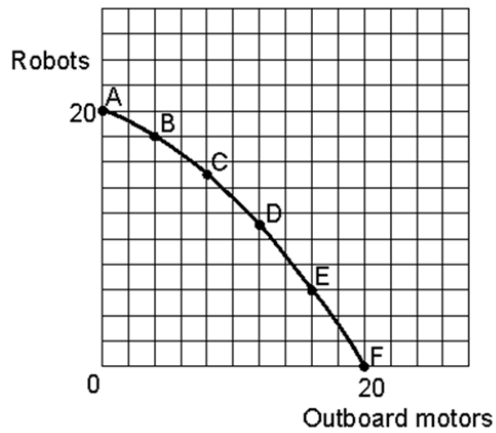
- A. Liberal economists insist that an unemployment rate of 4 percent constitutes full employment.
- B. Conservative economists feel that an unemployment rate of 6 percent is a realistic portrayal of full employment.
- C. Economists cannot agree on what constitutes full employment, thus 5% represents a reasonable compromise.
- D.** All of these choices are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*



129. If the economy were producing at point A and moved to point B the opportunity cost in terms of lost production of robots would be

- A. 1 unit of robots.
- B. 2 units of robots.**
- C. 3 units of robots.
- D. 2 units of outboard motors.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

130. If the economy were producing at point E and moved to point B the opportunity cost in terms of lost production of outboard motors would be

- A. 16 units of outboard motors.
- B. 14 units of outboard motors.
- C. 12 units of outboard motors.**
- D. 10 units of outboard motors.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.



Chapter 02 - Resource Utilization

131. If the economy were producing at 12 units of outboard motors and 8 units of robots
- A. the economy would be at a point inside its production possibilities curve.
  - B. the economy would be at a point outside its production possibilities curve.
  - C. the economy would have unemployed resources.
  - D.** the economy would be at a point inside its production possibilities curve AND would have unemployed resources.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

132. If the economy were producing at point D and moved to point C the opportunity cost in terms of lost production of outboard motors would be
- A. 2 units of outboard motors.
  - B.** 4 units of outboard motors.
  - C. 12 units of outboard motors.
  - D. 11 units of robots.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

133. The economy could produce at 8 units of outboard motors and 18 units of robots
- A. immediately only under unusual circumstances such as war.
  - B. if there is economic growth over a period of years.
  - C. under no circumstances.
  - D.** immediately only under unusual circumstances such as war AND if there is economic growth over a period of years.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

### Hypothetical Production Schedule for a Two-Product Economy

Points	Units of Consumer Goods	Units of Capital Goods
A	0	20
B	40	16
C	72	12
D	96	8
E	112	4
F	120	0

134. If the economy were producing at point C and moves to point B
- A.** 4 units of capital goods are gained, while the capacity to produce 32 consumer goods are lost.
  - B. 16 units of capital goods are gained at an opportunity cost of producing 40 consumer goods.
  - C. 16 units of capital goods are gained at an opportunity cost of producing 72 consumer goods.
  - D. 4 units of capital goods are gained, while the capacity to produce 72 consumer goods are lost.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

135. If the economy produces 12 capital goods and 40 consumer goods,
- A. it is producing outside its production possibilities curve.
  - B. this combination of output will most likely result in economic growth.
  - C. the ability to produce more consumer goods can only be realized by sacrificing capital goods.
  - D.** this economy has some unemployed resources.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

136. If the society chooses point B instead of point C,  
**A.** economic growth is more likely.  
B. economic growth is less likely.  
C. the chances of achieving economic growth will not be affected.  
D. unemployment will result.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.

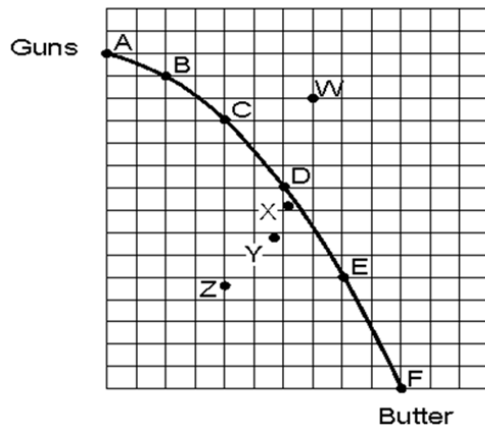
137. If the economy were producing at point E and moves to point D,  
A. resources will shift from producing capital goods to producing consumer goods.  
**B.** resources will shift from producing consumer goods to producing capital goods.  
C. more capital goods can be produced without any sacrifice in consumer goods production.  
D. more consumer goods can be produced without any sacrifice in capital goods production.

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.



138. If the economy was producing at point X and moved to point Y,
- A. it would have moved from where the economy operates most of the time to a severe recession.
  - B. it would have moved from where the economy operates most of the time to a depression.
  - C. the unemployment rate would increase.
  - D.** it would have moved from where the economy operates most of the time to a severe recession AND the unemployment rate would increase.
  - E. it would have moved from where the economy operates most of the time to a depression AND the unemployment rate would increase.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

139. The economy could reach point W if it
- A. reduced the unemployment rate.
  - B.** achieved economic growth.
  - C. decreased its quantity of land, labor and capital.
  - D. shifted resources from butter production into the manufacturing guns.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

140. If the economy was producing at point D and moved to point C
- A. the unemployment rate would increase.
  - B. the unemployment rate would decrease.
  - C. the production possibilities frontier would shift outward.
  - D. the production possibilities frontier would shift inward.
  - E.** None of these choices are true.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

