

TEST BANK



EIGHTH EDITION

MACROECONOMICS
PARKIN



Macroeconomics, 8e (Parkin) Testbank 1

Chapter 2 The Economic Problem

2.1 Production Possibilities and Opportunity Cost

- 1) The production possibilities frontier
- A) refers to the technology used in such goods as computers and military aircraft.
 - B) once applied to U.S. technology but now refers to Japanese technology.
 - C) marks the boundary between attainable combinations of goods and services and unattainable combinations.
 - D) is also called the supply curve.

Answer: C

Topic: Production Possibilities Frontier

Skill: Recognition

- 2) The production possibilities frontier is the boundary between
- A) those combinations of goods and services that can be produced and those that can be consumed.
 - B) those resources that are limited and those that are unlimited.
 - C) those combinations of goods and services that can be produced and those that cannot.
 - D) those wants that are limited and those that are unlimited.

Answer: C

Topic: Production Possibilities Frontier

Skill: Recognition*

- 3) The production possibilities frontier is the boundary between those combination of goods and services that can be
- A) produced and those that can be consumed.
 - B) consumed domestically and those that can be consumed by foreigners.
 - C) produced and those that cannot be produced.
 - D) consumed and those that cannot be produced.

Answer: C

Topic: Production Possibilities Frontier

Skill: Conceptual

- 4) The production possibilities frontier is
- A) upward sloping and reflects unlimited choices.
 - B) upward sloping and reflects tradeoffs in choices.
 - C) downward sloping and reflects unlimited choices.
 - D) downward sloping and reflects tradeoffs in choices.

Answer: D

Topic: Production Possibilities Frontier

Skill: Recognition

- 5) The production possibilities frontier
- A) depicts the boundary between those combinations of goods and services that can be produced and those that cannot given resources and the current state of technology.
 - B) shows how many goods and services are consumed by each person in a country.
 - C) is a model that assumes there is no scarcity and no opportunity cost.
 - D) is a graph with price on the vertical axis and income on the horizontal axis.

Answer: A

Topic: *Production Possibilities Frontier*

Skill: *Recognition*

- 6) The production possibilities frontier illustrates
- A) all goods that can be produced by an economy
 - B) the combination of goods and services that can be produced efficiently
 - C) all goods and services that are desired but cannot be produced due to scarce resources.
 - D) all possible production of capital goods

Answer: B

Topic: *Production Possibilities Frontier*

Skill: *Conceptual*

- 7) The production possibilities frontier itself shows
- A) the maximum amount of resources available at any given time.
 - B) combinations of goods and services that do not fully use available resources.
 - C) the maximum rate of growth of output possible for an economy.
 - D) the maximum levels of production that can be attained.

Answer: D

Topic: *Production Possibilities Frontier*

Skill: *Recognition*

- 8) A production possibilities frontier figure does NOT illustrate
- A) the limits on production imposed by our limited resources and technology.
 - B) the exchange of one good or service for another.
 - C) opportunity cost.
 - D) attainable and unattainable points.

Answer: B

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

- 9) Any production point outside the production possibilities frontier is
- A) unattainable.
 - B) associated with unused resources.
 - C) attainable only if prices fall.
 - D) attainable only if prices rise.

Answer: A

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

- 10) Which of the following statements regarding the production possibilities frontier is true?
- A) Points outside the frontier are attainable.
 - B) Points inside the frontier are attainable.
 - C) Points on the frontier are less efficient than points inside the frontier.
 - D) None of the above because all of the above statements are false.

Answer: B

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

- 11) Jane produces only corn and cloth. Taking account of her preferences for corn and cloth
- A) makes her production possibilities frontier straighter.
 - B) makes her production possibilities frontier steeper.
 - C) makes her production possibilities frontier flatter.
 - D) does not affect her production possibilities frontier.

Answer: D

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

- 12) On the vertical axis, the production possibilities frontier shows _____; on the horizontal axis, the production possibilities frontier shows _____.
- A) the quantity of a good; the number of workers employed to produce the good
 - B) the quantity of a good; the price of the good
 - C) the quantity of a good; a weighted average of resources used to produce the good
 - D) the quantity of one good; the quantity of another good

Answer: D

Topic: *Production Possibilities Frontier*

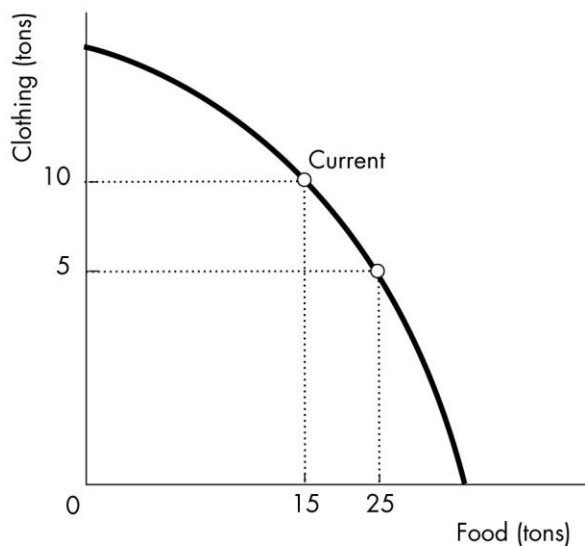
Skill: *Recognition*

- 13) Scarcity is represented on a production possibilities frontier figure by
- A) the amount of the good on the horizontal axis forgone.
 - B) the fact that there are only two goods in the diagram.
 - C) technological progress.
 - D) the fact there are attainable and unattainable points.

Answer: D

Topic: *Production Possibilities Frontier*

Skill: *Conceptual*



- 14) The above figure illustrates that if this country wishes to move from its current production point (labeled "Current") and have 10 more tons of food, it can do this by producing
- A) 10 more tons of clothing.
 - B) 10 fewer tons of clothing.
 - C) 5 more tons of clothing.
 - D) 5 fewer tons of clothing.

Answer: D

Topic: Production Possibilities

Skill: Analytical

- 15) A point inside a production possibilities frontier
- A) could indicate that some resources are unemployed.
 - B) is unattainable.
 - C) is more efficient than points on the production possibilities frontier.
 - D) implies that too much capital and not enough labor are being used.

Answer: A

Topic: Production Efficiency

Skill: Analytical

- 16) A point inside a production possibilities frontier
- A) could indicate that resources are misallocated.
 - B) is more efficient than a point on the production possibilities frontier.
 - C) reflects the fact that more technology needs to be developed to fully employ all resources.
 - D) implies that too much labor and not enough capital is being used.

Answer: A

Topic: Production Efficiency

Skill: Analytical

- 17) When resources are assigned to inappropriate tasks, that is, tasks for which they are not the best match, the result will be producing at a point
- A) where the slope of the *PPF* is positive.
 - B) where the slope of the *PPF* is zero.
 - C) inside the *PPF*.
 - D) outside the *PPF*.

Answer: C

Topic: *Production Efficiency*

Skill: *Analytical*

- 18) Production efficiency requires that
- A) it is impossible to produce more of one good without producing less of some other good.
 - B) production is at a point on the *PPF*.
 - C) resources are assigned to the task for which they are the best match.
 - D) All of the above answers are correct.

Answer: D

Topic: *Production Efficiency*

Skill: *Conceptual*

- 19) Sam's production possibilities frontier has good *A* on the horizontal axis and good *B* on the vertical axis. If Sam is producing at a point *inside* his frontier, then he
- A) can increase production of both goods with no increase in resources.
 - B) is fully using all his resources.
 - C) values good *A* more than good *B*.
 - D) values good *B* more than good *A*.

Answer: A

Topic: *Production Efficiency*

Skill: *Analytical*

- 20) A situation in which some resources are NOT fully utilized is represented in a production possibilities frontier diagram by
- A) any point on either the horizontal or the vertical axis.
 - B) the midpoint of the production possibilities frontier.
 - C) a point outside the production possibilities frontier.
 - D) a point inside the production possibilities frontier.

Answer: D

Topic: *Production Efficiency*

Skill: *Analytical*

- 21) Production points inside the production possibilities frontier
- A) are unattainable.
 - B) are attainable only with the full utilization of all resources.
 - C) are associated with unused or misallocated resources.
 - D) result in more rapid growth.

Answer: C

Topic: *Production Efficiency*

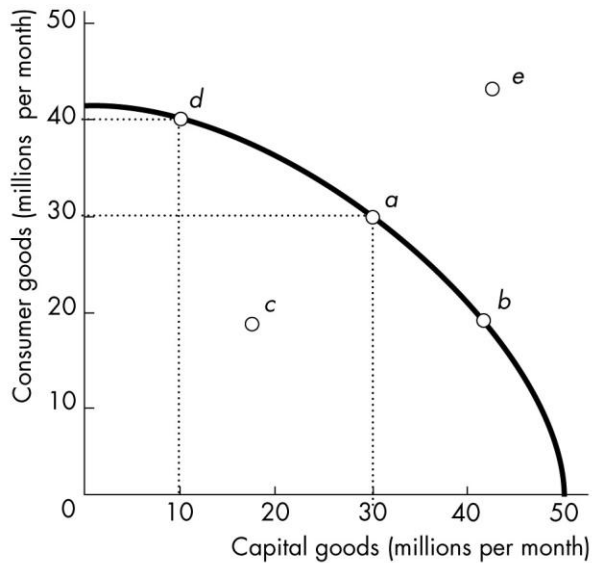
Skill: *Analytical*

- 22) A nation produces at a point inside its *PPF*
- A) when it trades with other nations.
 - B) when it produces inefficiently.
 - C) when its *PPF* is bowed out.
 - D) never.

Answer: B

Topic: Production Efficiency

Skill: Analytical



- 23) Refer to the production possibilities frontier in the figure above. Which production point indicates that resources are NOT fully utilized or are misallocated?
- A) Point *a*
 - B) Point *b*
 - C) Point *c*
 - D) Point *e*

Answer: C

Topic: Production Efficiency

Skill: Analytical

- 24) Refer to the production possibilities frontier in the figure above. Which production point is unattainable?
- A) Point *a*
 - B) Point *b*
 - C) Point *c*
 - D) Point *e*

Answer: D

Topic: Production Possibilities Frontier

Skill: Analytical

25) Refer to the production possibilities frontier in the figure above. Production point _____ represents an _____ production point.

- A) *b*; unattainable.
- B) *c*; unattainable.
- C) *e*; inefficient.
- D) *c*; inefficient.

Answer: D

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

26) In the figure above, moving from production at point *d* to production at point *a* requires

- A) technological change.
- B) a decrease in unemployment.
- C) decreasing the output of consumer goods in order to boost the output of capital goods.
- D) both capital accumulation and a decrease in unemployment.

Answer: C

Topic: *Tradeoff*

Skill: *Analytical*

27) Refer to the production possibilities frontier in the figure above. Suppose a country is producing at point *a*. A movement to point _____ means that the country _____.

- A) *d*; must give up 20 million capital goods
- B) *e*; is not operating efficiently
- C) *d*; gives up 10 million consumer goods.
- D) *b*; is producing at an inefficient point.

Answer: A

Topic: *Opportunity Cost*

Skill: *Analytical*

28) Refer to the production possibilities frontier in the figure above. If the country moves from point *a* to point *c*, the opportunity cost of the move is

- A) 30 million capital goods.
- B) 20 million capital goods.
- C) 10 million capital goods.
- D) 10 million consumption goods.

Answer: B

Topic: *Opportunity Cost*

Skill: *Analytical*

29) Some time ago the government of China required many highly skilled technicians and scientists to engage in unskilled agricultural labor in order to develop "proper social attitudes." This policy probably caused China to produce

- A) at an inappropriate point along its production possibilities frontier.
- B) outside its production possibilities frontier with respect to food, but inside with respect to high-technology goods.
- C) inside its production possibilities frontier with respect to food, but outside with respect to high-technology goods.
- D) inside its production possibilities frontier.

Answer: D

Topic: *Production Efficiency*

Skill: *Conceptual*

- 30) Production efficiency is achieved when
- A) all goods and services desired by consumers can be produced in the economy
 - B) producing inside the production possibilities frontier
 - C) the ability is gained to produce goods and services that are desired beyond the *PPF* boundary
 - D) producing one more unit of one good cannot occur without producing less of some other good.

Answer: D

Topic: *Production Efficiency*

Skill: *Conceptual*

- 31) A society that is producing on its production possibilities frontier is
- A) not utilizing all of its resources.
 - B) not being technologically efficient.
 - C) producing too much output.
 - D) fully utilizing all of its productive resources.

Answer: D

Topic: *Production Efficiency*

Skill: *Conceptual*

- 32) If a country must decrease current consumption to increase the amount of capital goods it produces today, then it must
- A) be using resources inefficiently today, but will be more efficient in the future.
 - B) be producing along the production possibilities frontier today and its production possibilities frontier will shift outward if it produces more capital goods.
 - C) must be producing outside the production possibilities frontier and will continue to do so in the future.
 - D) must not have private ownership of property and will have to follow planning authorities' decisions today and in the future.

Answer: B

Topic: *Production Efficiency*

Skill: *Conceptual*

- 33) If production point of two goods is inside the production possibilities frontier
- A) it is not possible to produce more of both goods
 - B) production is inefficient.
 - C) in order to produce more of one good, less of the other must be produced.
 - D) production is in the "unattainable" region.

Answer: B

Topic: *Production Efficiency*

Skill: *Conceptual*

- 34) Using the production possibilities frontier model, unemployment is described as producing at a point
- A) on the exact middle of the *PPF* curve.
 - B) on either end of the *PPF* curve.
 - C) inside the *PPF* curve.
 - D) outside the *PPF* curve.

Answer: C

Topic: *Production Efficiency*

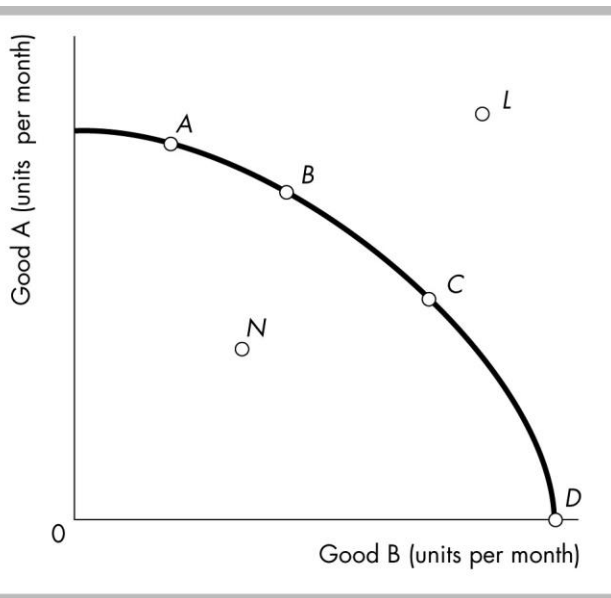
Skill: *Conceptual*

- 35) If a society is operating at a point inside its production possibilities frontier, then this society's
- A) resources are being inefficiently utilized.
 - B) production possibilities frontier will shift rightward.
 - C) resources are being used in the most efficient manner.
 - D) economy will grow too fast.

