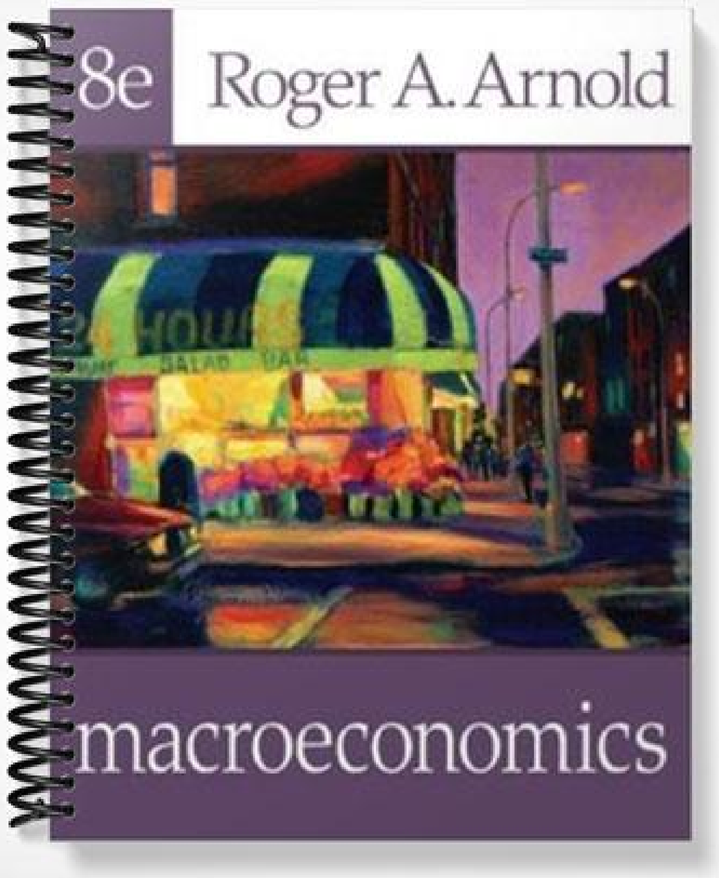
TEST BANK



Chapter 2
Economic Activities: Producing and Trading

1. Points outside (or beyond) the PPF are
   a. attainable.
   b. unattainable.
   c. efficient.
   d. inefficient.
   ANS: b

2. Which of the following statements is true?
   a. In a world of efficiently used scarce resources, more of one good necessarily means less of some other good.
   b. The law of increasing opportunity costs assumes that all people have the same ability to produce goods.
   c. Efficiency implies that it is impossible to get more of one good without getting less of another.
   d. Even if a country has unemployed resources, it can still be operating on its production possibilities frontier (PPF).
   e. a and c
   ANS: e

3. Through war, many of the factories in country 1 are destroyed and many of its people are killed. As a result, the country's
   a. production possibilities frontier (PPF) after the war is probably farther away from the origin than its PPF before the war.
   b. PPF after the war is probably closer to the origin than its PPF before the war.
   c. PPF after the war is probably the same PPF as before the war.
   d. ability to produce goods and services has increased.
   e. b and d
   ANS: b

4. The economy moves from point A, where it produces 100X and 200Y, to point B, where it produces 200X and 150Y. It follows that
   a. point A is an inefficient point.
   b. point A may be an inefficient point.
   c. point A may be an efficient point.
   d. point B is an efficient point.
   e. b and c
   ANS: e

5. Both country 1 and country 2 are located on their respective PPF, but country 1 produces twice the output that country 2 produces. It follows that
   a. country 1's PPF lies further to the right than country 2's PPF.
   b. country 1 has a smaller population than country 2.
   c. country 1 has a bigger population than country 2.
   d. country 1 practices capitalism and country 2 practices socialism.
   e. none of the above
   ANS: a