Chapter 02 - Resource Utilization

141. If the economy were producing at point F,
- A. it would not be using its resources efficiently.
  - B. it would be in a recession.
  - C. it could gain units of guns without having to sacrifice units of butter.
  - D.** it would be specializing exclusively in butter production.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

142. If the economy were producing at point E and moved to point D,
- A. the unemployment rate would increase.
  - B. the unemployment rate would decrease.
  - C. the production possibilities would shift outward.
  - D.** the economy would shift resources from producing butter to producing guns.
  - E. the economy would shift resources from producing guns to producing butter.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

143. If the economy were at full employment and now producing at point Y,
- A. the unemployment rate would increase.
  - B. the unemployment rate would decrease.
  - C.** the production possibilities frontier would have shifted inward.
  - D. the production possibilities frontier would have shifted outward.
  - E. there would be a movement along the frontier.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

Chapter 02 - Resource Utilization

144. If the economy were producing at point Z and moved to point D,
- A. it could only produce more butter at the sacrifice of some gun production.
  - B. it could only produce more guns at the sacrifice of some butter production.
  - C.** it could produce more guns and more butter at the same time.
  - D. it would be impossible to produce more guns without the sacrifice of some butter production.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

145. Which statement is true?
- A. Entrepreneurial ability is abundant in the U.S.
  - B. The entrepreneur sets up a business and risks his or her own money.
  - C. Land, labor and capital may be considered passive resources.
  - D.** All of the statements are true.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

146. Which statement is true?
- A. Entrepreneurial ability is considered a passive resource.
  - B. All entrepreneurs are inventors.
  - C.** The entrepreneur has been the central figure in the long economic success in the U.S.
  - D. The basic payment made to the owners of capital is rent.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

147. Capital refers to

- A. "man"-made goods used to produce other goods or services.
- B. the work and time for which employees are paid.
- C. natural resources as well as "man"-made goods.
- D. the person who assembles the needed resources to start a business.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

148. All of the following statements are true about entrepreneurship except:

- A. The entrepreneur assembles the other needed resources.
- B. The entrepreneur risks her or his own money.
- C. The entrepreneur reaps the profits or suffers the losses of the enterprise he or she creates.
- D. The term entrepreneur is synonymous with the term inventor.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

149. Which statement about entrepreneurship in America is true?

- A. Alexander Graham Bell and Thomas Edison were two of the most famous American inventors who became entrepreneurs.
- B. The American entrepreneur led the way to the country's economic success.
- C. Often the entrepreneur is an innovator.
- D. The vast majority of entrepreneurs in America either work for themselves or have just one or two employees.
- E. All of the statements are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

150. Opportunity cost can be best defined as

- A. all sunk costs.
- B.** the value of the best alternative given up when making a choice.
- C. the explicit cost of an activity.
- D. the cost of making one additional unit.
- E. the cost of finding profit-making opportunities.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

151. The entrepreneur

- A.** runs his or her own business and risks his or her own money.
- B. does not necessarily run her or his own business nor risks her or his own money.
- C. runs his or her own business, but does not necessarily risk his or her own money.
- D. does not necessarily run her or his own business, but does risk her or his own money.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

152. Examples of employment discrimination would include

- A. the legendary Negro league pitcher Satchel Paige who was not allowed to pitch in the major leagues until he was in his late 40s.
- B. the large majority of women in the 1950s and 1960s who were typists or secretaries.
- C. the attitude that typing, filing and other clerical positions were "women's work".
- D.** all of the examples are true.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*



Chapter 02 - Resource Utilization

153. The opportunity cost of owning a car is

- A. the price of the car.
- B. filling the tank twice a week.
- C. the cost of getting your car inspected once a year.
- D.** the vacation to Hawaii you had to give up in order to make your car payments.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

154. The term "the affluent society"

- A. was coined by Michael Harrington.
- B. implied that the scarcity problem had been licked.
- C. implied that we had conquered poverty.
- D. all of the above.
- E.** Answers B and C, but not A.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-01 Define economics.*

155. For most of 2009 the U.S. was in a very severe recession, with an unemployment rate approximately \_\_\_\_\_ percent while the capacity utilization rate was below \_\_\_\_\_ percent.

- A. 5; 85
- B.** 9; 70
- C. 2; 90
- D. 0; 100

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

156. Statement I: In the modern global economy, if our steel industry were operating at full capacity we could easily get steel from other steel-producing countries.

Statement II: The only constraints on our production possibilities frontier are physical constraints such as the number of steel factories available, etc.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

157. Statement I: Institutional constraints such as "blue laws" or child labor laws put restrictions on our capacity to produce and thus limit our production possibilities curve.

Statement II: We would be operating at full employment with an unemployment rate of five percent and a capacity utilization rate of 85 percent.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

158. Which statement is true?

- A. On the production possibilities frontier, unemployment is zero percent.
- B. On the production possibilities frontier, 85 percent of the labor force is employed.
- C. To get out of a recession, we must move to some point closer to the production possibilities frontier.
- D. To have economic growth, we must have zero unemployment.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

159. Which statement is true?

- A. On the production possibilities frontier, we have five percent unemployment of labor.
- B. On the production possibilities frontier, 85 percent of capital is employed.
- C. If we moved closer to the origin and further away from the production possibilities frontier, unemployment would increase.
- D. To have economic growth, we must push the production possibilities frontier outward.
- E.** All of the statements are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

160. In order to raise our rate of economic growth our country needs to

- A. Spend more on consumer goods.
- B. Use older, tried and true technology.
- C. Have its consumers save less.
- D.** Have its business firms invest more.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

161. Each of the following statements about capital are correct except

- A. capital is a "man"-made good used to produce other goods and services.
- B.** japan has more capital than any other country in the world.
- C. office buildings and shopping malls are examples of capital.
- D. capital is considered a passive resource.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

162. Which statement is true?

- A.** The U.S. standard of living is higher than that of India because we have more capital.
- B. It is easier to attain full production than full employment.
- C. We often operate outside our production possibility frontier.
- D. All of the statements are true.
- E. The U.S. standard of living is higher than that of India because we have more capital AND we often operate outside our production possibility frontier.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

163. We temporarily operated outside the production possibilities frontier for at least two years in which one of the following decades?