Answer: A

Topic: Production Efficiency

Skill: Conceptual



- 36) Point C on the production possibilities frontier in the above diagram illustrates
- A) a point with maximum and efficient production of Goods A and Goods B
 - B) a combination of goods and services that cannot be produced efficiently
 - C) all goods and services that are desired but cannot be produced due to scarce resources.
 - D) an underutilization of resources

Answer: A

Topic: Production Efficiency

Skill: Analytical

- 37) In the above figure, which point represents an unattainable production combination of the two goods?
- A) Point C
 - B) Point L
 - C) Point D
 - D) Point N

Answer: B

Topic: Production Possibilities Frontier

Skill: Analytical

- 38) In the above figure, which point represents an attainable but inefficient production point?
- A) Point C
 - B) Point N
 - C) Point L
 - D) Point D

Answer: B

Topic: Production Efficiency

Skill: Analytical

- 39) A tradeoff is
- A) represented by a point inside a PPF.
 - B) represented by a point outside a PPF.
 - C) a constraint that requires giving up one thing to get another.
 - D) a transaction at a price either above or below the equilibrium price.

Answer: C

Topic: Tradeoff

Skill: Conceptual

- 40) A tradeoff is illustrated by
- A) a point inside the PPF.
 - B) a point outside the PPF.
 - C) a change in the slope of the PPF.
 - D) the negative slope of the PPF.

Answer: D

Topic: Tradeoff

Skill: Conceptual

- 41) When we choose a particular option, we must give up alternative options. The highest-valued alternative forgone is the _____ of the option chosen.
- A) opportunity cost
 - B) comparative advantage
 - C) nonmonetary cost
 - D) absolute advantage

Answer: A

Topic: Opportunity Cost

Skill: Recognition

- 42) Ted can study for his economics exam or go to a concert. He decides to study for his economics exam instead of going to the concert. The concert he will miss is Ted's _____ of studying for the exam.
- A) opportunity cost
 - B) explicit cost
 - C) implicit cost
 - D) discretionary cost

Answer: A

Topic: Opportunity Cost

Skill: Recognition

- 43) Most students attending college pay tuition and are unable to hold a full-time job. For these students, tuition is
- A) part of the opportunity cost of going to college. So are their forgone earnings from not holding a full-time job.
 - B) part of the opportunity cost of going to college. Their forgone earnings from not holding a full-time job are not part of the opportunity cost of attending college.
 - C) not part of the opportunity cost of going to college, but their forgone earnings from not holding a full-time job are part of the opportunity cost of attending college.
 - D) not part of the opportunity cost of going to college. Neither are their forgone earnings from not holding a full-time job.

Answer: A

Topic: Opportunity Cost

Skill: Analytical

- 44) Opportunity cost is
- A) the best choice that can be made.
 - B) the highest-valued alternative forgone.
 - C) the monetary cost.
 - D) the indirect cost.

Answer: B

Topic: Opportunity Cost

Skill: Recognition

- 45) On a diagram of a production possibilities frontier, opportunity cost is represented by
- A) a point on the horizontal axis.
 - B) a point on the vertical axis.
 - C) a ray through the origin.
 - D) the slope of the production possibilities frontier, which indicates that to get more of one good requires less of another.

Answer: D

Topic: Opportunity Cost

Skill: Analytical

- 46) While producing on the production possibilities frontier, if additional units of a good could be produced at a constant opportunity cost, the production possibilities frontier would be
- A) bowed outward.
 - B) bowed inward.
 - C) positively sloped.
 - D) a straight line.

Answer: D

Topic: Opportunity Cost

Skill: Analytical

- 47) If Sam is producing at a point on his production possibilities frontier, then he
- A) cannot produce any more of either good.
 - B) can produce more of one good only by producing less of the other.
 - C) will be unable to gain from trade.
 - D) is not subject to scarcity.

Answer: B

Topic: Opportunity Cost

Skill: Analytical

Point	Production of grain (tons)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

48) The table above lists six points on the production possibilities frontier for grain and cars.

Given this information, which of the following combinations is unattainable?

- A) 6 tons of grain and 18 cars
- B) 4 tons of grain and 26 cars
- C) 2 tons of grain and 27 cars
- D) 7 tons of grain and 10 cars

Answer: B

Topic: Production Possibilities Frontier

*Skill: Analytical**

49) The table above lists six points on the production possibilities frontier for grain and cars.

From this information you can conclude that production is inefficient if this economy produces

- A) 6 tons of grain and 18 cars.
- B) 4 tons of grain and 26 cars.
- C) 2 tons of grain and 27 cars.
- D) 8 tons of grain and 10 cars.

Answer: C

Topic: Production Efficiency

*Skill: Analytical**

50) The table above lists six points on the production possibilities frontier for grain and cars.

What is the opportunity cost of producing the 5th ton of grain?

- A) 16 cars
- B) 6 cars
- C) 3 cars
- D) 2 cars

Answer: C

Topic: Opportunity Cost

*Skill: Analytical**

51) The table above lists six points on the production possibilities frontier for grain and cars.

What is the opportunity cost of producing the 26th car?

- A) 2 tons of grain
- B) 4 tons of grain
- C) 0.25 tons of grain
- D) 0.5 tons of grain

Answer: D

Topic: Opportunity Cost

*Skill: Analytical**

Point	Product ion chocola te bars	Product ion cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

- 52) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following statements is TRUE?
- A) Producing 0 chocolate bars and 100 cans of cola is both attainable and efficient.
 - B) Producing 20 chocolate bars and 80 cans of cola is attainable, but inefficient.
 - C) Producing 30 chocolate bars and 38 cans of cola is only attainable with an increase in technology.
 - D) Producing 40 chocolate bars and 0 cans of cola is unattainable and inefficient.

Answer: A

Topic: *Production Possibilities Frontier*

Skill: *Conceptual*

- 53) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following is an example of a point that is inefficient?
- A) 0 chocolate bars and 100 cans of cola
 - B) 20 chocolate bars and 80 cans of cola
 - C) 32 chocolate bars and 40 cans of cola
 - D) 38 chocolate bars and 0 cans of cola

Answer: D

Topic: *Production Efficiency*

Skill: *Conceptual*

- 54) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* chocolate bar if Sweet-tooth Land moves from point C to point D?
- A) 30 cans of cola
 - B) 10 cans of cola
 - C) 3 cans of cola
 - D) 1/3 can of cola

Answer: C

Topic: *Opportunity Cost*

Skill: *Analytical*

- 55) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* can of cola if Sweet-tooth Land moves from point C to point B?
- A) 20 chocolate bars
 - B) 10 chocolate bars
 - C) 2 chocolate bars
 - D) 1/2 chocolate bar

Answer: D

Topic: Opportunity Cost

Skill: Analytical

- 56) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. A movement from _____ represents the greatest opportunity cost of increasing cola production.
- A) point E to point D
 - B) point D to point C
 - C) point C to point B
 - D) point B to point A

Answer: D

Topic: Opportunity Cost

Skill: Conceptual

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

- 57) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a point that is unattainable?
- A) 0 units of good X and 40 units of good Y.
 - B) 6 units of good X and 28 units of good Y.
 - C) 10 units of good X and 16 units of good Y.
 - D) 3 units of good X and 35 units of good Y.

Answer: C

Topic: Production Possibilities Frontier

Skill: Conceptual

- 58) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a production point that is inefficient?
- A) 0 units of good X and 40 units of good Y
 - B) 6 units of good X and 28 units of good Y
 - C) 10 units of good X and 16 units of good Y
 - D) 3 units of good X and 35 units of good Y

Answer: D

Topic: Production Efficiency

Skill: Analytical

59) The above table shows production combinations on a country's production possibilities frontier. Which of the following points signifies efficient production?

- A) 0 units of good X and 40 units of good Y
- B) 3 units of good X and 25 units of good Y
- C) 10 units of good X and 16 units of good Y
- D) 12 units of good X and 1 unit of good Y

Answer: A

Topic: Production Efficiency

Skill: Analytical

60) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of increasing the production of Y from 16 to 28 units?

- A) 12 units of good X
- B) 6 units of good X
- C) 3 units of good X
- D) There is no opportunity cost when moving from one point to another along a production possibilities frontier.

Answer: C

Topic: Opportunity Cost

Skill: Analytical

61) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of *one* unit of Y when the production of good Y increases from 16 to 28 units?

- A) 4 units of good X
- B) 3 units of good X
- C) 1/4 unit of good X
- D) There is no opportunity cost when moving from one point to another along a production possibilities frontier.

Answer: C

Topic: Opportunity Cost

Skill: Analytical

62) The above table shows production combinations on a country's production possibilities frontier. What is the opportunity cost of increasing the production of X from 0 to 3 units?

- A) 40 units of good Y
- B) 3 units of good Y
- C) 4/3 units of good Y for every one unit of good X
- D) 0 units of good Y

Answer: C

Topic: Opportunity Cost

Skill: Analytical

63) The above table shows production combinations on a country's production possibilities frontier. A movement from _____ involves the *greatest* opportunity cost of increasing the production of good Y.

- A) point E to point D
- B) point D to point C
- C) point C to point B
- D) point B to point A

Answer: D

Topic: Opportunity Cost

Skill: Analytical

Point	Production of cheese (tons)	Production of wine (gallons)
A	0	1,000
B	250	900
C	500	700
D	750	400
E	1,000	0

64) The above table shows the production possibilities frontier for the economy of Arkadia. The opportunity cost of increasing cheese production from 500 tons of cheese to 750 tons of cheese is

- A) 100 gallons of wine.
- B) 250 tons of cheese.
- C) 300 gallons of wine.
- D) 700 gallons of wine.

Answer: C

Topic: Opportunity Cost

Skill: Analytical

Point	Production of soda	Production of pizza
A	40	0
B	28	3
C	20	5
D	12	7
E	0	10

65) Suppose that, for given resources and production technology, the above table shows the production relationship between soda and pizza. For the sake of simplicity, assume the relationship is linear. Which of the following production possibilities is not attainable?

- A) 15 sodas, 5 pizzas
- B) 40 sodas, 0 pizzas
- C) 5 sodas, 10 pizzas
- D) All of the above possibilities are attainable.

Answer: C

Topic: Production Possibilities Frontier

Skill: Analytical

66) Suppose that, for given resources and production technology, the above table shows the production relationship between soda and pizza. For the sake of simplicity, assume the relationship is linear. Which of the following production possibilities is not efficient?

- A) 28 sodas and 3 pizzas
- B) 15 sodas and 5 pizzas
- C) 12 sodas and 10 pizzas
- D) 20 sodas and 5 pizzas

Answer: B

Topic: Production Efficiency

Skill: Analytical

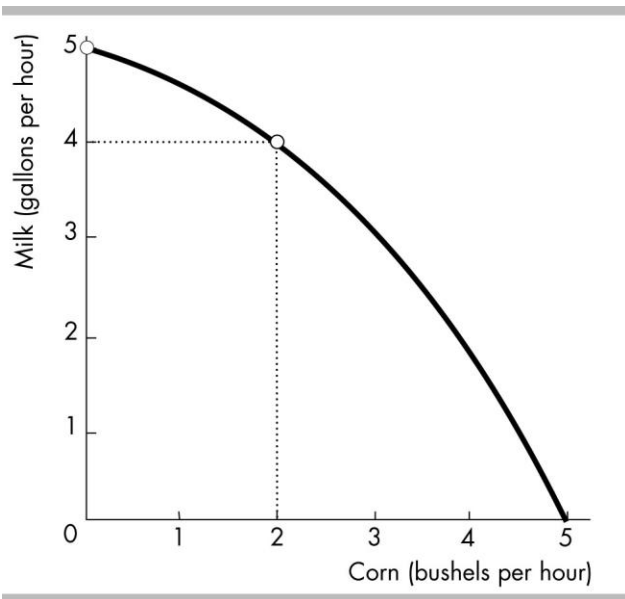
67) Suppose that, for given resources and production technology, the above shows the production relationship between soda and pizza. For the sake of simplicity, assume the relationship is linear. What is the opportunity cost of producing an additional unit of pizza?

- A) 4 sodas
- B) 3 sodas
- C) 1 pizza
- D) Cannot be calculated with the information provided (the prices for both products are not given).

Answer: A

Topic: Opportunity Cost

Skill: Analytical

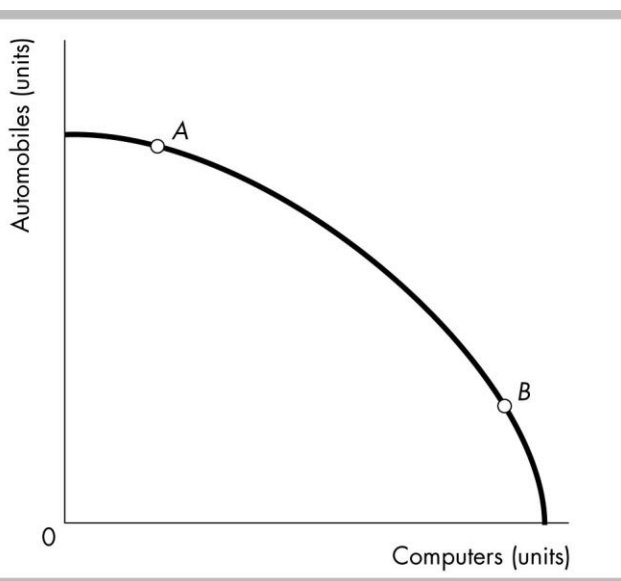


- 68) Consider the *PPF* for milk and corn in the above figure. If currently no corn is being produced, what is the total opportunity cost of producing another 2 bushels of corn?
- A) 2 bushels of corn
 - B) 4 gallons of milk
 - C) 1 gallon of milk
 - D) nothing

Answer: C

Topic: Opportunity Cost

Skill: Analytical



- 69) The bowed outward shape of the production possibilities frontier in the above figure indicates that
- A) some resources are better suited for producing computers.
 - B) the opportunity cost of producing more computers decreases as more computers are produced.
 - C) computer technology is subject to the principle of decreasing costs.
 - D) All of the above answers are correct.

Answer: A

Topic: Production Possibilities Frontier

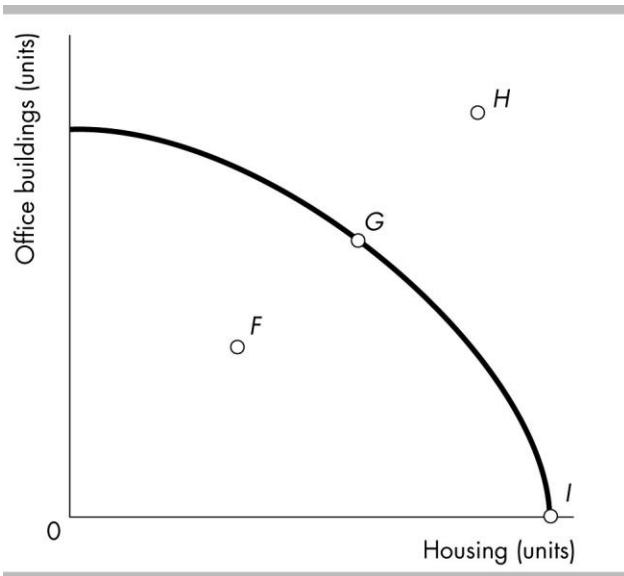
Skill: Recognition

- 70) According to the figure above, the opportunity cost of producing another computer is
- A) higher at A.
 - B) higher at B.
 - C) the same at every point along the frontier.
 - D) different at most points along the frontier but equal at points A and B because they are equally distant from the axes.

Answer: B

Topic: Opportunity Cost

Skill: Conceptual



71) Consider the PPF for office buildings and housing shown in the figure above. Which point in the diagram shows that resources to produce office buildings and housing are being misallocated, unused, or both?