6. Jorge is willing and able to pay up to $20 for an authentic autograph of Michael Jordan that he buys for $18. Melissa requires a minimum price of $15 before she will sell the autograph to Jorge. The consumers' surplus is ____________ and the producers' surplus is ________ in this situation.
   a. $3; $2
   b. $2; $3
   c. $20; $15
   d. There is not enough information to answer this question.
   ANS: b

7. When Claudia trades $100 for good X, economists assume that she is
   a. trading something of less value to her for something of more value to her.
   b. trading something of more value to her for something of less value to her.
   c. trading something that gives her less utility for something that gives her more utility.
   d. a and c
   e. none of the above
   ANS: d

8. Before an exchange is made, a person is said to be in the
   a. *ex ante* position
   b. *ex post* position
   c. *ceteris paribus* position
   d. current position
   e. *ex calibre* position
   ANS: a

9. If the price a buyer pays for a good is $40 and the maximum price she would be willing and able to pay is $43, then __________ is __________.
   a. producers' surplus; $83
   b. consumers' surplus; $83
   c. consumers' surplus; $3
   d. producers' surplus; $3
   e. consumers' surplus; $40
   ANS: c

10. If consumers' surplus is $40 and the price paid for the good is $50, then the maximum price a buyer is willing and able to pay for the good is
   a. $50.
   b. $40.
   c. $90.
   d. $10.
   e. There is not enough information to answer the question.
   ANS: c

11. If the maximum price a person is willing and able to pay for a good is $50, and consumers' surplus is $10, then it follows that the price the buyer paid for the good is
   a. $10.
   b. $60.
   c. $50.
   d. $40.
   e. There is not enough information to answer the question.
   ANS: d

12. What is the definition of producers’ surplus?
    a. price received minus maximum selling price
    b. maximum selling price minus price received
    c. price received minus minimum selling price
    d. highest price minus lowest price
    e. none of the above
    ANS: c

13. If producers’ surplus is $40, and consumers’ surplus is $30, then what is the minimum selling price?
    a. $10
    b. $70
    c. $30
    d. $40
    e. There is not enough information to answer the question.
    ANS: e

14. You can determine producers’ surplus if you know the minimum selling price and
    a. price received.
    b. price paid.
    c. tax paid.
    d. tax received.
    e. a and c
    ANS: a

15. You can determine the consumers’ surplus if you know the
    a. price received.
    b. maximum buying price.
    c. price paid.
    d. b and c
    e. a and b
    ANS: d

16. The __________ refer(s) to how much of one thing is traded for how much of something else.
    a. exchange process
    b. terms of exchange
    c. duality prices
    d. consumers’ surplus
    e. producers’ surplus
    ANS: b

17. As the terms of exchange move in a buyer’s favor, __________ rises and __________ falls.
    a. consumers’ surplus; producers’ surplus
    b. producers’ surplus; consumers’ surplus
    c. *ex ante* surplus; *ex post* surplus
    d. *ex post* surplus; *ex ante* surplus
    e. a and c
    ANS: a

18. The terms of exchange moved in the buyer's favor. It follows that the price __________ by the buyer fell and the price __________ by the seller __________.
    a. paid, received; increased
    b. paid, received; decreased
    c. received, paid; decreased
    d. paid, received; stayed the same
    e. none of the above
    ANS: b

19. Transaction costs are
    a. the costs associated with the time and effort needed to search out, negotiate, and consummate an exchange.
    b. the costs a consumer pays in the *ex ante* position.
    c. the costs a seller pays in the *ex post* position.
    d. identical to the terms of exchange.
    e. always higher for buyers than sellers.
    ANS: a

20. Which of the following purchases is likely to have the highest transaction costs?
    a. a loaf of bread at the grocery store
    b. the 100 shares of stock online
    c. a book from an online bookseller
    d. a house
    e. a book from the university bookstore
    ANS: d