- A. The 1930s
- B.** The 1940s
- C. The 1970s
- D. The 1980s

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-08 Define and explain productive efficiency.*

164. Why did the U.S. temporarily operate outside the production possibilities frontier in 1942, 1943, and 1944?

- A. The Civil War
- B. World War I
- C. The Great Depression
- D.** World War II

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

Chapter 02 - Resource Utilization

165. An improvement in technology will cause the
- A. economy to move down the production possibility frontier.
  - B. production possibility frontier to shift inward.
  - C.** production possibility frontier to shift outward.
  - D. economy to move closer to its production possibility frontier.

*AACSB: Reflective Thinking*

*Bloom's: Understand*

*Difficulty: Easy*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

166. Which one of the following resources is not underemployed?
- A. The use of Manhattan Island in New York City for growing corn.
  - B. The use of farmland in the Iowa and Illinois corn belt for buildings to do stock market research.
  - C.** An automobile factory that is shut down for two months to be retooled for a model change.
  - D. Limiting all men to the fields of school teaching and social work.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

167. Which statement is true?
- A. Scarcity is simply a lack of money.
  - B. Our society has been so affluent in the last 50 years that scarcity is only a minor problem.
  - C. The economic problem refers to the problem of poverty.
  - D.** If scarcity did not exist there would be no need to economize.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

168. Statement I: When the unemployment rate is five percent, we are inside our production possibilities frontier.

Statement II: Full production means that the nation's resources are being allocated in the most efficient manner possible.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.**
- C. Both statements are true.
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

169. Which of the following does not illustrate the concept of opportunity cost?

- A. Between 1990 and 1997, the state of California laid off 10,000 of its university employees to have the money to hire 10,000 employees for its prison system.
- B. By reducing its unemployment rate, the United States dramatically increased its production of both civilian and war goods in the early years of World War II.**
- C. A computer whiz at M.I.T. gives up her senior year at the university to take a high-paying position at a new company, Socrates.com.
- D. The Secretary of the Interior must choose between enforcing a law that would save the spotted owl, an endangered species or the loss of 500 logging jobs.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

170. Who of the following is not an entrepreneur?

- A. Henry Ford (Ford Motor Company)
- B. Tim Berners-Lee (creator of the World Wide Web)**
- C. John David Rockefeller (Standard Oil)
- D. Bill Gates (Microsoft)

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

Chapter 02 - Resource Utilization

171. If a nation is currently operating at a point inside its production possibilities curve, it
- A. must shift resources from producing one good to produce more of an alternative good.
  - B. is fully employing all of its resources.
  - C. is operating beyond its possible capacity.
  - D. is utilizing its resources efficiently.
  - E.** none of the choices are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

172. A production possibilities frontier demonstrates
- A. that there are limits to what a society can produce.
  - B. the various choices a society can make in allocating its resources.
  - C. the concept of opportunity cost.
  - D.** it demonstrates all of the choices stated.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

173. Japan could shift its production possibilities curve outward (to the right) if
- A.** it could buy some islands in the Pacific Ocean, thus increasing its available amount of land.
  - B. it could devote more of its output to military goods.
  - C. it could devote more of its output to producing consumer goods.
  - D. all of the choices are true.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

174. Which of the following events in U.S. history did not create economic growth (shift the production possibilities curve outward)?

- A. The Louisiana Purchase in 1803 that nearly doubled the land mass of the United States.
- B. Inventions of machines such as Cyrus McCormick's mechanical reaper.
- C. The introduction of the moving assembly line in automobile production by Henry Olds.
- D.** The dramatic reduction in the U.S. unemployment rate from 1939 to 1941 as we prepared to enter World War II.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

175. Which of the following is an example of capital?

- A. Money in a Swiss bank account
- B.** A bulldozer
- C. A CD by Metallica
- D. A Dracula costume for Halloween
- E. A U.S. Savings bond

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

176. Assuming that a society always operates on its production possibilities curve, an inward shift of the curve implies that

- A. the country's capacity to produce is fixed.
- B. the country is not using its resources efficiently.
- C.** the country's capacity to produce has contracted.
- D. All of the choices are true.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*



177. Statement I: An outward shift in the production possibilities frontier shows economic growth for a country.

Statement II: Our economy generally operates inside the production possibilities frontier.

- A. Statement I is true and statement II is false.
- B. Statement II is true and statement I is false.
- C. Both statements are true.**
- D. Both statements are false.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

178. The economic problem refers to

- A. not having enough money.
- B. the attempt "to secure the greatest amount of pleasure with the least possible outlay".
- C. the notion that the wealth of nations depends on that country's ability to produce goods and services.
- D. the money illusion.
- E. none of the choices are true.**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

179. Tommy spends most of his monthly budget on \$3 video game rentals or \$6 packets of Pokemon cards. The opportunity cost to Tommy of an extra packet of Pokemon cards is

- A. one video game rental.
- B. two video game rentals.**
- C. the cost of the Pokemon cards.
- D. he does not incur an opportunity cost.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

180. An inward shift of the production possibilities curve

A. represents an economic decline.

B. means that the previous levels of production are now unobtainable except under unusual circumstances such as war.

C. means that the economy can produce more of both goods.

D. All of the choices are true.

**E.** represents an economic decline AND means that the previous levels of production are now unobtainable except under unusual circumstances such as war.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

181. An inward shift of the production possibilities curve could be caused by all of the following except

A. a war that destroys the nation's bridges, harbors and other infrastructure.

B. a plague that wipes out one fifth of the population.

**C.** a significant rise in the unemployment rate.

D. 30 years of neglect of the nation's railroad and interstate highway systems.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

182. An increase in the rate of economic growth curve could be caused by all of the following except

A. a national tax that encourages all employers to provide more training and education for employees which leads to an across-the-board upgrade of the skill level of the nation's workforce.