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

Answer: A

Topic: *Production Efficiency*

Skill: *Conceptual*

72) Opportunity cost is represented on the production possibilities frontier by

- A) attainable and unattainable points.
- B) efficient and inefficient points.
- C) the amount of good Y forgone when more of good X is produced.
- D) technological progress.

Answer: C

Topic: *Opportunity Cost*

Skill: *Conceptual*

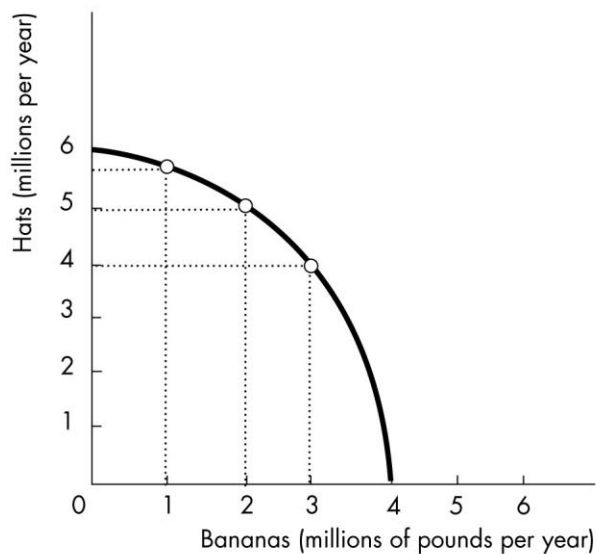
73) At one point along a PPF, 50 tons of coffee and 100 tons of bananas are produced. At another point along the same PPF, 30 tons of coffee and 140 tons of bananas are produced. The opportunity cost of a ton of coffee between these points is

- A) $\frac{7}{5}$ of a ton of bananas.
- B) $\frac{1}{2}$ of a ton of bananas.
- C) $\frac{5}{7}$ of a ton of bananas.
- D) 2 tons of bananas.

Answer: D

Topic: *Opportunity Cost*

Skill: *Analytical*



74) In the production possibilities frontier depicted in the figure above, which of the following combinations of hats and bananas is unattainable?

- A) 4 million pounds of bananas and 4 million hats
- B) 2 million pounds of bananas and 5 million hats
- C) 0 pounds of bananas and 6 million hats
- D) 1 million pounds of bananas and 3 million hats

Answer: A

Topic: Production Possibilities Frontier

Skill: Analytical

75) In the production possibilities frontier depicted in the figure above, which of the following combinations of hats and bananas is inefficient?

- A) 4 million pounds of bananas and 4 million hats
- B) 2 million pounds of bananas and 5 million hats
- C) 0 pounds of bananas and 6 million hats
- D) 1 million pounds of bananas and 3 million hats

Answer: D

Topic: Production Efficiency

Skill: Analytical

76) In the production possibilities frontier depicted in the figure above, which of the following combinations of hats and bananas is generated by an efficient allocation of resources?

- A) 3 million pounds of bananas and 4 million hats
- B) 2 million pounds of bananas and 5 million hats
- C) 0 pounds of bananas and 6 million hats
- D) All of the above combinations are efficient.

Answer: D

Topic: Production Efficiency

Skill: Analytical

77) In the production possibilities frontier depicted in the figure above, what is the opportunity cost of increasing the production of bananas from two million pounds to three million pounds?

- A) 1/2 million hats
- B) 1 million hats
- C) 2 million hats
- D) 3 million hats

Answer: B

Topic: Opportunity Cost

Skill: Analytical

78) Jane produces only corn, measured in tons, and cloth, measured in bolts. For her, the opportunity cost of one more ton of corn is

- A) the same as the opportunity cost of one more bolt of cloth.
- B) the inverse of the opportunity cost of one more bolt of cloth.
- C) the ratio of all the bolts of cloth she produces to all the tons of corn she produces.
- D) the ratio of all the tons of corn she produces to all the bolts of cloth she produces.

Answer: B

Topic: Opportunity Cost is a Ratio

Skill: Analytical

79) The principle of increasing opportunity cost leads to

- A) a production possibilities frontier (*PPF*) that is bowed inward from the origin.
- B) a production possibilities frontier (*PPF*) that is bowed outward from the origin.
- C) an inward shift of the production possibilities frontier (*PPF*).
- D) an outward shift of the production possibilities frontier (*PPF*).

Answer: B

Topic: Increasing Opportunity Cost

Skill: Analytical

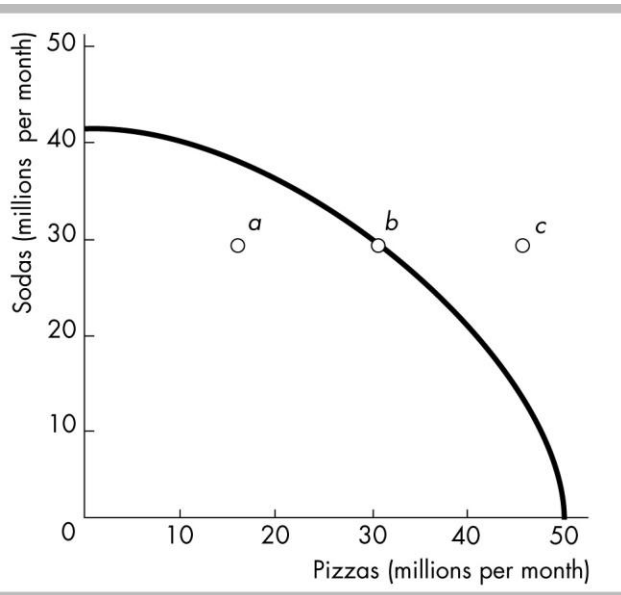
80) A *PPF* bows outward because

- A) not all resources are equally productive in all activities.
- B) consumers prefer about equal amounts of the different goods.
- C) entrepreneurial talent is more abundant than human capital.
- D) resources are used inefficiently.

Answer: A

Topic: Increasing Opportunity Cost

Skill: Analytical



81) A PPF, such as the one above, that bows outward illustrates

- A) decreasing opportunity cost.
- B) increasing opportunity cost.
- C) that technology is improving.
- D) that productivity is falling.

Answer: B

Topic: Increasing Opportunity Cost

Skill: Analytical

82) In the figure above,

- A) moving from point *a* to point *b* would require new technology.
- B) production at point *b* is efficient whereas production at point *a* is not efficient.
- C) some resources must be unemployed at point *c*.
- D) opportunity costs are decreasing.

Answer: B

Topic: Production Efficiency

Skill: Analytical

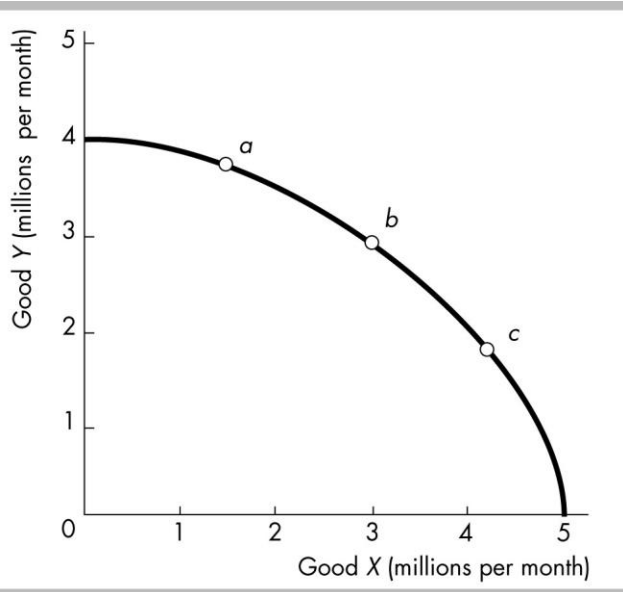
83) As we increase the production of computers, we find that we must give up larger and larger amounts of DVD players per computer.

- A) This situation illustrates increasing opportunity cost.
- B) As a result, we should specialize in the production of DVD players.
- C) The production possibilities frontier for computers and DVD players is a straight line.
- D) DVD players will be more highly regarded by consumers than computers.

Answer: A

Topic: Increasing Opportunity Cost

Skill: Analytical



84) As output moves from point *a* to point *b* to point *c* along the PPF in the above figure, the opportunity cost of one more unit of good *X*

- A) rises. The opportunity cost of one more unit of good *Y* also rises.
- B) rises. The opportunity cost of one more unit of good *Y* falls.
- C) falls. The opportunity cost of one more unit of good *Y* rises.
- D) falls. The opportunity cost of one more unit of good *Y* also falls.

Answer: B

Topic: Increasing Opportunity Cost

Skill: Analytical

85) Refer to the production possibilities frontier in the figure above. More of good *X* must be given up per unit of good *Y* gained when moving from point *b* to point *a* than when moving from point *c* to point *b*. This fact

- A) illustrates decreasing opportunity cost.
- B) illustrates increasing opportunity cost.
- C) indicates that good *X* is more capital intensive than good *Y*.
- D) indicates that good *Y* is more capital intensive than good *X*.

Answer: B

Topic: Increasing Opportunity Cost

Skill: Analytical

86) When the production possibilities frontier bows outward from the origin,

- A) some of society's resources are unemployed.
- B) opportunity costs are constant.
- C) opportunity costs are increasing.
- D) opportunity costs are decreasing.

Answer: C

Topic: Increasing Opportunity Cost

Skill: Analytical

- 87) The slope of a production possibilities frontier that displays increasing opportunity cost is
- A) positive and constant.
 - B) negative and constant.
 - C) steeper near the horizontal intercept than near the vertical intercept.
 - D) steeper near the vertical intercept than near the horizontal intercept.

Answer: C

Topic: Increasing Opportunity Cost

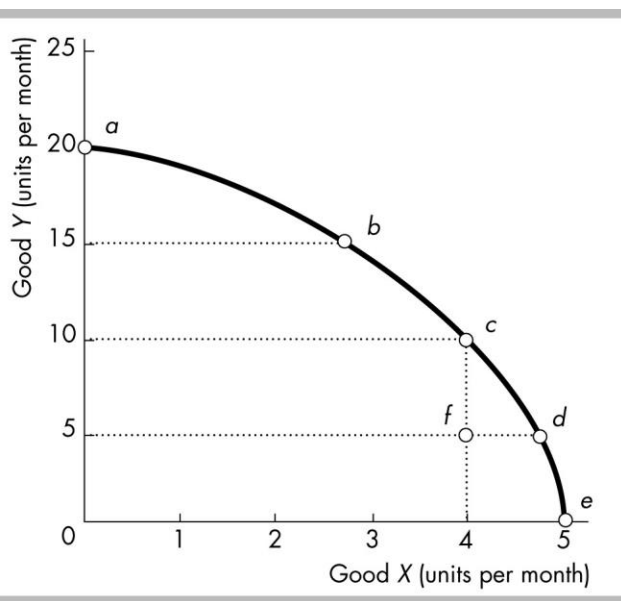
Skill: Conceptual

- 88) The fact that individual productive resources are NOT equally useful in all activities
- A) implies that a production possibilities frontier will be bowed outward.
 - B) implies that gain from specialization and trade is unlikely.
 - C) follows from the law of demand.
 - D) implies a linear production possibilities frontier.

Answer: A

Topic: Increasing Opportunity Cost

Skill: Conceptual



- 89) The figure above illustrates Mary's production possibilities frontier. If Mary wants to move from point *b* to point *c*, she must
- A) improve technology.
 - B) increase the accumulation of capital.
 - C) give up some of good Y in order to obtain more of good X.
 - D) give up some of good X in order to obtain more of good Y.

Answer: C

Topic: Opportunity Cost

Skill: Analytical

- 90) The above figure illustrates Mary's production possibilities frontier. If Mary wants to move from point *d* to point *c*, she must
- A) improve technology.
 - B) increase her accumulation of capital.
 - C) give up some of good *X* in order to obtain more of good *Y*.
 - D) give up some of good *Y* in order to obtain more of good *X*.

Answer: C

Topic: Opportunity Cost

Skill: Analytical

- 91) The above figure illustrates Mary's production possibilities frontier. Which of the following movements show opportunity costs increasing?
- A) point *a* to point *b* to point *c*
 - B) point *a* to point *f*
 - C) point *f* to point *a*
 - D) point *c* to point *f* to point *d*

Answer: A

Topic: Increasing Opportunity Cost

Skill: Conceptual

- 92) Refer to the production possibilities frontier figure above. Which of the following movements requires the largest opportunity cost, in terms of good *X* forgone, per extra unit of good *Y*?
- A) from point *e* to point *d*
 - B) from point *d* to point *c*
 - C) from point *c* to point *b*
 - D) from point *b* to point *a*

Answer: D

Topic: Increasing Opportunity Cost

Skill: Analytical

- 93) Refer to the production possibilities frontier in the figure above. Which of the following movements requires the largest opportunity cost, in terms of good *Y* forgone, per extra unit of good *X*?
- A) from point *a* to point *b*
 - B) from point *b* to point *c*
 - C) from point *c* to point *d*
 - D) from point *d* to point *e*

Answer: D

Topic: Increasing Opportunity Cost

Skill: Analytical

Point	Production of X	Production of Y
a	0	40
b	4	36
c	8	28
d	12	16
e	16	0

- 94) Refer to the table above, which gives five points on a nation's *PPF*. The production of 7 units of X and 28 units of Y is
- A) impossible given the available resources.
 - B) possible but leaves some resources less than fully used or misallocated.
 - C) on the production possibilities frontier between points *c* and *d*.
 - D) on the production possibilities frontier between points *b* and *c*.

Answer: B

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

- 95) Refer to the table above, which gives five points a nation's *PPF*. What does point *c* mean?
- A) If 8 units of X are produced, then 28 or more units of Y can be produced.
 - B) If 8 units of X are produced, then at most 28 units of Y can be produced.
 - C) The opportunity cost of one more unit of X is 3.5 units of Y.
 - D) The opportunity cost of one less unit of X is 3.5 units of Y.

Answer: B

Topic: *Production Possibilities Frontier*

Skill: *Analytical*

- 96) Refer to the table above, which gives five points on a nation's *PPF*. The opportunity cost of increasing the production of X from 8 to 12 units is a total of
- A) 1.33 units of Y.
 - B) 3.5 units of Y.
 - C) 8 units of Y.
 - D) 12 units of Y.

Answer: D

Topic: *Opportunity Cost*

Skill: *Analytical*

- 97) Refer to the table above, which gives five points on a nation's *PPF*. The opportunity cost of increasing the production of Y from 16 to 36 units is a total of
- A) 4 units of X.
 - B) 8 units of X.
 - C) 10 units of X.
 - D) 12 units of X.

Answer: B

Topic: *Opportunity Cost*

Skill: *Analytical*

- 98) Refer to the table above, which gives five points on a nation's *PPF*. As we increase the production of *X*,
- A) the output of *Y* increases.
 - B) unemployment increases.
 - C) the opportunity cost of each new unit of *X* increases.
 - D) the opportunity cost of each new unit of *X* decreases.

Answer: C

Topic: Increasing Opportunity Cost

Skill: Analytical

- 99) Refer to the table above, which gives five points on a nation's *PPF*. The numbers in the table demonstrate that
- A) this economy has a comparative advantage in *Y*.
 - B) this economy has a comparative advantage in *X*.
 - C) the opportunity cost of producing an additional unit of *Y* increases as the production of *Y* increases.
 - D) the opportunity cost of producing an additional unit of *Y* decreases as the production of *Y* increases.