21. If Mark and Bob are not currently trading $10 for a book, it may be because
    a. transaction costs are too high.
    b. transaction costs are too low.
    c. at least one of the two individuals does not think he would be made better off by the trade.
    d. both individuals think they will be made worse off by the trade.
    e. a, c, and d
    ANS: e

22. If there is always a two-for-one tradeoff between goods X and Y, then the PPF between X and Y is
    a. a downward-sloping curve that is bowed outward.
    b. circular.
    c. a downward-sloping straight line.
    d. an upward-sloping straight line.
    ANS: c

23. Points inside (or below) the PPF are
    a. unattainable.
    b. attainable and efficient.
    c. attainable but inefficient.
    d. attainable and neither efficient nor inefficient.
    ANS: c

24. If the tradeoff between goods X and Y changes as more of good X is produced, the PPF between the two goods is
    a. a downward-sloping straight line.
    b. circular.
    c. rectangular.
    d. a downward-sloping curve (possibly bowed outward).
    ANS: d

25. Consider the following combinations of guns and butter that can be produced: 0 guns, 20,000 units of butter; 5,000 guns, 15,000 units of butter; 10,000 guns, 10,000 units of butter; 15,000 guns, 5,000 units of butter; 20,000 guns, 0 units of butter. The PPF between guns and butter is
    a. a downward-sloping bowed-out curve.
    b. a downward-sloping straight line.
    c. an upward-sloping straight line.
    d. It is impossible to answer this question without knowing which good would be plotted on the vertical axis.
    ANS: b

26. Which of the following statements is true?
    a. The concept of opportunity costs cannot be illustrated within a PPF framework.
    b. If scarcity did not exist, neither would a PPF.
    c. All PPFs are downward-sloping straight lines.
    d. There are more attainable points than unattainable points in every PPF diagram.
    ANS: b

27. A PPF can
    a. shift outward but not inward.
    b. shift inward but not outward.
    c. shift inward or outward.
    d. shift neither inward nor outward.
    ANS: c

28. Consider two points on the PPF: point A, at which there are 10 apples and 20 pears, and point B, at which there are 7 apples and 21 pears. If the economy is currently at point A, the opportunity cost of moving to point B is
    a. 1 pear.
    b. 7 apples.
    c. 3 apples.
    d. 21 pears.
    ANS: c

29. Consider two points on the PPF: point A, at which there are 50 oranges and 100 apricots, and point B, at which there are 51 oranges and 98 apricots. If the economy is currently at point B, the opportunity cost of moving to point A is
    a. 2 apricots.
    b. 1 orange.
    c. 98 apricots.
    d. 3 oranges.
    ANS: b

30. The point where the PPF intersects the vertical axis is
    a. unattainable.
    b. attainable and efficient.
    c. attainable but inefficient.
    d. attainable and neither efficient nor inefficient.
    ANS: b

31. The point where the PPF intersects the horizontal axis is
    a. unattainable.
    b. attainable and efficient.
    c. attainable but inefficient.
    d. attainable and neither efficient nor inefficient.
    ANS: b

32. Consider two straight-line PPFs. They have the same vertical intercept, but curve I is flatter than curve II. The opportunity cost of producing the good on the horizontal axis
    a. is greater along curve I.
    b. is greater along curve II.
    c. is the same along both curves.
    d. cannot be compared for the two curves without more information.
    ANS: b

33. Consider two straight-line PPFs. They have the same vertical intercept, but curve I is flatter than curve II. The opportunity cost of producing the good on the vertical axis
    a. is greater along curve I.
    b. is greater along curve II.
    c. is the same along both curves.
    d. cannot be compared for the two curves without more information.
    ANS: a

34. Suppose the economy goes from a point on its unchanging PPF to a point down and to the left of it. This could be due to
    a. a gain of resources.
    b. a loss of resources.
    c. technological improvement in the production of both goods.
    d. a new law that interferes with economic efficiency.
    ANS: d