**B.** a movement along the production possibilities curve so that the society produces more consumer goods and less capital goods.

C. an increase in immigration that increases the country's labor force by 20 percent.

D. an increase in research and development spending for space technology that improves the quality of the nation's capital stock.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

183. Which of the following statements about the concept of opportunity cost is true?

A. The opportunity cost of a decision is the cost of all possible alternatives to the good produced.

B. Many decisions do not involve an opportunity cost.

**C.** If you have an economics final and an American history final tomorrow, the opportunity cost of studying five hours for your economics exam is the five hours you cannot study for your history exam.

D. The opportunity cost of a college education at a school where you have to drive 100 miles per week is the cost and maintenance of owning an automobile to drive to and from school.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

184. The United States was able to produce temporarily outside its production possibilities curve for several years during World War II by doing which of the following?

A. Recruiting housewives to work in tank and airplane factories.

B. Convincing workers who qualified for retirement to put off retirement.

C. Pressing older machinery and equipment into use.

D. Expansion of the work week.

**E.** All of the choices are true

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

185. A small Caribbean island-country produces only pineapples and rum. If resources are used efficiently in the economy,
- A. it will not be possible to produce more rum without decreasing the production of pineapples.
  - B. it will be possible to produce more pineapples without decreasing the production of rum.
  - C. it will be producing on its production possibilities curve.
  - D.** it will not be possible to produce more rum without decreasing the production of pineapples AND it will be producing on its production possibilities curve.
  - E. it will be possible to produce more pineapples without decreasing the production of rum AND it will be producing on its production possibilities curve.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

186. An increase in the unemployment rate would be shown on a production possibilities curve by
- A. shifting the entire curve outward.
  - B. shifting the entire curve inward.
  - C.** moving from a point on or near the curve to a point closer to the origin, rather than shifting the entire curve.
  - D. moving from a point inside the curve to a point on or at least closer to, the curve, rather than shifting the entire curve.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

187. Each of the following is an example of capital, except
- A. an office building.
  - B.** gold in a gold mine.
  - C. an assembly line.
  - D. a computer system.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

Chapter 02 - Resource Utilization

188. The opportunity cost of spending four hours at a movie theater watching a double feature the night before a final exam would be

- A. the cost of the movie ticket.
- B. the cost of the subway fare to get to the theater.
- C. the price of the popcorn and candy bars you snuck into the theater.
- D.** a higher grade on the exam.
- E. All of the choices are true.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

189. An economy operating its plant and equipment at full capacity implies a capacity utilization rate of

- A. 40 percent.
- B. 70 percent.
- C.** 85 percent.
- D. 100 percent.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

190. Unemployment means

- A. the same as underemployment.
- B. a recession.
- C. slow economic growth.
- D.** that not all resources are being used.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

Chapter 02 - Resource Utilization

191. If we are operating inside our production possibilities frontier,
- A. it is possible the economy is in a recession.
  - B. it is possible the economy is in a depression.
  - C. it is possible that the economy is in neither a recession or a depression.
  - D.** All of the choices are correct.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

192. During 2009 and 2010, \_\_\_\_\_ of Americans under 25 were unemployed.
- A. one-half
  - B. one-third
  - C.** one-quarter
  - D. three-quarters

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

193. The closer we are to the production possibilities frontier and the farther away we are from the origin,
- A. the more unemployment there is.
  - B.** the less unemployment there is.
  - C. the only way to produce more guns will be to give up some butter production.
  - D. the only way to produce more butter will be to give up some gun production.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

194. Which of the following is the most accurate statement?

- A.** Employment discrimination has been diminished, but has not yet been wiped out.
- B. Federal laws do not restrict child labor.
- C. Underemployment of women, blacks and other Americans has increased substantially since the 1950s.
- D. Although there was substantial employment discrimination in the past, there is virtually none today.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

195. Suppose you had \$1,000 to spend. You choose to spend the money on new clothes rather than on a new surfboard, your second choice or 1,000 lottery tickets, your third choice.

- A. Your opportunity cost of spending the money on clothes is the \$1,000 spent.
- B.** Your opportunity cost of spending the money on clothes is not buying the surfboard.
- C. Your opportunity cost of spending the money on clothes is not buying the surfboard and the lottery tickets.
- D. There is no opportunity cost in this instance.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

196. The law of increasing costs is based on each of the following, except

- A.** the law of scarcity.
- B. the law of diminishing returns.
- C. diseconomies of scale.
- D. factor suitability.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

197. The increasing cost in the law of increasing cost is a(n) \_\_\_\_\_ cost.

- A. average
- B. fixed
- C. opportunity**
- D. declining

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

198. As we move along a production possibilities curve and acquire larger and larger amounts of one good (e.g., guns), the sacrifices of the alternative good (e.g., butter) become larger and larger. This is an illustration of

- A. the law of demand.
- B. the law of large numbers.
- C. the law of supply.
- D. decreasing opportunity costs.
- E. increasing opportunity costs.**