Answer: C

Topic: Increasing Opportunity Cost

Skill: Analytical

- 100) Tom Petty excels at producing rock videos. Tom Clancy excels at writing military novels. The difference in their skills is one reason why the production possibilities frontier for videos and novels
- A) has a positive slope.
 - B) has a constant slope.
 - C) is shallower to the right.
 - D) is steeper to the right.

Answer: D

Topic: Increasing Opportunity Cost

Skill: Conceptual

- 101) Generally, opportunity costs increase and the production possibilities frontier bows outward. Why?
- A) Unemployment is inevitable.
 - B) Resources are not equally useful in all activities.
 - C) Technology is slow to change.
 - D) Labor is scarcer than capital.

Answer: B

Topic: Increasing Opportunity Cost

Skill: Analytical

102) When the production possibilities frontier is bowed outwards, the opportunity cost of producing more of one good

- A) increases in terms of the amount foregone of the other good.
- B) decreases in terms of the amount foregone of the other good.
- C) remains constant.
- D) cannot be determined.

Answer: A

Topic: *Increasing Opportunity Cost*

Skill: *Conceptual*

103) Consider a *PPF* for tapes and soda. If the opportunity cost of a tape increases as the quantity of tapes produced increases and also the opportunity cost of a soda increases as the quantity of soda produced increases, then the *PPF* between the two goods will be

- A) a straight, downward-sloping line.
- B) a straight, upward-sloping line.
- C) bowed outward.
- D) All of the above are possible and more information is needed to determine which answer is correct.

Answer: C

Topic: *Increasing Opportunity Cost*

Skill: *Conceptual*

104) Increasing opportunity cost occurs along a production possibilities frontier because

- A) resources are not equally productive in all activities.
- B) increasing wants need to be satisfied.
- C) in order to produce more of one good decreasing amounts of another good must be sacrificed.
- D) production takes time.

Answer: A

Topic: *Increasing Opportunity Cost*

Skill: *Conceptual*

105) Increasing opportunity cost is due to

- A) firms' needs to earn more and more profits.
- B) ever increasing taxes.
- C) the fact that it is more difficult to use resources efficiently the more society produces.
- D) the fact that resources are not equally suited for different types of production.

Answer: D

Topic: *Increasing Opportunity Cost*

Skill: *Conceptual*

- 106) Which of the following causes the production possibilities frontier to have a bowed out, curvilinear shape?
- A) The assumption that resources are specialized and so are not equally productive in all activities
 - B) The assumption that resources are not specialized and so are equally productive in all activities
 - C) The scarcity of resources
 - D) The point that moving along the *PPF* technology is held constant

Answer: A

Topic: *Increasing Opportunity Cost*

Skill: *Conceptual*

- 107) The fact that opportunity costs increase while moving along a production possibilities frontier means that the production possibilities frontier will
- A) reach a minimum and then rapidly increase.
 - B) be a straight line with a constant and positive slope.
 - C) be bowed out, away from the origin.
 - D) be bowed in, toward the origin

Answer: C

Topic: *Increasing Opportunity Cost*

Skill: *Conceptual*

- 108) The principle of increasing opportunity cost occurs because
- A) scarcity exists.
 - B) resources are being used inefficiently.
 - C) resources are not equally suited to all activities.
 - D) we must give up something to get something else.

Answer: C

Topic: *Increasing Opportunity Cost*

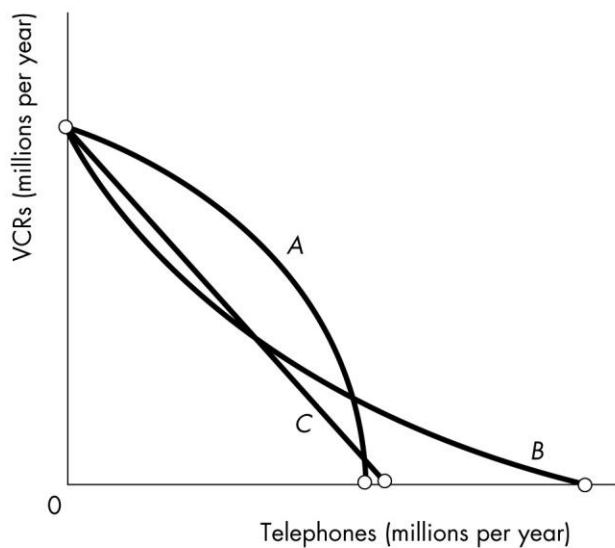
Skill: *Conceptual*

- 109) One point on a *PPF* shows production levels at 50 tons of coffee and 100 tons of bananas. Remaining on the *PPF*, an increase of banana production to 140 tons shows coffee production at 30 tons. Still remaining on the *PPF*, coffee production at 10 tons allows banana production at 160 tons. The opportunity cost of a ton of bananas is
- A) constant because coffee production decreased by the same amount each time.
 - B) decreasing, since the increase in banana production is less at each point considered.
 - C) 16 to 1, that is every 1 ton of coffee given up will result in 16 more tons of bananas.
 - D) increasing from 1/2 ton of coffee per ton of bananas to 1 ton of coffee per ton of bananas.

Answer: D

Topic: *Increasing Opportunity Cost*

Skill: *Analytical*



110) In the figure above, which of the curves shows a production possibilities frontier with increasing opportunity cost in the production of VCRs and telephones?

- A) A
- B) B
- C) C
- D) All of the curves illustrate a production possibilities frontier with increasing opportunity cost in the production of VCRs and telephones.

Answer: A

Topic: Increasing Opportunity Cost

Skill: Analytical

111) If the United States can increase its production of automobiles without decreasing its production of any other good, the United States must have been producing at a point

- A) within its PPF.
- B) on its PPF.
- C) beyond its PPF.
- D) None of the above is correct because increasing the production of one good without decreasing the production of another good is impossible.

Answer: A

Topic: Study Guide Question, Production Possibilities Frontier

Skill: Analytical

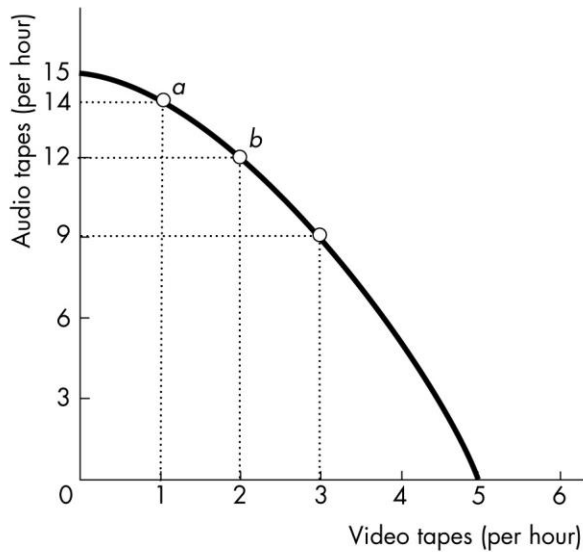
112) Production points inside the PPF are

- A) efficient but not attainable.
- B) efficient and attainable.
- C) inefficient and not attainable.
- D) inefficient and attainable.

Answer: D

Topic: Study Guide Question, Production Possibilities Frontier

Skill: Analytical



113) In the above figure, at point *a* what is the opportunity cost of producing one more audio tape?

- A) 1 video tape
- B) 2 video tapes
- C) 14 video tapes
- D) There is no opportunity cost.

Answer: A

Topic: Study Guide Question, Opportunity Cost

Skill: Analytical

114) In the above figure, at point *b* what is the opportunity cost of producing 2 more audio tapes?

- A) 1 video tape
- B) 2 video tapes
- C) 12 video tapes
- D) There is no opportunity cost.

Answer: A

Topic: Study Guide Question, Opportunity Cost

Skill: Analytical

115) Production efficiency means that

- A) scarcity is no longer a problem.
- B) producing more of one good is possible only if the production of some other good is decreased.
- C) as few resources as possible are being used in production.
- D) producing another unit of the good has no opportunity cost.

Answer: B

Topic: Study Guide Question, Production Efficiency

Skill: Conceptual

- 116) The existence of the tradeoff along the *PPF* means that the *PPF* is
- A) bowed outward.
 - B) linear.
 - C) negatively sloped.
 - D) positively sloped

Answer: C

Topic: Study Guide Question, Tradeoff

Skill: Conceptual

- 117) The bowed-outward shape of a *PPF*
- A) is due to capital accumulation.
 - B) reflects the unequal application of technology in production.
 - C) illustrates the fact that no opportunity cost is incurred for increasing the production of the good measured on the horizontal axis but it is incurred to increase production of the good measured along the vertical axis.
 - D) is due to the existence of increasing opportunity cost.

Answer: D

Topic: Study Guide Question, Opportunity Cost

Skill: Conceptual

- 118) Moving along a bowed-out *PPF* between milk and cotton, as more milk is produced the marginal cost of an additional gallon of milk
- A) rises.
 - B) does not change.
 - C) falls.
 - D) probably changes, but in an ambiguous direction.

Answer: A

Topic: Study Guide Question, Increasing Opportunity Cost

Skill: Analytical

- 119) A nation can *produce* at a point outside its *PPF*
- A) when it trades with other nations.
 - B) when it produces inefficiently.
 - C) when its *PPF* is bowed out.
 - D) never.

Answer: D

Topic: Study Guide Question, Production Possibilities Frontier

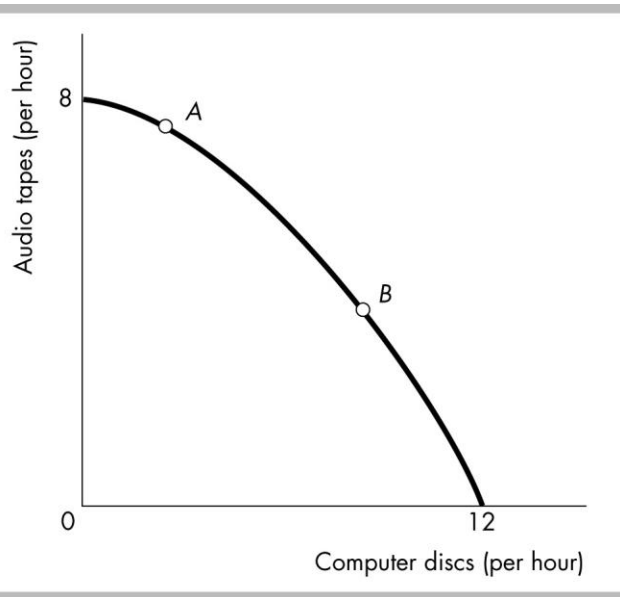
Skill: Analytical

- 120) A nation can *consume* at a point outside its *PPF*
- A) when it trades with other nations.
 - B) when it produces inefficiently.
 - C) when its *PPF* is bowed out.
 - D) never.

Answer: A

Topic: Study Guide Question, Production Possibilities Frontier

Skill: Analytical



- 121) In the above figure, point *A* is _____, and point *B* is _____.
- A) attainable, attainable
 - B) attainable, unattainable
 - C) unattainable, attainable
 - D) unattainable, unattainable

Answer: A

Topic: Parallel MyEconLab Questions, Production Possibilities Frontier

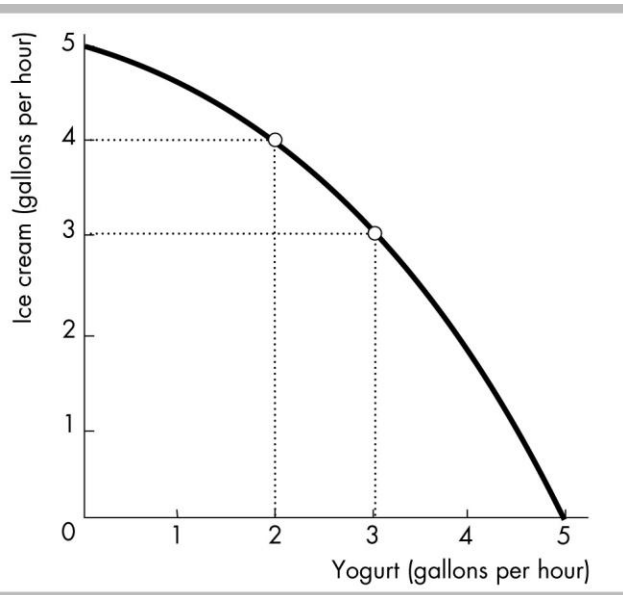
Skill: Analytical

- 122) Abe can catch 15 pounds of fish an hour or pick 30 pounds of fruit an hour. He works an 8-hour day, spending 5 hours picking fruit and 3 hours catching fish. Calculate Abe's opportunity cost of a pound of fruit.
- A) 6 minutes
 - B) 3 hours a day
 - C) 2 pounds of fish
 - D) 0.5 pounds of fish

Answer: D

Topic: Parallel MyEconLab Questions, Opportunity Cost

Skill: Analytical



- 123) In the figure above, if the quantity of yogurt produced increases from 2 gallons an hour to 3 gallons an hour, the opportunity cost of a gallon of yogurt in terms of ice cream is
- A) half a gallon.
 - B) 1 gallon.
 - C) 3 gallons.
 - D) 4 gallons.

Answer: B

Topic: Parallel MyEconLab Questions, Opportunity Cost

Skill: Analytical

- 124) Claire and Dag are farmers who produce beef and corn. In a year, Claire can produce 16 tons of beef or 40 bushels of corn, while Dag can produce 5 tons of beef or 25 bushels of corn. The opportunity cost of producing a ton of beef is
- A) 10 bushels of corn for Dag and 8 bushels of corn for Claire.
 - B) 5 bushels of corn for Dag and 2.5 bushels of corn for Claire.
 - C) 20 bushels of corn for Dag and 50 bushels of corn for Claire.
 - D) 36.5 days for Dag and 45.6 days for Claire.