35. Suppose the economy goes from a point on its unchanging PPF to a point directly “south” of it. This could be due to
    a. a gain of resources.
    b. a loss of resources.
    c. technological improvement in the production of both goods.
    d. a new law that interferes with economic efficiency.
    ANS: d

36. An increase in resources
    a. shifts the PPF inward.
    b. shifts the PPF outward.
    c. moves the economy up a given PPF.
    d. moves the economy down a given PPF.
    ANS: b

37. A decrease in resources
    a. shifts the PPF inward.
    b. shifts the PPF outward.
    c. moves the economy up a given PPF.
    d. moves the economy down a given PPF.
    ANS: a

38. The increased production of lamps comes at constant opportunity costs in terms of bookshelves. This means
    a. that it takes more resources to produce a lamp than a bookshelf.
    b. that it takes fewer resources to produce a lamp than a bookshelf.
    c. that for every lamp produced, the same number of bookshelves is forfeited.
    d. that for every lamp produced, a different number of bookshelves is forfeited.
    e. none of the above
    ANS: c

39. Which of the following is an illustration of the law of increasing opportunity costs?
    a. As more cars are produced, the opportunity cost of each additional car is greater than for the preceding unit.
    b. As more cars are produced, the opportunity cost of each additional car is less than for the preceding unit.
    c. As more cars are produced, the opportunity cost of each additional car is the same as for the preceding unit.
    d. People pay higher prices for cars the higher the costs of producing cars.
    ANS: a

40. The PPF between goods X and Y will be a downward-sloping
    a. straight line if increasing opportunity costs exist.
    b. straight line if decreasing opportunity costs exist.
    c. curve that is bowed outward if increasing opportunity costs exist.
    d. curve that is bowed outward if constant opportunity costs exist.
    ANS: c

41. A PPF is more likely to be a downward-sloping curve that is bowed outward than a downward-sloping straight line because most resources are
    a. better suited for the production of some goods than others.
    b. used efficiently.
    c. relatively cheap at low levels of output.
    d. used to produce consumption goods.
    ANS: a

42. Economic growth causes the PPF to
    a. shift inward.
    b. shift outward.
    c. remain constant.
    d. go from a straight line to a curve.
    ANS: b

43. Which of the following statements is false?
    a. If there are only two goods, guns and butter, it is possible to get more of both goods through economic growth.
    b If there are only two goods, guns and butter, it is possible to get more of both goods if the economy is currently operating at an inefficient point.
    c. If there are only two goods, guns and butter, it is possible to get more of both goods if the economy is currently operating at an efficient point.
    d. If there are only two goods, guns and butter, more of one means less of the other if the economy is currently operating at an efficient point.
    ANS: c

44. An economy exhibits efficiency if it produces
    a. more than enough food to feed everyone.
    b. more goods and services in each successive year.
    c. maximum output with given resources and technology.
    d. enough output so that no one lives in poverty.
    ANS: c

45. If it is impossible to produce more of one good without getting less of another, then the economy is operating
    a. efficiently.
    b. at less than peak performance.
    c. inefficiently.
    d. at technological inferiority.
    ANS: a

46. Which of the following statements is true?
    a. Inefficiency implies that it is possible to produce more of one good and no less of another, but only if additional resources are made available.
    b. Efficiency implies that it is possible to produce more of one good and no less of another, even without additional resources.
    c. Inefficiency implies that it is impossible to produce more of one good and no less of another.
    d. Inefficiency implies that it is possible to produce more of one good and no less of another, even without additional resources.
    ANS: d