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

199. According to the law of increasing costs, as the United States expends more of its resources on reducing air pollution,

- A. the quantity of other goods that must be given up for further reductions in air pollution will decrease.
- B. the quantity of other goods that must be given up for further reductions in air pollution will increase.**
- C. the social cost of additional air pollution will increase.
- D. there will be no change in the marginal cost of reducing air pollution.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*



200. The law of increasing costs states that

- A. opportunity costs decrease as more of one good is produced.
- B. increasing resource prices are inevitable because of scarcity.
- C.** opportunity costs increase as more of one good is produced.
- D. resources can be easily adapted to the production of any good.
- E. economic growth is always associated with inflation.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

201. According to the law of increasing costs, as a textile company spends more money to eliminate dust particles from the workplace to increase worker safety

- A. the cost of reducing 70 percent of the dust in the factory will be the same as the cost of reducing the first 50 percent of the dust in the factory.
- B. the cost of reducing 70 percent of the dust in the factory will be less than the cost of reducing the first 50 percent of the dust in the factory.
- C.** the cost of reducing 70 percent of the dust in the factory will be greater than the cost of reducing the first 50 percent of the dust in the factory.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

202. If the production possibilities frontier were a straight line,

- A. the Law of Increasing Cost would still apply.
- B. the opportunity cost of producing one good would decrease as more of another good is produced.
- C. the opportunity cost of producing one good would increase as more of another good is produced.
- D.** the opportunity cost of producing one good would remain the same as more of another good is produced.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

203. The Law of Increasing Cost is based upon which of the following?

- A.** If units of a resource are added to a fixed proportion of other resources, eventually marginal output will decline.
- B. Economies of scale eventually outweigh diseconomies of scale.
- C. Resources become more suitable for use in the production process as the output of one good expands.
- D. All of the choices are true.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

204. Which of the following statements does not reflect the concept of factor suitability?

- A. It is one of the three concepts that explain the Law of Increasing Cost.
- B. If the economy is shifting from butter to gun production, the butter makers will give the gun makers their worst workers.
- C.** Too many farmers work one field, eventually it will lead to less production.
- D. All farmland is not equally well-suited for producing corn.

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Hard*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

205. The opportunity cost of the war in Iraq would be

- A. The \$5 billion a month that the U.S. spends fighting the war.
- B.** How the \$5 billion a month to fight the war might otherwise be spent.
- C. Both of the choices are true.
- D. Neither of the choices are true.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

206. Which of the following would NOT be an opportunity cost of fighting the war in Iraq?
- A. The \$5 billion per month spent on research to cure breast cancer.
  - B. A \$5 billion per month cut in income taxes.
  - C. A \$5 billion per month investment in high speed rail systems between 12 major cities in the country.
  - D.** The \$5 billion per month cost of fighting the war.
  - E. A \$5 billion per month program that invested in low-income housing across the country.

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

207. Which of the following is(are) the main factor(s) spurring economic growth?
- A. Improving technology.
  - B. More and better capital.
  - C. More and better labor.
  - D.** All of these cause economic growth.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

208. Writer Thomas Friedman asserts that "America is the greatest engine of innovation that has ever existed and it can't be duplicated anytime soon, because"
- A. of its extreme freedom of thought.
  - B. of its emphasis on independent thinking.
  - C. of its steady immigration of new minds.
  - D. of its risk-taking culture with no stigma attached to trying and failing.
  - E.** of all of the factors listed.

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Define economics.*

#### **Fill in the Blank Questions**

209. During World War II, a nation's opportunity cost of devoting resources to the war effort was \_\_\_\_\_.

**producing fewer civilian goods**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

210. If our unemployment rate is 5% and our capacity utilization rate is 85-90%, our economy is at \_\_\_\_\_.

**full employment**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

211. If our nation's maximum possible output of any one good is produced, given the output of other goods, we have attained \_\_\_\_\_.

**productive efficiency**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

212. To raise our rate of economic growth, we need more and better \_\_\_\_\_ as well as more and better \_\_\_\_\_.

**capital; labor**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

Chapter 02 - Resource Utilization

213. For most of World War II, our economy temporarily operated \_\_\_\_\_ our production possibilities frontier.  
**outside (or, beyond)**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

214. One way to attain a faster rate of economic growth would be to shift some resources from the production of \_\_\_\_\_ goods to the production of \_\_\_\_\_ goods.  
**consumer; capital**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-09 Identify and explain the factors which enable an economy to grow.*

215. In the American economy, the central figure is the \_\_\_\_\_.  
**entrepreneur**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

216. If our nation is operating at full production, not only are we using our most \_\_\_\_\_ technology, but we are utilizing our land, labor, capital and entrepreneurial ability at their most \_\_\_\_\_.  
**up-to-date; productive jobs**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

217. Employment discrimination leads to the \_\_\_\_\_ of labor.  
**underemployment**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

218. The value of the next best alternative defines \_\_\_\_\_.  
**opportunity cost**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

219. During the Great Depression, our economy operated \_\_\_\_\_ the production possibilities frontier.  
**inside**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-08 Define and explain productive efficiency.*

220. Assuming that full employment of labor is considered 5 percent unemployment, in 1998 and 1999 our economy operated \_\_\_\_\_ the production possibilities frontier.  
**outside or beyond**

*AACSB: Analytic*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

Chapter 02 - Resource Utilization

221. The study of the efficient allocation of the scarce means of production toward the satisfaction of human wants defines \_\_\_\_\_.