Answer: B

Topic: Parallel MyEconLab Questions, Opportunity Cost

Skill: Analytical

- 125) Abe can catch 10 pounds of fish an hour or pick 10 pounds of fruit. Zeb can catch 30 pounds of fish an hour or pick 20 pounds of fruit. The opportunity cost of fish is _____ for Abe than for Zeb, and the opportunity cost of fruit is _____ for Abe than for Zeb.
- A) higher, lower
 - B) lower, higher
 - C) higher, higher
 - D) lower, lower

Answer: A

Topic: Parallel MyEconLab Questions, Opportunity Cost

Skill: Analytical

- 126) The production possibilities frontier separates _____.
- A) the goods and services that people want from those that they do not want
 - B) the types of goods that can be attained from those that can't be unattained
 - C) the quantities of goods and services that can be produced from those that cannot be produced
 - D) the combinations of goods that people value and those that they don't

Answer: C

Topic: *Production Possibilities Frontier*

Skill: *Conceptual*

- 127) When production is efficient, _____.
- A) our choice of the goods can be either on or within the production possibilities frontier
 - B) we can satisfy our all wants
 - C) the opportunity cost is as low as possible
 - D) we face a tradeoff and incur an opportunity cost

Answer: D

Topic: *Production Efficiency*

Skill: *Conceptual*

- 128) As we move along a bowed-out production possibility frontier, producing more tacos and less pizza, the opportunity cost of a pizza _____.
- A) increases
 - B) remains the same
 - C) decreases
 - D) increases and then decreases

Answer: C

Topic: *Opportunity Cost*

Skill: *Conceptual*

- 129) Moving from one point on the production possibilities frontier to another _____.
- A) involves a tradeoff but does not incur an opportunity cost
 - B) involves an opportunity cost but no tradeoff
 - C) involves a tradeoff and incurs an opportunity cost
 - D) involves no tradeoff but it does incur an opportunity cost

Answer: C

Topic: *Opportunity Cost and Tradeoff*

Skill: *Conceptual*

- 130) Harry produces 2 balloon rides and 4 boat rides an hour. Harry could produce more balloon rides but to do so he must produce fewer boat rides. Harry is _____ his production possibilities frontier.
- A) moving along
 - B) producing on
 - C) producing outside
 - D) producing inside

Answer: B

Topic: *Production Possibilities Frontier*

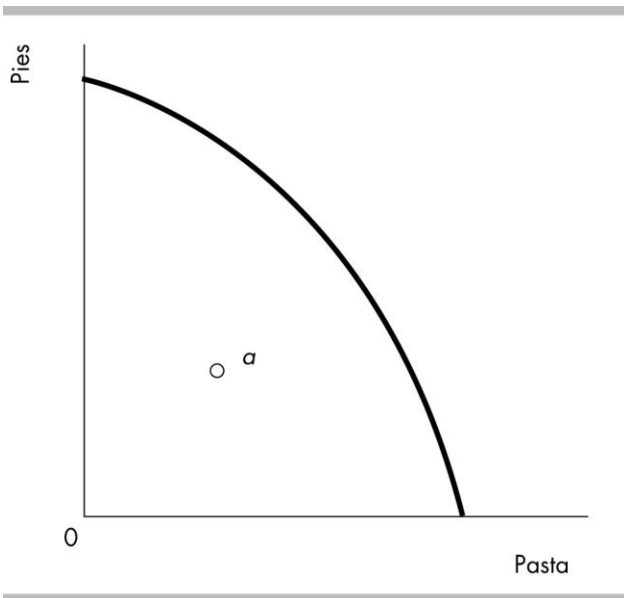
Skill: *Conceptual*

- 131) Production efficiency occurs when production _____.
- A) is at a point beyond the production possibilities frontier
 - B) is on the production possibilities frontier or inside it
 - C) is at any attainable point
 - D) is on the production possibilities frontier

Answer: D

Topic: Production Efficiency

Skill: Conceptual

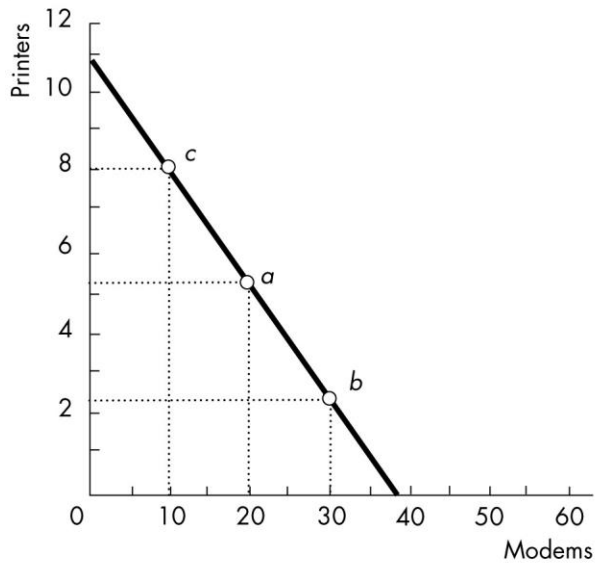


- 132) The figure above shows Roger's production possibilities frontier. Point *a* is an _____ point and production is _____.
- A) attainable; efficient
 - B) attainable; inefficient
 - C) unattainable; inefficient
 - D) unattainable; efficient

Answer: B

Topic: Production Possibilities Frontier

Skill: Conceptual



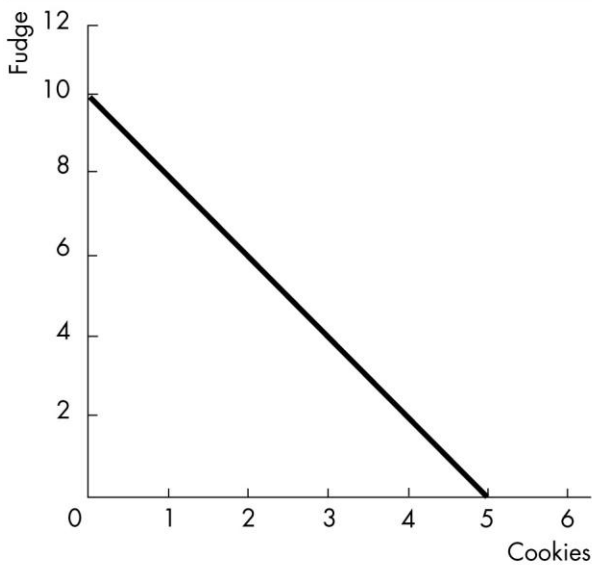
133) Vicky currently produces at point *a* in the figure above. If Vicky moves from point *a* to point *b* to point *c*, her opportunity cost of a modem _____.

- A) decreases
- B) increases
- C) is zero
- D) remains the same

Answer: D

Topic: Opportunity Cost

Skill: Conceptual



134) The figure above shows Freda's *PPF*. Freda currently produces 10 packets of fudge and no cookies. If Freda decides to produce 1 packet of cookies, her opportunity cost of the packet of cookies is _____ of fudge.

- A) 1 packet
- B) 1/2 packet
- C) 2 packets
- D) 0 packets

Answer: C

Topic: Opportunity Cost

Skill: Analytical

Hot dogs (number per hour)	and	Hamburger s (number per hour)
60	and	0
40	and	20
20	and	40
0	and	60

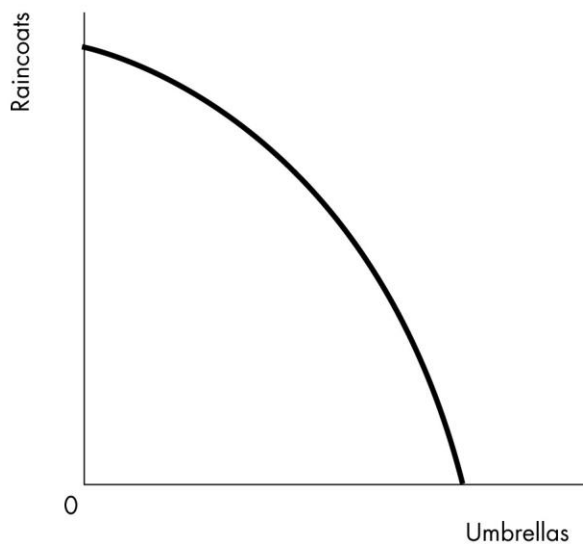
135) Joe's hot dog stand can produce hot dogs and hamburgers. The table gives Joe's production possibilities. The opportunity cost of _____.

- A) the 20th hot dog is 0 hamburgers
- B) the 40th hamburger is 20 hot dog
- C) 1 hamburger is 10 hot dogs
- D) the first 20 hot dogs is 20 hamburgers

Answer: D

Topic: Opportunity Cost

Skill: Analytical



136) As Rainclouds Inc. moves downward along its production possibilities frontier, illustrated in the figure above, the opportunity cost of a raincoat _____.

- A) decreases
- B) depends on the initial quantity produced
- C) increases
- D) remains the same

Answer: A

Topic: Opportunity Cost

Skill: Conceptual

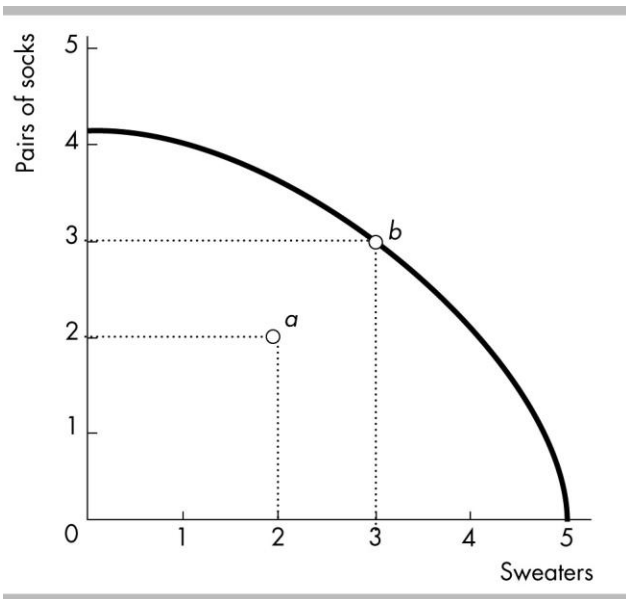
137) In one day, Sue can change the oil on 20 cars or change the tires on 20 cars. In one day, Fred can change the oil on 20 cars or change the tires on 10 cars. Sue's opportunity cost of changing oil is _____ than Fred's and her opportunity cost for changing tires is _____ than Fred's.

- A) greater; less
- B) less; greater
- C) less; less
- D) greater; greater

Answer: A

Topic: Gains From Trade, Opportunity Cost

Skill: Analytical

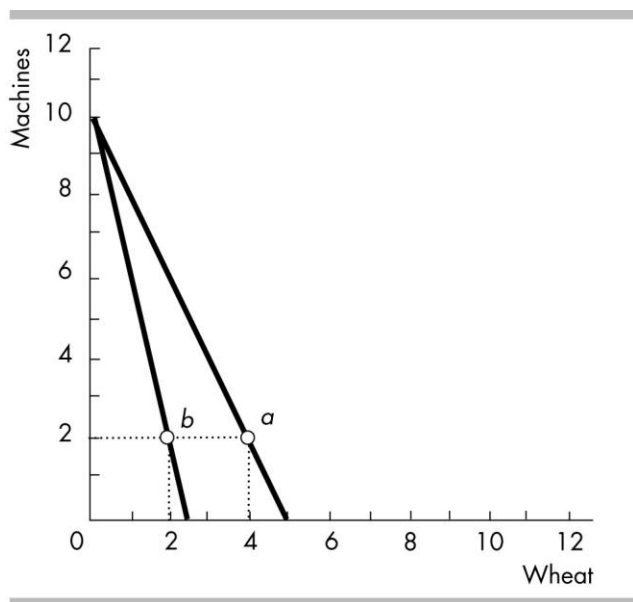


- 138) The opportunity cost of moving from point *a* to point *b* in the above figure is _____.
- A) zero
 - B) $3/2$ pairs of socks per sweater
 - C) 3 pairs of socks
 - D) 2 sweaters

Answer: A

Topic: Opportunity Cost

Skill: Analytical

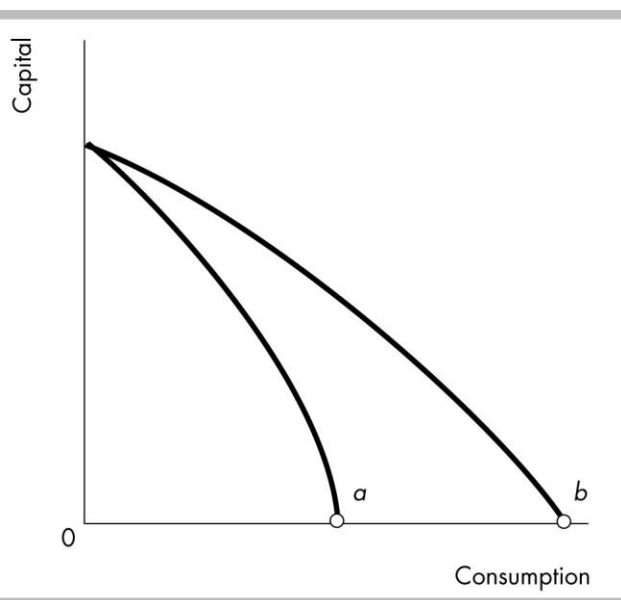


- 139) An economy produces at point *a* on the *PPF* shown in the above figure. A drought reduces the amount of wheat produced and the economy produces at point *b*. The opportunity cost of a unit of wheat _____.
- A) remains the same
 - B) increases
 - C) is impossible to calculate without numbers on the axes
 - D) decreases

Answer: B

Topic: Opportunity Cost

Skill: Conceptual



140) The opportunity cost of producing a unit of consumption at point *b* in the figure _____ point *a*.

- A) is greater than at
- B) is less than at
- C) cannot be compared with
- D) is the same as

Answer: B

Topic: Opportunity Cost

Skill: Conceptual

141) As a country that has a bowed-out production possibilities frontier produces more of the good in which it has a comparative advantage, the opportunity cost of a unit of that good _____.

- A) might increase or decrease
- B) remains the same
- C) increases
- D) decreases

Answer: C

Topic: Opportunity Cost

Skill: Conceptual

2.2 Using Resources Efficiently

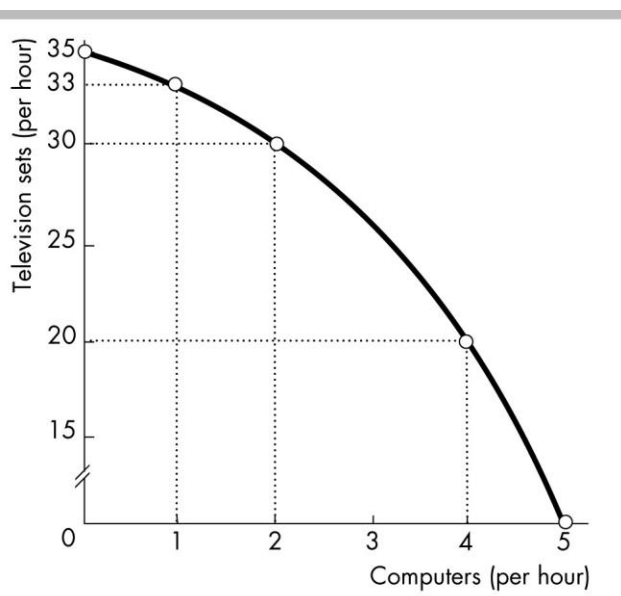
1) Marginal cost is the opportunity cost

- A) that your activity imposes on someone else.
- B) that arises from producing one more unit of a good or service.
- C) of a good or service that exceeds its benefit.
- D) of a good or service divided by the number of units produced.

Answer: B

Topic: Marginal Cost

Skill: Recognition



- 2) In the figure above, the marginal cost of producing a computer
- A) rises as more computers are produced.
 - B) stays the same as more computers are produced.
 - C) falls as more computers are produced.
 - D) is the same as the marginal cost of producing a television set.

Answer: A

Topic: Marginal Cost

Skill: Analytical

- 3) In the figure above, the marginal cost of the second computer is
- A) 2 television sets.
 - B) 3 television sets.
 - C) 5 television sets.
 - D) 30 television sets.

Answer: B

Topic: Marginal Cost

Skill: Analytical

- 4) In the figure above, the marginal cost of the fifth computer is
- A) 0 television sets.
 - B) 4 television sets.
 - C) 20 television sets.
 - D) 35 television sets.

Answer: C

Topic: Marginal Cost

Skill: Analytical

- 5) Marginal cost curves generally slope
- A) upward because of increasing opportunity cost.
 - B) upward because of decreasing opportunity cost.
 - C) downward because of increasing opportunity cost.
 - D) downward because of decreasing opportunity cost.

Answer: A

Topic: Marginal Cost

Skill: Recognition

- 6) Marginal benefit is the benefit
- A) that your activity provides to someone else.
 - B) of producing a good or service when the total benefit from the good or service exceeds its total cost.
 - C) that is received from consuming one more unit of a good or service.
 - D) of consuming another good or service divided by the total number of goods or services produced.