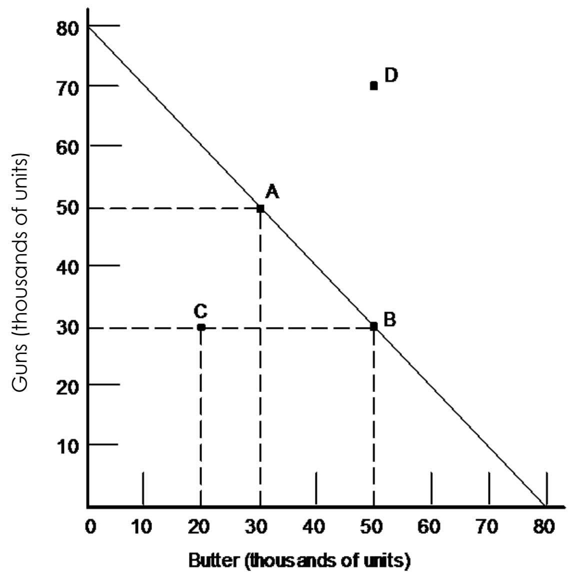
47. Inefficiency implies that
    a. it is possible to obtain gains in one area without losses in another.
    b. it is impossible to obtain gains in one area without losses in another.
    c. there are too many resources.
    d. there are too few resources.
    e. none of the above
    ANS: a

48. Efficiency implies that
    a. it is impossible to obtain gains in one area without losses in another.
    b. it is possible to obtain gains in one area without losses in another.
    c. there are too many resources.
    d. there are too few resources.
    e. none of the above
    ANS: a

49. Suppose the economy goes from a point on its unchanging PPF to a point directly to the left of it. This could be due to
    a. a gain of resources.
    b. a loss of resources.
    c. technological improvement in the production of both goods.
    d. a new law that interferes with economic efficiency.
    ANS: d

50. Suppose a law prohibits Michael from entering into (what would normally be) a voluntary exchange with Calvin. Furthermore, suppose that if Michael did enter into an exchange with Calvin, no persons besides Michael and Calvin would be affected in any way, either positively or negatively. An economist would say the law is
    a. dictatorial.
    b. efficient.
    c. rational.
    d. inefficient.
    e. none of the above
    ANS: d

Exhibit 2-1



For questions 51-56, refer to Exhibit 2-1 above.

51. Refer to Exhibit 2-1. The PPF illustrates
    a. constant opportunity costs between guns and butter.
    b. that guns are more important than butter.
    c. increasing opportunity costs between guns and butter.
    d. the opportunity cost of one unit of guns is four units of butter.
    e. none of the above
    ANS: a

52. Refer to Exhibit 2-1. The movement from point A to point B is a movement from
    a. an efficient point to an inefficient point.
    b. a point with more guns and less butter to a point with more butter and even more guns.
    c. an efficient point to another efficient point.
    d. an inefficient point to an efficient point.
    ANS: c

53. Refer to Exhibit 2-1. A movement from point D to point B is
    a. impossible, because the economy could never have been at point D in the first place.
    b. a movement from an efficient point to an inefficient point.
    c. a movement from an efficient point to another efficient point.
    d. a movement from an inefficient point to another inefficient point.
    ANS: a

54. Refer to Exhibit 2-1. If the economy is at point C, it follows that
a. more guns and butter can be produced with available resources.
b. only more guns can be produced with available resources.
c. only more butter can be produced with available resources.
d. C is an unattainable point.
ANS: a

55. Refer to Exhibit 2-1. The opportunity cost of moving from point B to A is
a. 10,000 units of butter.
b. 20,000 units of butter.
c. 50,000 units of guns.
d. the maximum amount of butter that can be produced with available resources.
ANS: b

56. Refer to Exhibit 2-1. Scarcity exists
a. at point C but not at point A.
b. neither at point C nor at point A.
c. at both point C and at point A.
d. at point A but not at point C.
ANS: c