**economics**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-01 Define economics.*

222. The Other America, which challenged the notion that we had conquered poverty, was written by \_\_\_\_\_.

**Michael Harrington**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Hard*

*Learning Objective: 02-01 Define economics.*

223. The four economic resources are: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

**land; labor; capital; entrepreneurship**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

224. The wealth of nations is determined by the resources available to a nation and was discussed in 1776 by the famous economist, \_\_\_\_\_.

**Adam Smith**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-02 Identify the central fact of economics and explain how it relates to the economic problem.*

225. Andrew Carnegie, Steven Jobs and Sam Walton were all innovators who are also considered \_\_\_\_\_.

**entrepreneurs**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-03 Name the four economic resources and explain how they are used by the entrepreneur.*

226. If our unemployment rate is 10 percent and our capacity utilization rate is 70 percent, our economy is in the midst of a \_\_\_\_\_.

**recession**

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

227. If our unemployment rate is 25 percent and our capacity utilization rate is 50 percent, our economy would be in the midst of a \_\_\_\_\_.

**depression**

*AACSB: Analytic*

*Bloom's: Analyze*

*Difficulty: Easy*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

228. If our economy is operating at peak efficiency, it is on its

\_\_\_\_\_.

**production possibility frontier (curve)**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*



229. When business firms get to be too big, they are suffering from \_\_\_\_\_.  
**diseconomies of scale**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

230. Large firms are able to lower their costs by taking advantage of \_\_\_\_\_.  
**economies of scale**

*AACSB: Reflective Thinking*

*Bloom's: Remember*

*Difficulty: Medium*

*Learning Objective: 02-08 Define and explain productive efficiency.*

231. "As output of one good expands, the opportunity cost of producing additional units of this good increases," is the law of \_\_\_\_\_.

**increasing costs**

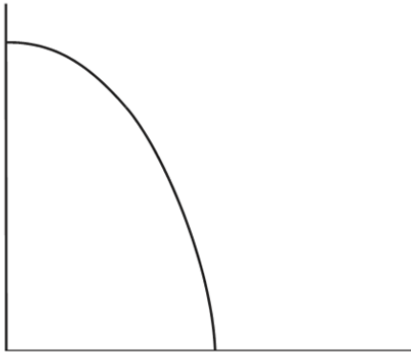
*AACSB: Reflective Thinking*

*Bloom's: Remember*

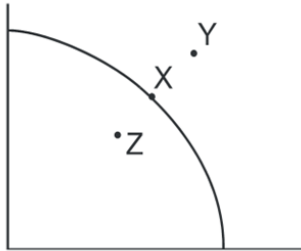
*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

**Short Answer Questions**



232. Place point X on the graph to indicate full employment, point Y to indicate economic growth and point Z to indicate a bad depression.



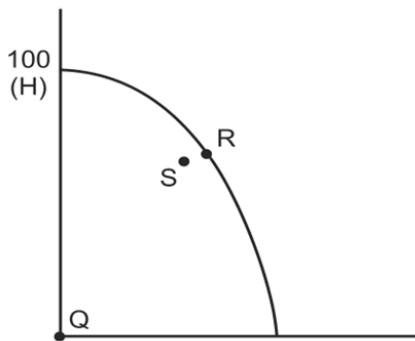
AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

233. Place point Q on the graph to indicate an unemployment rate of 100 percent, point R to indicate full employment and point S to indicate where our economy usually operates.



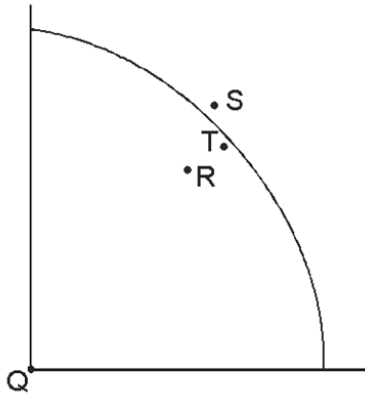
AACSB: Analytic

Bloom's: Apply

Difficulty: Hard

Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.

Chapter 02 - Resource Utilization



234. How much is the unemployment rate at point Q?

100%

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

235. If the economy is at point R, most likely this economy is experiencing \_\_\_\_\_.

a recession

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

236. At point S, the economy is operating at approximately \_\_\_\_\_ percent unemployment.

2-4%

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.

Chapter 02 - Resource Utilization

237. The economy usually operates at point \_\_\_\_\_.

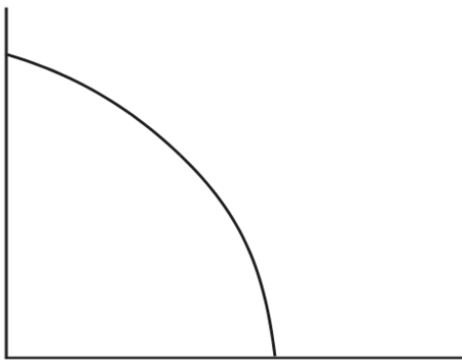
T

*AACSB: Analytic*

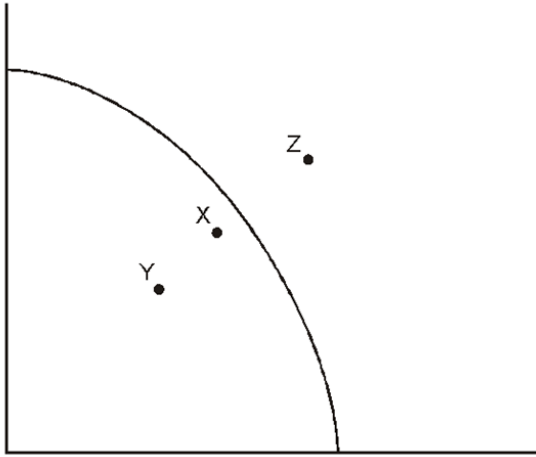
*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*