Answer: C

Topic: Marginal Benefit

Skill: Recognition

- 7) The marginal benefit from a good is the maximum amount a person is willing to pay for
- A) all of the good the person consumes.
 - B) one more unit of the good.
 - C) all of the units of the good the person consumes divided by the number of units he or she purchases.
 - D) one more unit of the good divided by the number of units purchased.

Answer: B

Topic: Marginal Benefit

Skill: Recognition

- 8) The marginal benefit of a good or service is measured by
- A) willingness to pay for an additional unit of it.
 - B) the consumers' ability to pay for it.
 - C) the cost of producing an additional unit of it.
 - D) the average social benefit received from consuming it.

Answer: A

Topic: Marginal Benefit

Skill: Recognition

- 9) The marginal benefit of a good or service usually
- A) increases as we consume more of it.
 - B) decreases as we consume more of it.
 - C) stays constant as we consume more of it.
 - D) decreases as we consume less of it.

Answer: B

Topic: Marginal Benefit

Skill: Recognition

- 10) Marginal benefit curves generally slope
- A) upward because of increasing opportunity cost.
 - B) upward, but not because of increasing opportunity cost.
 - C) downward because of increasing opportunity cost.
 - D) downward, but not because of increasing opportunity cost.

Answer: D

Topic: Marginal Benefit

Skill: Conceptual

- 11) Marginal benefit curves slope
- A) upward and so do marginal cost curves.
 - B) upward, but marginal cost curves slope downward.
 - C) downward and so do marginal cost curves.
 - D) downward, but marginal cost curves slope upward.

Answer: D

Topic: Marginal Benefit

Skill: Recognition

Television sets per year (million)	Willingness to pay (computers per television set)
1	2.5
2	2.0
3	1.5
4	1.0
5	0.5

- 12) In the table above, the marginal benefit of the 4 millionth television set is
- A) negative 0.5 computers per television set.
 - B) 0.25 computers per television set.
 - C) 0.5 computers per television set.
 - D) 1.0 computer per television set.

Answer: D

Topic: Marginal Benefit

Skill: Analytical

- 13) Resource use is efficient when
- A) we produce the goods with the highest opportunity cost.
 - B) we produce the goods with the lowest opportunity cost.
 - C) we cannot produce more goods and services.
 - D) we produce the amount of the different goods we value most highly.

Answer: D

Topic: Efficient Use of Resources

Skill: Recognition

- 14) When we cannot produce more of any good without giving up some other good that we value more highly, we have achieved
- A) production.
 - B) equity.
 - C) allocative efficiency.
 - D) economic growth.

Answer: C

Topic: *Efficient Use of Resources*

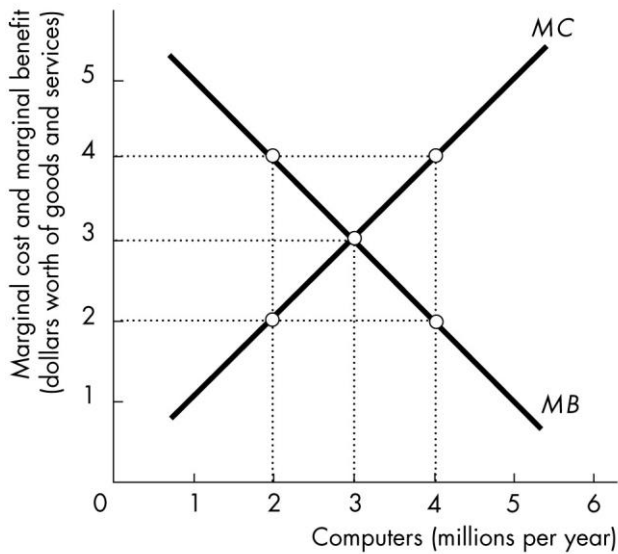
Skill: *Recognition*

- 15) If the marginal benefit of a good exceeds its marginal cost
- A) we've achieved efficient resource use.
 - B) we should produce more to achieve efficient resource use.
 - C) we should produce less to achieve efficient resource use.
 - D) we cannot tell if more or less should be produced to achieve efficient resource use.

Answer: B

Topic: *Efficient Use of Resources*

Skill: *Conceptual*



- 16) In the above figure, if 2 million computers are produced per year then the _____ should be produced to achieve efficient resource use.
- A) marginal cost of a computer exceeds the marginal benefit of a computer, so more computers
 - B) marginal cost of a computer exceeds the marginal benefit of a computer, so fewer computers
 - C) marginal benefit of a computer exceeds the marginal cost of a computer, so more computers
 - D) marginal benefit of a computer exceeds the marginal cost of a computer, so fewer computers

Answer: C

Topic: *Efficient Use of Resources*

Skill: *Analytical*

- 17) In the figure above, if 4 million computers are produced per year then the _____ should be produced to achieve efficient resource use.
- A) marginal cost of a computer exceeds the marginal benefit of a computer, so more computers
 - B) marginal cost of a computer exceeds the marginal benefit of a computer, so fewer computers
 - C) marginal benefit of a computer exceeds the marginal cost of a computer, so more computers
 - D) marginal benefit of a computer exceeds the marginal cost of a computer, so fewer computers

Answer: B

Topic: *Efficient Use of Resources*

Skill: *Analytical*

- 18) In the figure above, the efficient output of computers is
- A) 2 million per year.
 - B) 3 million per year.
 - C) 4 million per year.
 - D) the largest amount possible.

Answer: B

Topic: *Efficient Use of Resources*

Skill: *Analytical*

- 19) In the figure above, at the efficient level of computer production consumers are willing to give up
- A) 0 televisions per computer.
 - B) between 0 and 3 televisions per computer.
 - C) 3 televisions per computer.
 - D) more than 3 televisions per computer.

Answer: C

Topic: *Efficient Use of Resources*

Skill: *Analytical*

- 20) In the figure above, at the efficient level of computer production the marginal cost of producing a computer is
- A) 0 televisions per computer.
 - B) between 0 and 3 televisions per computer.
 - C) 3 televisions per computer.
 - D) more than 3 televisions per computer.

Answer: C

Topic: *Efficient Use of Resources*

Skill: *Analytical*

- 21) The most anyone is willing to pay for another purse is \$30. Currently the price of a purse is \$40, and the cost of producing another purse is \$50. The marginal benefit of a purse is
- A) \$50.
 - B) \$40.
 - C) \$30.
 - D) an amount not given in the answers above.

Answer: C

Topic: Study Guide Question, Marginal Benefit

Skill: Analytical

- 22) If the marginal benefit from another computer exceeds the marginal cost of the computer, then to use resources efficiently,
- A) more resources should be used to produce computers.
 - B) fewer resources should be used to produce computers.
 - C) if the marginal benefit exceeds the marginal cost by as much as possible, the efficient amount of resources are being used to produce computers.
 - D) None of the above is correct because marginal benefit and marginal cost have nothing to do with using resources efficiently.

Answer: A

Topic: Study Guide Question, Efficient Use of Resources

Skill: Analytical

- 23) Microsoft's marginal cost of the 100th copy of Windows Vista is _____.
- A) opportunity cost of producing the 100th copy of Windows Vista
 - B) the maximum amount that someone is willing to pay for the 100th copy of Windows Vista
 - C) maximum amount that she is willing to pay for 100 copies of Windows Vista
 - D) opportunity cost of producing 100 copies of Windows Vista

Answer: A

Topic: Marginal Cost

Skill: Conceptual

- 24) Beth reads two magazines this afternoon. The marginal benefit that Beth gets from the second magazine is the _____.
- A) opportunity cost of producing the second magazine
 - B) maximum amount that she is willing to pay for the second magazine
 - C) maximum amount that she is willing to pay for the first magazine plus the maximum amount she is willing to pay for the second magazine
 - D) opportunity cost of producing both magazines

Answer: B

Topic: Marginal Benefit

Skill: Conceptual

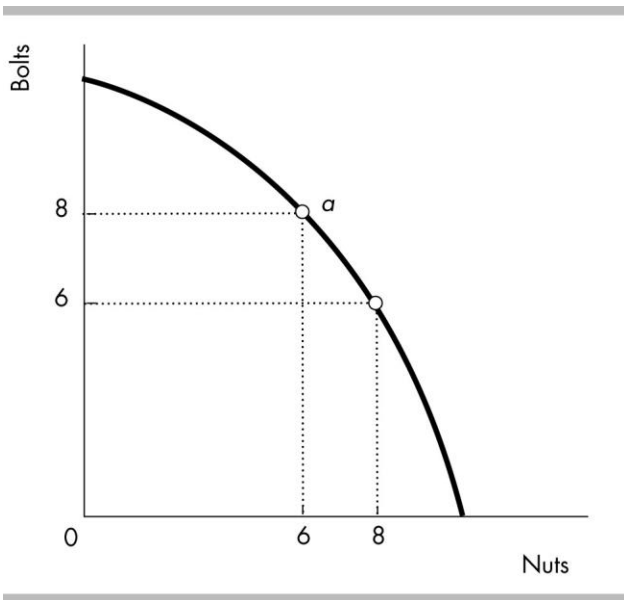
25) A country produces only pencils and erasers. Pencil production is efficient if the marginal _____ of a pencil equals the marginal _____ of _____.

- A) cost; benefit; an eraser
- B) cost; cost; an eraser
- C) benefit; benefit; an eraser
- D) benefit; cost; a pencil

Answer: D

Topic: Efficiency

Skill: Recognition



26) Victor currently produces nuts and bolts at point *a* in the figure. Victor's marginal cost of producing an additional nut is _____.

- A) 1 bolt
- B) 1/2 bolt
- C) 8/6 bolts
- D) 8 bolts

Answer: A

Topic: Marginal Cost

Skill: Analytical

Quantity (pizzas per day)	Marginal benefit (cans per day)	Marginal cost (cans per day)
10	26	14
20	24	16
30	22	18
40	20	20
50	18	22
60	16	24
70	14	26

27) The table above shows the marginal benefit from pizza and the marginal cost of pizza in cans of soda forgone. If _____ pizzas are produced, the quantity of soda that people are willing to give up to get an additional pizza is more than the quantity of soda that they must give up to get that additional pizza.

- A) any quantity other than 40
- B) 40
- C) more than 40
- D) fewer than 40

Answer: D

Topic: Efficiency

Skill: Analytical

Camel rides (per day)	Marginal benefit (tubes of sunscreen)	Marginal cost (tubes of sunscreen)
1	20	11
2	18	12
3	16	13
4	14	14
5	12	15
6	10	16

28) Leisure Land produces only sun screen and camel rides. The table shows the marginal benefit and marginal cost schedules for sun screen and camel rides. The efficient number of camel rides is _____.

- A) 1 ride per day because the marginal benefit exceeds the marginal cost by as much as possible
- B) 2 rides per day
- C) 4 rides per day
- D) 6 rides per day because that is the maximum number of rides

Answer: C

Topic: Efficiency

Skill: Analytical

2.3 Economic Growth

- 1) An expansion of the production possibilities frontier is
- A) called economic growth.
 - B) proof that scarcity is not a binding constraint.
 - C) a free gift of nature.
 - D) something that has occurred only rarely in history.

Answer: A

Topic: Economic Growth

Skill: Recognition

- 2) After Hurricane Katrina devastated parts of Mississippi and New Orleans in 2005, we can be sure that the production possibilities frontier for that area temporarily
- A) shifted inward, toward the origin.
 - B) shifted outward, away from the origin.
 - C) became flatter.
 - D) became steeper.

Answer: A

Topic: Economic Growth

Skill: Analytical

- 3) Economic growth is the result of all of the following EXCEPT
- A) technological change.
 - B) capital accumulation.
 - C) opportunity cost.
 - D) investment in human capital.

Answer: C

Topic: Economic Growth

Skill: Recognition

- 4) A key factor that leads to economic growth is
- A) human capital accumulation.
 - B) increasing current consumption.
 - C) avoiding the opportunity cost of investment.
 - D) Both answers A and B are correct.

Answer: A

Topic: Economic Growth

Skill: Recognition*

- 5) Technological progress makes the production possibilities frontier
- A) shift inward toward the origin.
 - B) become more linear and less bowed.
 - C) shift outward from the origin.
 - D) become less linear and more bowed.

Answer: C

Topic: Economic Growth

Skill: Recognition

- 6) Consider a production possibilities frontier with corn on the vertical axis and cars on the horizontal. Unusually good weather for growing corn shifts
- A) the horizontal intercept rightward and the vertical intercept upward.
 - B) the horizontal intercept rightward but does not shift the vertical intercept.
 - C) the vertical intercept upward but does not shift the horizontal intercept.
 - D) neither the horizontal intercept nor the vertical intercept.

Answer: C

Topic: Economic Growth

Skill: Analytical

- 7) Capital accumulation
- A) has no impact on the production possibilities frontier.
 - B) shifts the production possibilities frontier inward.
 - C) makes the production possibilities frontier steeper.
 - D) shifts the production possibilities frontier outward.

Answer: D

Topic: Economic Growth

Skill: Analytical

8) The production possibilities frontier shifts as

- A) tastes and preferences change.
- B) the money supply grows or shrinks.
- C) technology changes.
- D) the unemployment rate changes.

Answer: C

Topic: Economic Growth

Skill: Conceptual

9) The opportunity cost of economic growth is

- A) future consumption that a nation gets if it gives up some present consumption.
- B) future consumption that a nation gives up to consume more today
- C) present consumption that a nation gives up to accumulate capital
- D) investment that a nation gives up to increase its economic growth.

Answer: C

Topic: The Cost of Economic Growth

Skill: Conceptual*

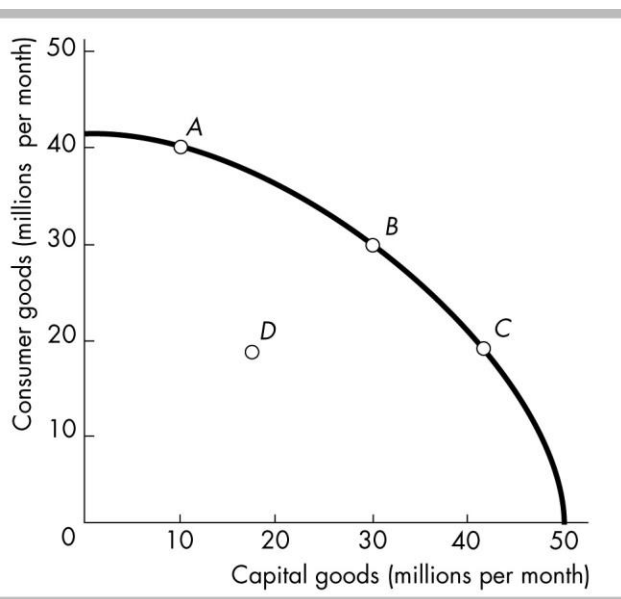
10) Economic growth

- A) leads to less consumption in the present but can increase consumption in the future.
- B) is free.
- C) is the major reason we face scarcity.
- D) allows us to increase our consumption in the present and in the future.

Answer: A

Topic: The Cost of Economic Growth

Skill: Conceptual*



- 11) The production possibilities frontier illustrated in the figure above will shift outward the most rapidly if point
- A) A is selected.
 - B) B is selected.
 - C) C is selected.
 - D) D is selected.

Answer: C

Topic: *The Cost of Economic Growth*

Skill: *Analytical*

- 12) The figure above shows the production possibilities frontiers for four nations that have identical production possibilities frontiers in the present. The one that will grow most rapidly in the future is most likely to be producing at point
- A) A.
 - B) B.
 - C) C.
 - D) D.