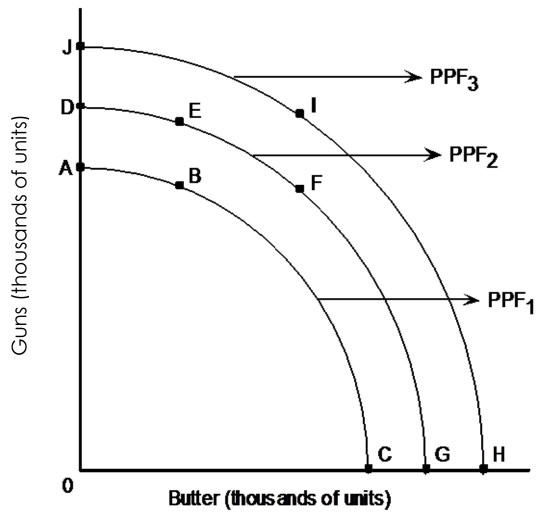
57. The three questions (economists say) that all societies must answer are:
a. What to produce? How to produce it? For whom is it produced?
b. What to produce? Why produce it? For whom is it produced?
c. What to produce? When to produce it? For whom is it produced?
d. What to produce? How long should it take to produce it? For whom is it produced?
ANS: a

58. In the United States, farming today is ___________ productive compared to ninety years ago, resulting in there being ___________ farmers today than at the turn of the century.
a. about as; fewer
b. about as; more
c. much more; fewer
d. much more; more
ANS: c

59. Technological ___________ in American agriculture has ___________ other types of employment.
a. improvement; drawn labor away from
b. improvement; released labor to go to
c. stagnation; drawn labor away from
d. stagnation; released labor to go to
ANS: b

60. In the production possibilities framework, economic growth is depicted by
a. a shift inward of the frontier or to the left.
b. a shift outward of the frontier or to the right.
c. the frontier becoming a straight line.
d. the frontier becoming bowed outward.
ANS: b

Exhibit 2-2



For questions 61-64, refer to Exhibit 2-2 above.

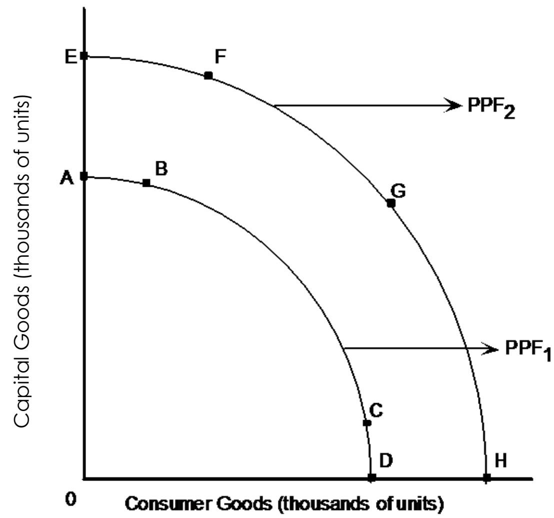
61. Refer to Exhibit 2-2. If PPF_2 is the relevant production possibilities frontier, then point __________ illustrates inefficiency.
   a. B
   b. D
   c. E
   d. I
   ANS: a

62. Refer to Exhibit 2-2. If PPF_2 is the relevant production possibilities frontier, then point __________ is unattainable.
   a. B
   b. G
   c. E
   d. I
   ANS: d

63. Refer to Exhibit 2-2. If PPF_2 is the relevant production possibilities frontier, then point __________ illustrates efficiency.
   a. B
   b. E
   c. I
   d. both b and c
   ANS: b

64. Refer to Exhibit 2-2. If PPF_2 is the relevant production possibilities frontier, a significant loss of resources may
   a. move this society from point D to point G on PPF_2.
   b. move this society to PPF_1
   c. move this society to PPF_3.
   d. not affect this society.
   ANS: b

Exhibit 2-3



For questions 65-67, refer to Exhibit 2-3 above.