238. Place point X on the graph to indicate an unemployment rate of 10 percent.



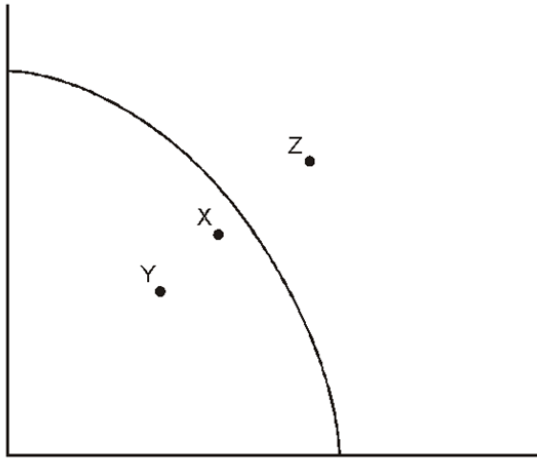
*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

239. Place point Y on the graph to indicate a deep depression.



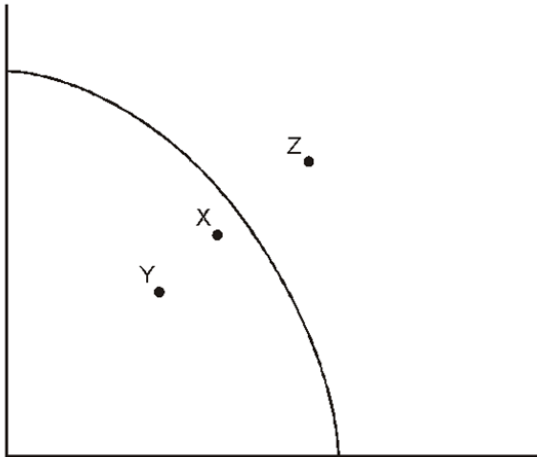
*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

240. Place point Z on the graph to indicate where our economy will most likely operate five years from now if we enjoyed an economic growth rate of 5 percent a year.

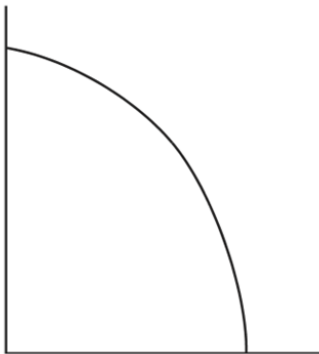


AACSB: Analytic

Bloom's: Apply

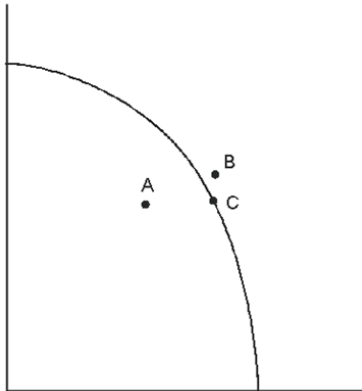
Difficulty: Medium

Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.



Chapter 02 - Resource Utilization

241. Place point A on the graph to indicate where our economy operated in 1938.



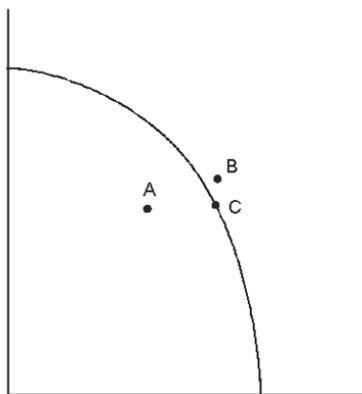
AACSB: Reflective Thinking

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-08 Define and explain productive efficiency.

242. Place point B on the graph to indicate where our economy operated in 1943.



AACSB: Reflective Thinking

Bloom's: Apply

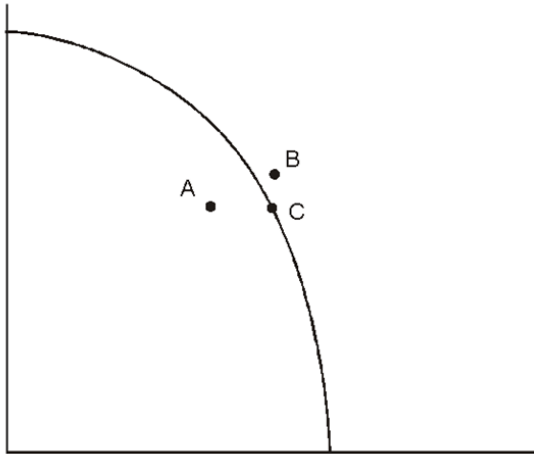
Difficulty: Medium

Learning Objective: 02-08 Define and explain productive efficiency.



Chapter 02 - Resource Utilization

243. Place point C on the graph to indicate where our economy operated in 1997.

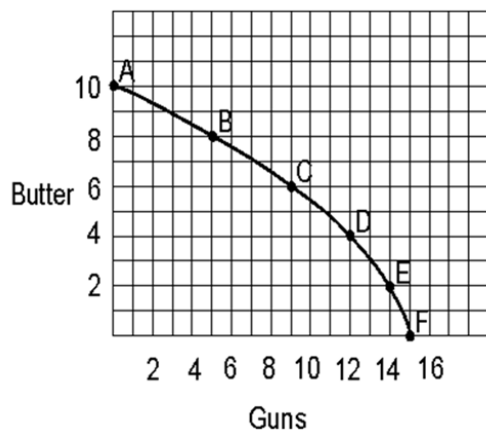


AACSB: Reflective Thinking

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-08 Define and explain productive efficiency.