Answer: C

Topic: *The Cost of Economic Growth*

Skill: *Analytical*

- 13) Economic growth

- A) creates unemployment.
- B) has no opportunity cost.
- C) shifts the *PPF* outward.
- D) makes it more difficult for a nation to produce on its *PPF*.

Answer: C

Topic: *Study Guide Question, Economic Growth*

Skill: *Conceptual*

- 14) The *PPF* shifts if

- A) the unemployment rate falls.
- B) people decide they want more of one good and less of another.
- C) the prices of the goods and services produced rise.
- D) the resources available to the nation change.

Answer: D

Topic: *Study Guide Question, Economic Growth*

Skill: *Conceptual*

- 15) An increase in the nation's capital stock will

- A) shift the *PPF* outward.
- B) cause a movement along the *PPF* upward and leftward.
- C) cause a movement along the *PPF* downward and rightward.
- D) move the nation from producing within the *PPF* to producing at a point closer to the *PPF*.

Answer: A

Topic: *Study Guide Question, Economic Growth*

Skill: *Conceptual*

16) One of the opportunity costs of economic growth is

- A) capital accumulation.
- B) technological change.
- C) reduced current consumption.
- D) the gain in future consumption.

Answer: C

Topic: Study Guide Question, Economic Growth

Skill: Conceptual

17) In general, the more resources that are devoted to technological research, the

- A) greater is current consumption.
- B) higher is the unemployment rate.
- C) faster the PPF shifts outward.
- D) more the PPF will bow outward.

Answer: C

Topic: Study Guide Question, Economic Growth

Skill: Conceptual

18) An increase in the nation's capital stock will

- A) shift the PPF outward.
- B) cause a movement along the PPF up and to the left.
- C) cause a movement along the PPF down and to the right.
- D) move the nation from producing within the PPF to producing at a point closer to the PPF.

Answer: A

Topic: Study Guide Question, Economic Growth

Skill: Analytical

19) Economic growth comes from _____.

- A) people willing to increase their skills in which case, economic growth is free
- B) producing more goods than people want to consume
- C) capital accumulation and the avoidance of opportunity cost
- D) capital accumulation and technological advance

Answer: D

Topic: Economic Growth

Skill: Recognition

20) When economic growth occurs, the

- A) economy moves along its production possibilities frontier
- B) production possibilities frontier shifts outward
- C) production possibilities frontier becomes steeper
- D) production possibilities frontier shifts outward but no longer limits the amount that can be produced.

Answer: B

Topic: Economic Growth

Skill: Recognition

- 21) An economy that uses new technology _____.
- A) moves along its *PPF* and incurs an opportunity cost
 - B) experiences economic growth but incurs an opportunity cost
 - C) has its *PPF* shift inward because more unemployment is created
 - D) does not incur an opportunity cost because everyone can use new technology

Answer: B

Topic: Economic Growth

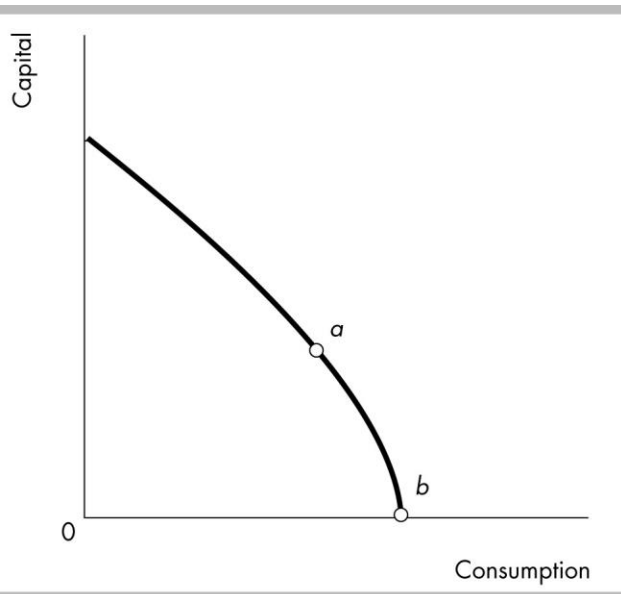
Skill: Recognition

- 22) In March 2006, a factory used new technology to produce its output. Then in August 2006, a fire destroys half the factory. The new technology shifted the factory's *PPF* _____ and the fire shifted it _____.
- A) inward; outward
 - B) outward; inward
 - C) outward; outward
 - D) inward; inward

Answer: B

Topic: Economic Growth

Skill: Conceptual



- 23) Two countries, Alpha and Beta, have identical production possibilities frontiers. If Alpha produces at point *a* and Beta produces at point *b*, then _____.
- A) Beta's economic growth rate will exceed Alpha's
 - B) Alpha consumes less than Beta today, but it will grow faster than Beta
 - C) Alpha's and Beta's economic growth rates will be the same
 - D) Beta's future consumption will be greater than Alpha's

Answer: B

Topic: Economic Growth

Skill: Conceptual

2.4 Gains From Trade

- 1) Because of the existence of comparative advantage, the total output of goods is higher when each producer
- A) produces several different goods.
 - B) produces at the midpoint of its *PPF*.
 - C) specializes in the production of a particular good.
 - D) makes both intermediate and final goods.

Answer: C

Topic: *Comparative Advantage*

Skill: *Recognition*

- 2) A person has a comparative advantage in producing a particular good if that person
- A) has higher productivity in producing it than anyone else has.
 - B) can produce it at lower opportunity cost than anyone else can.
 - C) has less desire to consume that good than anyone else has.
 - D) has more human capital related to that good than anyone else has.

Answer: B

Topic: *Comparative Advantage*

Skill: *Recognition*

- 3) When a nation has a comparative advantage in the production of a particular good,
- A) the nation tends to avoid specialization.
 - B) the comparative advantage encourages self-sufficiency.
 - C) the opportunity cost of producing that good is higher than that of other goods.
 - D) the nation can gain from trade.

Answer: D

Topic: *Comparative Advantage*

Skill: *Analytical*

- 4) Individuals A and B both produce good X. A has a comparative advantage in the production of good X if A
- A) has a lower opportunity cost of producing good X than has B.
 - B) has a lower opportunity cost of producing good X than of producing good Y.
 - C) can produce more units of X in a given time period than can B.
 - D) can produce X using newer technology than can B.

Answer: A

Topic: *Comparative Advantage*

Skill: *Recognition*

- 5) In an eight-hour day, Andy can produce either 24 loaves of bread or 8 pounds of butter. In an eight-hour day, Bob can produce either 8 loaves of bread or 8 pounds of butter. Andy has a comparative advantage in the production of
- A) bread, while Bob has a comparative advantage in the production of butter.
 - B) butter, while Bob has a comparative advantage in the production of bread.
 - C) bread and neither has a comparative advantage in the production of butter.
 - D) both bread and butter.

Answer: A

Topic: *Comparative Advantage*

Skill: *Analytical*

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

- 6) In the table above, country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. The opportunity cost of producing more of
- A) good X is the same for both countries.
 - B) good Y is the same for both countries.
 - C) good X is lower in country A.
 - D) good Y is lower in country A.

Answer: D

Topic: Comparative Advantage

Skill: Analytical

- 7) In the table above, country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. Regarding the production of good X
- A) country A has an absolute advantage.
 - B) country B has an absolute advantage.
 - C) country A has a comparative advantage.
 - D) country B has a comparative advantage.

Answer: D

Topic: Comparative Advantage

Skill: Analytical

- 8) In the table above, country B is producing 4 units of X and 6 units of Y. For country B, the opportunity cost of producing an additional unit of X is
- A) 4 units of Y.
 - B) 2 units of Y.
 - C) $3/2$ units of Y.
 - D) 1 unit of Y

Answer: C

Topic: Comparative Advantage

Skill: Analytical

- 9) In the table above, country B is producing 4 units of X and 6 units of Y. For country B, the opportunity cost of producing an additional unit of Y is
- A) $1/2$ unit of X.
 - B) $2/3$ unit of X.
 - C) 2 units of X.
 - D) 3 units of X.

Answer: B

Topic: Comparative Advantage

Skill: Analytical

- 10) Both Mergatroid and the Geebocks produce only gizmos and widgets. It is possible for Mergatroid to have
- A) an absolute and a comparative advantage in both products.
 - B) an absolute but not a comparative advantage in both products.
 - C) a comparative but not an absolute advantage in both products.
 - D) neither a comparative nor an absolute advantage in both products.

Answer: B

Topic: Comparative Advantage

Skill: Recognition

- 11) One of the largest categories of exports from the United States is now pop culture: movies, music, TV programming, and videos. A direct conclusion from this information is that, compared to other countries, the United States has
- A) lower wages for producers of pop culture.
 - B) higher wages for producers of pop culture.
 - C) an absolute advantage in producing pop culture.
 - D) a comparative advantage in producing pop culture.

Answer: D

Topic: Achieving the Gains From Trade

Skill: Conceptual

- 12) One of the largest categories of exports from the United States is now pop culture: movies, music, TV programming, and videos. A direct conclusion from this information is that, compared to other countries, the United States has
- A) lower wages for producers of pop culture.
 - B) higher wages for producers of pop culture.
 - C) a higher opportunity cost of producing pop culture.
 - D) a lower opportunity cost of producing pop culture.

Answer: D

Topic: Achieving the Gains From Trade

Skill: Conceptual

- 13) George and Michael can gain from exchange
- A) unless one has an absolute advantage in all goods.
 - B) if each specializes in the production of the good for which he has the higher opportunity cost.
 - C) if each specializes in the production of the good for which he has the lower opportunity cost.
 - D) unless they have different opportunity costs.

Answer: C

Topic: Achieving the Gains From Trade

Skill: Analytical

- 14) To obtain the gains available from comparative advantage, individuals or countries must do more than specialize; they must also
- A) save.
 - B) invest.
 - C) engage in research and development.
 - D) trade.

Answer: D

Topic: Achieving the Gains From Trade

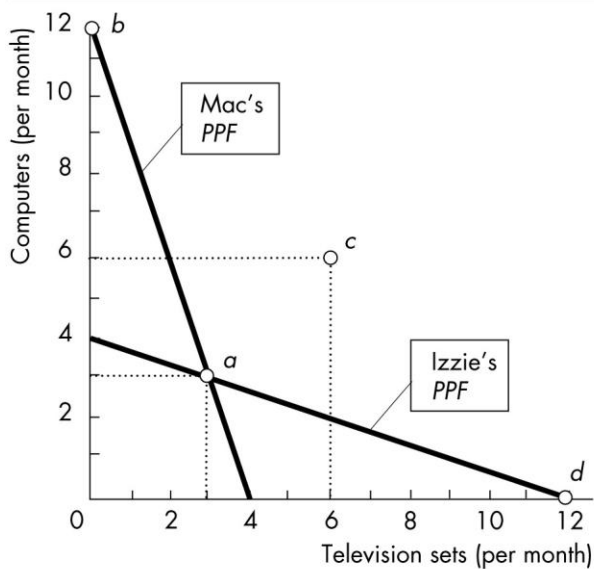
Skill: Analytical

- 15) By specialization and trade, two individuals can
- A) consume at a point beyond their individual production possibilities frontiers.
 - B) increase their comparative advantage.
 - C) increase their absolute advantage.
 - D) shift their individual production possibilities frontiers outward.

Answer: A

Topic: Achieving the Gains From Trade

Skill: Analytical



- 16) In the figure above, suppose that Mac and Izzie trade and reach point c. Then
- A) Mac produces outside his production possibilities frontier.
 - B) Izzie produces outside her production possibilities frontier.
 - C) Mac and Izzie both produce outside their production possibilities frontiers.
 - D) neither Mac nor Izzie produce outside their production possibilities frontiers.

Answer: D

Topic: Gains From Trade

Skill: Conceptual

- 17) In the figure above, suppose that Mac and Izzie trade and reach point *c*. Then
- A) Mac and Izzie should both produce at point *a*.
 - B) Mac should produce at point *b* and Izzie should produce at point *d*.
 - C) Mac should produce at point *d* and Izzie should produce at point *b*.
 - D) Mac and Izzie should both produce at point *c*.

Answer: B

Topic: Gains From Trade

Skill: Analytical

- 18) In the figure above, if Mac and Izzie both completely specialized and traded with one another, their joint output would be
- A) 3 computers and 3 TV sets per month.
 - B) 6 computers and 6 TV sets per month.
 - C) 12 computers and 12 TV sets per month.
 - D) 24 computers and 24 TV sets per month.

Answer: C

Topic: Gains From Trade

Skill: Analytical

- 19) In the figure above, suppose that Mac and Izzie specialize and trade to reach point *c*. Mac sends Izzie
- A) 12 computers in exchange for 12 TVs.
 - B) 12 computers in exchange for 6 TVs.
 - C) 6 computers in exchange for 12 TVs.
 - D) 6 computers in exchange for 6 TVs.

Answer: D

Topic: Gains From Trade

Skill: Analytical

- 20) A person who has an absolute advantage in the production of all goods will
- A) also have a comparative advantage in the production of all goods.
 - B) not be able to gain from specialization and exchange.
 - C) have a production possibilities frontier with a constant slope.
 - D) have a comparative advantage only in the production of some goods but not for others.

Answer: D

Topic: Absolute Advantage

Skill: Recognition

- 21) Whenever a person can produce more of all goods than anyone else, that person
- A) should specialize in everything.
 - B) has a comparative advantage in everything.
 - C) should be self-sufficient.
 - D) has an absolute advantage.

Answer: D

Topic: Absolute Advantage

Skill: Analytical

- 22) A person who has an absolute advantage will
- A) not have a comparative advantage in everything.
 - B) have a comparative advantage in everything.
 - C) not specialize.
 - D) not trade.

Answer: A

Topic: *Absolute Advantage*

Skill: *Conceptual*

- 23) If a person can produce more of all goods than anyone else, that person
- A) has an absolute advantage.
 - B) has a comparative advantage in the production of all goods.
 - C) will be unable to gain from specialization and exchange.
 - D) is no longer affected by scarcity.

Answer: A

Topic: *Absolute Advantage*

Skill: *Conceptual*

- 24) Homer and Teddy are stranded on a desert island. To feed themselves each day they can either catch fish or pick fruit. In a day, Teddy could pick 60 pieces of fruit or catch 20 fish. Homer could pick 100 pieces of fruit or catch 150 fish. Which of the following is correct?
- A) Homer has a comparative advantage in catching fish and Teddy has a comparative advantage in picking fruit.
 - B) Homer has a comparative advantage in picking fruit and Teddy has a comparative advantage in catching fish.
 - C) Homer has a comparative advantage in both catching fish and picking fruit.
 - D) Teddy has a comparative advantage in both catching fish and picking fruit.

Answer: A

Topic: *Comparative Advantage*

Skill: *Analytical*

- 25) Homer and Teddy are stranded on a desert island. To feed themselves each day they can either catch fish or pick fruit. In a day, Teddy could pick 60 pieces of fruit or catch 20 fish. Homer could pick 100 pieces of fruit or catch 150 fish. Which of the following statements is correct?
- A) Homer has an absolute advantage in catching fish and Teddy has an absolute advantage in picking fruit.
 - B) Homer has an absolute advantage in picking fruit and Teddy has an absolute advantage in catching fish.
 - C) Homer has an absolute advantage in both catching fish and picking fruit.
 - D) Teddy has an absolute advantage in both catching fish and picking fruit.