65. Refer to Exhibit 2-3. If PPF_1 is the relevant production possibilities frontier, society may move to PPF_2 as a result of
   a. an increase in resources.
   b. a decrease in resources.
   c. an increase in technology.
   d. both a and c
   e. both b and c
   ANS: d

66. Refer to Exhibit 2-3. If PPF_1 is the relevant production possibilities frontier, society can choose points that lie only
   a. below PPF_1.
   b. below or on PPF_1.
   c. on PPF_2.
   d. none of the above
   ANS: c

67. Refer to Exhibit 2-3. If PPF_1 is the relevant production possibilities frontier, PPF_2 may depict
   a. economic growth.
   b. an increase in resources.
   c. an increase in technology.
   d. both b and c
   e. all of the above
   ANS: e

68. According to the law of increasing opportunity costs,
   a. the amount of money it takes to produce a good increases as more of the good is produced.
   b. the risk involved in producing a good increases as more of the good is produced.
   c. the market price of a good increases as more of the good is produced.
   d. the opportunity cost of producing a good increases as more of the good is produced.
   e. all of the above
   ANS: d

69. An efficient society
   a. produces at a point on its PPF.
   b. can produce more of one good only by giving up some of an other good.
   c. cannot produce unlimited amounts of a good.
   d. still has to make choices.
   e. all of the above
   ANS: e

70. If resources are not “equally suited” for the production of two goods, the PPF is
   a. a straight line.
   b. bowed outward.
   c. upward sloping.
   d. any of the above
   ANS: b

71. A society is inefficient when
   a. it produces at a point inside or below its PPF.
   b. it does not produce the maximum output with its given resources and technology.
   c. it can produce more of one good without giving up some of another good.
   d. both a and b
   e. all of the above
   ANS: e

72. With a constant opportunity cost between goods A and B, the PPF would
   a. be a straight line.
   b. be a bowed-outward line.
   c. be a bowed-inward line.
   d. not exist.
   ANS: a

73. Within the production possibilities framework, choice is depicted by the
   a. PPF itself.
   b. PPF being bowed outward.
   c. need to select among the points making up the frontier.
   d. straight-line PPF.
   ANS: d

74. If every additional unit of good A increases the amount of good B foregone, the PPF between A and B would
   a. be a straight line.
   b. be a bowed-outward line.
   c. be a bowed-inward line.
   d. not exist.
   ANS: b

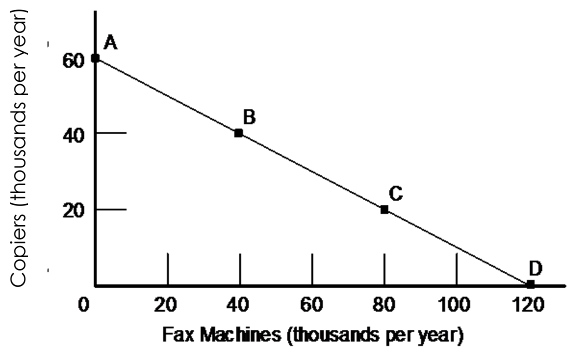
75. The PPF is bowed outward as a result of
   a. constant costs.
   b. increasing costs.
   c. decreasing costs.
   d. scarcity.
   e. choice.
   ANS: b

76. The PPF is a straight line as a result of
   a. constant costs.
   b. increasing costs.
   c. decreasing costs.
   d. scarcity.
   e. choice.
   ANS: a

77. In an eight-hour day, Andy can produce either 24 loaves of bread or 8 pounds of butter. In an eight-hour day, John can produce either 8 loaves of bread or 8 pounds of butter. The opportunity cost of producing 1 pound of butter is
   a. 1/3 hour for Andy and 1 hour for John.
   b. 1 hour for Andy and 1 hour for John.
   c. 3 loaves of bread for Andy and 1 loaf of bread for John.
   d. 1/3 loaves of bread for Andy and 1 loaf of bread for John.
   e. none of the above
   ANS: c

78. An advance in technology commonly refers to the ability to produce
   a. the same output with a smaller quantity of resources.
   b. more output with a fixed quantity of resources.
   c. more output with a greater quantity of resources.
   d. both a and b
   e. both b and c
   ANS: d

Exhibit 2-4



For questions 79-82, refer to Exhibit 2-4 above.