Chapter 02 - Resource Utilization

244. A country producing a combination of 9 units of guns and 6 units of butter would be \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

on

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

245. A country temporarily producing a combination of 12 units of guns and 5 units of butter would be \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

outside

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Easy*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

246. A country producing a combination of 5 units of guns and 6 units of butter would be \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

inside

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Chapter 02 - Resource Utilization

247. If the country represented in this graph now can produce a maximum of 12 units of guns if it shifts all resources to gun production and could produce a maximum of 9 units of butter if it used all its resources for butter production then it would have experienced \_\_\_\_\_.

economic decline (or inward shift in the production possibilities curve)

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

248. If point C is now 9 units of guns and 8 units of butter, the maximum units of guns possible to produce is 17 and the maximum units of butter possible to produce is 13, the production possibility curve would have shifted \_\_\_\_\_ (outward/inward).

outward

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

249. If the country wanted to produce the maximum total number of units of guns and butter combined, it would produce at point(s) \_\_\_\_\_.

D and E

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Hard*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Hypothetical Production Schedule for a Two-Product Economy

<u>Points</u>	<u>Units of Consumer Goods</u>	<u>Units of Capital Goods</u>
A	0	30
B	15	24
C	27	18
D	36	12
E	42	6
F	45	0

250. In the table above, points A through F represent \_\_\_\_\_ of resources.

full employment

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-05 Describe and distinguish among the concepts of full employment; full production; and underemployment.*

251. If the economy is producing at point B, the opportunity cost of gaining 12 units of consumer goods is \_\_\_\_\_ units of capital goods.

6

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

252. If the economy is producing at point D, the opportunity cost of shifting resources from consumer goods to gain 6 capital goods is \_\_\_\_\_ consumer goods.

9

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

Chapter 02 - Resource Utilization

253. If the economy produces 36 consumer goods and 12 capital goods the economy would be producing \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

on

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

254. If the economy produces 27 consumer goods and 12 capital goods, the economy would be producing \_\_\_\_\_ (outside/on/inside) the production possibilities curve.

inside

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

255. If the economy could produce 42 consumer goods and 12 capital goods, given the current production possibilities curve, the economy would be producing \_\_\_\_\_ (outside/on/inside) the curve.

outside

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-06 Describe the concept of the production possibilities curve and how it is used.*

Hypothetical Production Schedule for Two-Product Economy

<u>Point</u>	<u>Units of Hamburgers</u>	<u>Units of Milk Shakes</u>
A	0	10
B	1	5
C	2	3
D	3	1
E	4	0

Chapter 02 - Resource Utilization

256. What is the opportunity cost of moving from point A to point B?

5 milk shakes

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

257. What is the opportunity cost of moving from point D to point C?

1 hamburger

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

258. What is the opportunity cost of moving from point B to point A?

1 hamburger

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

259. What is the opportunity cost of moving from point B to point C?

2 milk shakes

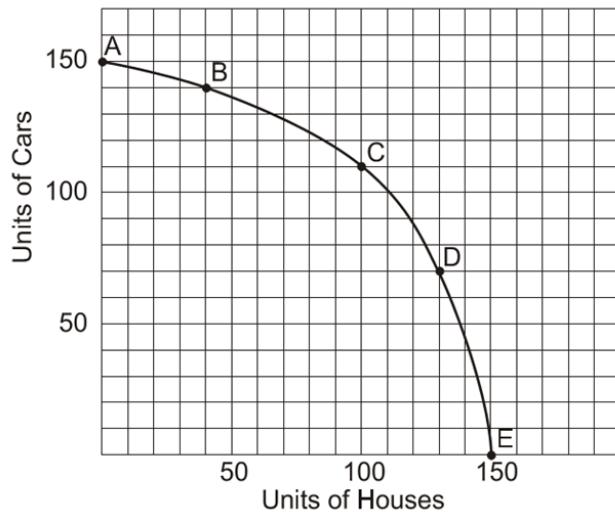
*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

Chapter 02 - Resource Utilization



260. What is the opportunity cost of going from point A to point B?

10 cars

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

261. What is the opportunity cost of going from point D to point C?

30 houses

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

Chapter 02 - Resource Utilization

262. What is the opportunity cost of going from point C to point D?

40 cars

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.

263. What is the opportunity cost of going from point E to point D?

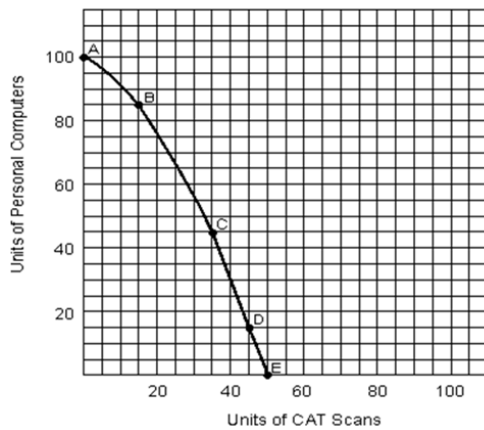
20 houses

AACSB: Analytic

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.





Chapter 02 - Resource Utilization

264. What is the opportunity cost of going from point A to point B?

15 PCs

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

265. What is the opportunity cost of going from point D to point C?

10 CAT scans

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-07 Identify and explain the three concepts upon which the law of increasing costs is based.*

266. What is the opportunity cost of going from point C to point D?

30 PCs

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*

267. What is the opportunity cost of going from point E to point D?

5 CAT scans

*AACSB: Analytic*

*Bloom's: Apply*

*Difficulty: Medium*

*Learning Objective: 02-04 Explain and apply the concept of opportunity cost.*