Answer: C

Topic: *Absolute Advantage*

Skill: *Analytical*

- 26) Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour. The opportunity cost of producing a unit of X is
- A) 1 unit of Y for Agnes and 2 units of Y for Brenda.
 - B) 1 unit of Y for Agnes and 1/2 unit of Y for Brenda.
 - C) 1 hour for Agnes and 1/2 hour for Brenda.
 - D) 1 hour for Agnes and 2 hours for Brenda.

Answer: A

Topic: Comparative Advantage

Skill: Analytical

- 27) Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour. The opportunity cost of producing a unit of Y is
- A) 1 unit of X for Agnes and 2 units of X for Brenda.
 - B) 1 unit of X for Agnes and 1/2 unit of X for Brenda.
 - C) 1 hour for Agnes and 1/2 hour for Brenda.
 - D) 1 hour for Agnes and 2 hours for Brenda.

Answer: B

Topic: Comparative Advantage

Skill: Analytical

- 28) Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour. There can be gains from exchange
- A) if Agnes specializes in the production of X and Brenda specializes in the production of Y.
 - B) if Agnes specializes in the production of Y and Brenda specializes in the production of X.
 - C) only if Agnes becomes faster at producing X.
 - D) only if Brenda becomes faster at producing X or Y.

Answer: A

Topic: Achieving the Gains From Trade

Skill: Analytical

- 29) Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 units of X or 4 units of Y in an hour.
- A) Brenda has an absolute advantage over Agnes.
 - B) Agnes has a comparative advantage in the production of Y.
 - C) Brenda has a comparative advantage in the production of X.
 - D) Brenda cannot gain from trade.

Answer: A

Topic: Absolute Advantage

Skill: Analytical

- 30) Dynamic comparative advantage arises from
- A) absolute advantage.
 - B) learning-by-doing.
 - C) increasing opportunity cost.
 - D) decreasing marginal benefit.

Answer: B

Topic: Dynamic Comparative Advantage

Skill: Recognition

- 31) Learning-by-doing is a basis for
- A) absolute comparative advantage.
 - B) eliminating opportunity cost.
 - C) reducing the gains from trade over time.
 - D) dynamic comparative advantage.

Answer: D

Topic: *Dynamic Comparative Advantage*

Skill: *Recognition*

- 32) In order to achieve the maximum gains from trade, people should specialize according to
- A) property rights.
 - B) PPF.
 - C) absolute advantage.
 - D) comparative advantage.

Answer: D

Topic: *Study Guide Question, Gains From Trade*

Skill: *Analytical*

- 33) In one day, Brandon can either plow 10 acres or plant 20 acres. In one day, Christopher can either plow 14 acres or plant 14 acres. Which of the following statements about comparative advantage is correct?
- A) Brandon has a comparative advantage in both plowing and planting.
 - B) Brandon has a comparative advantage only in plowing.
 - C) Brandon has a comparative advantage only in planting.
 - D) Christopher has a comparative advantage in both plowing and planting.

Answer: C

Topic: *Study Guide Question, Comparative Advantage*

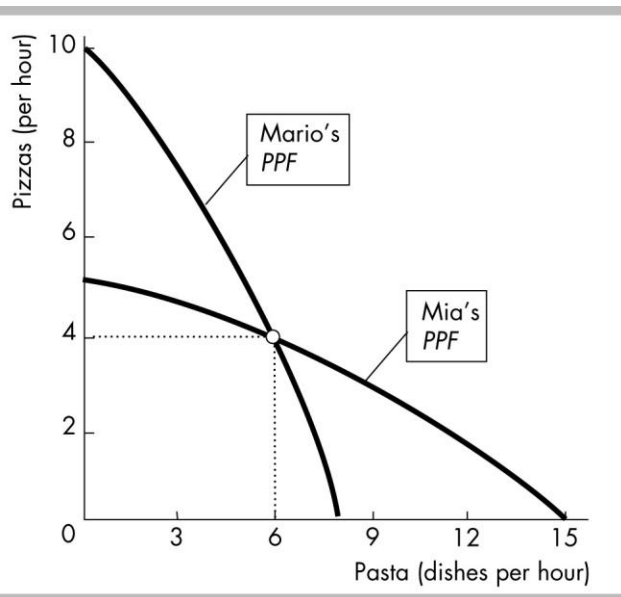
Skill: *Analytical*

- 34) In one day, Brandon can either plow 10 acres or plant 20 acres. In one day, Christopher can either plow 14 acres or plant 14 acres. Brandon and Christopher can
- A) gain from exchange if Brandon specializes in planting and Christopher specializes in plowing.
 - B) gain from exchange if Brandon specializes in plowing and Christopher specializes in planting.
 - C) exchange, but only Brandon will gain from the exchange.
 - D) exchange, but only Christopher will gain from the exchange.

Answer: A

Topic: *Study Guide Question, Comparative Advantage*

Skill: *Analytical*



- 35) Refer to the above figure. Mario is self-sufficient and so is Mia. Each produces 6 dishes of pasta and 4 pizzas. Mario and Mia decide to specialize and trade. After they have specialized and traded, compared to the initial situation, Mia's opportunity cost of pasta has _____ and Mario's opportunity cost of a pizza has _____.
- A) decreased, decreased
 - B) decreased, increased
 - C) increased, increased
 - D) increased, decreased

Answer: C

Topic: Parallel MyEconLab Questions, Achieving the Gains from Trade

Skill: Analytical

- 36) Tom and Di grow tomatoes and turnips. Tom has a comparative advantage in growing tomatoes if _____.
- A) Tom can grow more tomatoes than Di can
 - B) his opportunity cost of tomatoes is less than Di's opportunity cost of tomatoes
 - C) his opportunity cost of tomatoes is less than his opportunity cost of turnips
 - D) his marginal benefit from tomatoes is greater than Di's

Answer: B

Topic: Comparative Advantage

Skill: Recognition

- 37) If Tom and Di specialize in producing the goods in which he and she have a comparative advantage and they exchange goods, then _____.
- A) each will produce a combination of goods that is within her/his production possibility frontier
 - B) they will lose because they are no longer able to produce and consume both goods.
 - C) each will gain because each can consume a combination of goods that is outside her/his production possibility frontier
 - D) one of them will gain and the other will lose

Answer: C

Topic: Comparative Advantage

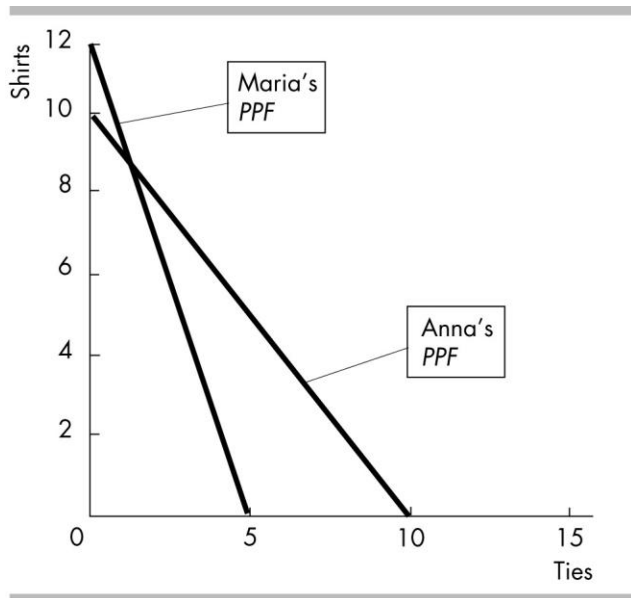
Skill: Recognition

- 38) In an hour, Andy can make either 5 pizzas or 12 pies and Chris can make either 6 pizzas or 18 pies. _____ advantage in making pizzas.
- A) Andy has an absolute
 - B) Andy has a comparative
 - C) Chris has a comparative
 - D) None of the above answers is correct.

Answer: B

Topic: Comparative Advantage

Skill: Analytical



- 39) Anna and Maria produce shirts and ties. The figure above shows Anna's PPF and Maria's PPF. Anna and Maria can achieve the gains from trade if Anna produces _____ and Maria produces _____.
- A) ties; shirts
 - B) shirts and ties; only ties
 - C) only ties; shirts and ties
 - D) shirts; ties

Answer: A

Topic: Gains From Trade

Skill: Analytical

- 40) Big Lobster sells lobster and fish, and so too does H Salt. If Big Lobster's opportunity cost of preparing lobster exceeds H Salt's opportunity cost, then all the following are true EXCEPT _____.
- A) H Salt doesn't have a comparative advantage in cooking fish.
 - B) Big Lobster has a comparative advantage in lobster.
 - C) They will both gain if Big Lobster sells fish and H Salt sells lobster.
 - D) H Salt has a comparative advantage in lobster.

Answer: B

Topic: Comparative Advantage

Skill: Conceptual

- 41) Suppose that the United States and Cuba decide to open up trade. If each country specializes in the good in which it has a comparative advantage, _____ will gain from that trade because _____.
- A) both countries; consumption possibilities in both Cuba and the United States will lie outside their *PPFs*.
 - B) neither country; their consumption possibilities will not change.
 - C) only the United States; consumption possibilities in Cuba will lie outside its *PPF* and U.S. consumption possibilities will not change.
 - D) only Cuba; consumption possibilities in Cuba will lie outside its *PPF* and U.S. consumption possibilities will not change.

Answer: A

Topic: *Gains From Trade*

Skill: *Conceptual*

- 42) In one day, Sue can change the oil on 20 cars or change the tires on 20 cars. In one day, Fred can change the oil on 20 cars or change the tires on 10 cars. Sue and Fred can gain from trade if Sue changes the _____ and Fred changes the _____.
- A) tires; oil
 - B) oil; oil
 - C) oil; tires
 - D) tires; tires

Answer: A

Topic: *Gains From Trade*

Skill: *Analytical*

- 43) A country that has an absolute advantage in producing all goods will usually _____.
- A) have a comparative advantage in some goods but not all
 - B) produce all goods at lowest opportunity cost
 - C) have a comparative advantage in all goods
 - D) not gain from specialization and trade

Answer: A

Topic: *Comparative Advantage*

Skill: *Conceptual*

Blue Violet's production possibilities			Orange Rose's production possibilities		
Tea		Cof	Tea		Cof
pot		fee	pot		fee
s		pot	s		pot
(nu		s	(nu		s
mb		(nu	mb		(nu
er		mb	er		mb
per		er	per		er
wee		per	wee		per
k)		wee	k)		wee
		k)			k)
150	&	0	75	&	0
100	&	25	50	&	50
50	&	50	25	&	100
0	&	75	0	&	150

44) Two countries, Blue Violet and Orange Rose, produce only two goods: teapots and coffeepots. The table above gives their production possibilities. _____ has a comparative advantage in teapots and _____ has a comparative advantage in coffeepots.

- A) Orange Rose; Blue Violet
- B) Blue Violet; Orange Rose
- C) Blue Violet; Blue Violet
- D) Orange Rose; Orange Rose

Answer: B

Topic: Comparative Advantage Cost

Skill: Analytical

Blue Violet's production possibilities			Sweet Pansy's production possibilities		
Tea		Cof	Tea		Cof
pot		fee	pot		fee
s		pot	s		pot
(nu		s	(nu		s
mb		(nu	mb		(nu
er		mb	er		mb
per		er	per		er
wee		per	wee		per
k)		wee	k)		wee
		k)			k)
150	&	0	150	&	0
100	&	25	100	&	50
50	&	50	50	&	100
0	&	75	0	&	150

45) Two countries, Blue Violet and Sweet Pansy, produce only two goods: teapots and coffeepots. The table above gives their production possibilities.

- A) Blue Violet has a comparative advantage in teapots.
- B) Sweet Pansy has a comparative advantage in teapots.
- C) Both have a comparative advantage in teapots.
- D) Sweet Pansy has an absolute advantage in teapots.

Answer: A

Topic: Comparative Advantage Cost

Skill: Analytical

46) Two countries, Blue Violet and Sweet Pansy, produce only two goods: teapots and coffeepots. The table above gives their production possibilities. With specialization and trade, Sweet Pansy produces _____ and Blue Violet produces _____.

- A) 150 coffeepots, 150 teapots
- B) 150 teapots, 75 coffeepots
- C) 150 teapots and 150 coffeepots, nothing
- D) 100 teapots and 25 coffeepots, 100 teapots and 50 coffeepots

Answer: A

Topic: Comparative Advantage Cost

Skill: Analytical

47) A country that has a comparative advantage in producing capital goods will _____ a country that has a comparative advantage in consumption goods.

- A) reap all of the gains from trade when it trades with
- B) grow slower than
- C) reap fewer of the gains from trade when it trades with
- D) specialize in producing capital goods and trade with

Answer: D

Topic: Comparative Advantage Cost

Skill: Analytical

2.5 Economic Coordination

- 1) The social arrangements that govern the ownership, use, and disposal of property are referred to as
- A) the double coincidence of wants.
 - B) capitalism.
 - C) private enterprise.
 - D) property rights.

Answer: D

Topic: Property Rights

Skill: Analytical

- 2) Intellectual property
- A) is protected by common law rather than by written laws.
 - B) is protected by people's sense of decency rather than by written laws.
 - C) belongs to everyone with the necessary human capital to use it.
 - D) is often protected by copyrights and patents.

Answer: D

Topic: Property Rights

Skill: Recognition

- 3) In a world lacking property rights, it would be _____ to realize the gains from trade and there would be _____ specialization.
- A) easier; less
 - B) easier; more
 - C) harder; less
 - D) harder; more

Answer: C

Topic: Property Rights

Skill: Recognition

- 4) A computer software program is most strongly an example of
- A) real property.
 - B) fiat property.
 - C) intellectual property.
 - D) vicarious property.

Answer: C

Topic: Property Rights

Skill: Analytical

- 5) The term "market" refers to
- A) physical structures only.
 - B) locations where buyers and sellers physically meet.
 - C) any arrangement that enables buyers and sellers to get information and trade with one another.
 - D) trading arrangements that have been approved by the government.

Answer: C

Topic: Markets

Skill: Recognition

- 6) In goods markets
- A) households sell to firms. In factor markets firms sell to households.
 - B) firms sell to households. In factor markets households sell to firms.
 - C) and in factor markets households sell to firms.
 - D) and in factor markets firms sell to households.

Answer: B

Topic: *Circular Flows*

Skill: *Recognition*

- 7) Individual economic decisions are coordinated by
- A) markets through adjustments in sales levels.
 - B) markets through adjustments in prices.
 - C) government through adjustments in sales taxes.
 - D) government through adjustments in income taxes.

Answer: B

Topic: *Coordinating Decisions*

Skill: *Recognition*

- 8) Which of the following does NOT help organize trade?
- A) property rights
 - B) markets
 - C) the production possibilities frontier
 - D) None of the above because all these answers given help organize trade.

Answer: C

Topic: *Study Guide Question, Coordinating Decisions*

Skill: *Recognition*

- 9) In markets, people's decisions are coordinated by
- A) specialization according to absolute advantage.
 - B) changes in property rights.
 - C) learning-by-doing.
 - D) adjustments in prices.

Answer: D

Topic: *Study Guide Question, Coordinating Decisions*

Skill: *Recognition*

- 10) Two social institutions that are essential for trade to be organized are _____.
- A) property rights and laws
 - B) markets and banks
 - C) businesses and banks
 - D) markets and property rights

Answer: D

Topic: *Markets*

Skill: *Recognition*