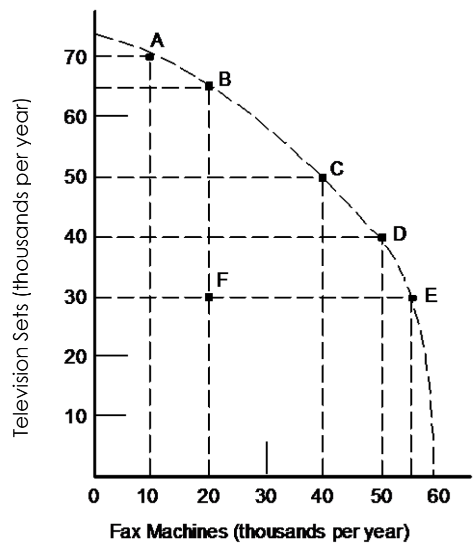
79. Refer to Exhibit 2-4. The line joining points A and D is called the
    a. production function.
    b. utility function.
    c. production possibilities frontier.
    d. demand curve.
    ANS: c

80. Refer to Exhibit 2-4. This economy is
    a. efficient, if it operates at point B or C.
    b. efficient, if it operates at point A or D.
    c. inefficient, if it operates at point A or D.
    d. inefficient regardless of the particular point.
    e. both a and b
    ANS: e

81. Refer to Exhibit 2-4. The opportunity cost of moving from point A to point B is
    a. 60,000 copiers.
    b. 40,000 copiers.
    c. 20,000 copiers.
    d. 20,000 fax machines.
    e. 40,000 fax machines.
    ANS: c

82. Refer to Exhibit 2-4. As more fax machines are produced, the opportunity cost of producing them
    a. increases.
    b. decreases.
    c. remains constant.
    d. first decreases and then increases.
    ANS: c

Exhibit 2-5



For questions 83-87, refer to Exhibit 2-5 above.

83. Refer to Exhibit 2-5. The economy is currently operating at point F. The opportunity cost of moving to point E is
   a. 35 fax machines.
   b. 55 fax machines.
   c. zero.
   d. not possible to determine.
   ANS: c

84. Refer to Exhibit 2-5. As more fax machines are produced, the opportunity cost of producing them
   a. increases.
   b. decreases.
   c. remains constant.
   d. first decreases and then increases.
   ANS: a

85. Refer to Exhibit 2-5. “In order to produce one more television set, we must forfeit the production of one fax machine.” This statement describes a movement from
   a. point C to point D.
   b. point D to point E.
   c. point E to point F.
   d. point E to point D.
   e. point D to point C.
   ANS: e

86. Refer to Exhibit 2-5. Which of the following labeled points are efficient?
a. A, B, C, D, and E
b. B, C and D only
c. C only
d. All of the points are efficient.
e. None of the points are efficient.
ANS: a

87. Refer to Exhibit 2-5. Given available resources and technology, this economy can produce 50,000 television sets and 50,000 fax machines only if it chooses to
a. have an egalitarian distribution of goods.
b. operate at both points C and D.
c. combine points C and D.
d. none of the above
ANS: d

88. Some of our farm fields are being left unused. Does this have any implications for the economy's PPF diagram?
a. No implications, because the PPF deals only with resources in use.
b. The PPF cannot be drawn if some resources are idle.
c. With unemployed resources, we are inside the PPF.
d. The PPF would be upward sloping.
ANS: c

89. Government rationing programs are generally __________ because they __________ exchanges that make both parties better off.
a. efficient; encourage
b. efficient; discourage
c. inefficient; encourage
d. inefficient; discourage
ANS: d

90. Economists see a great similarity between nations: they all
a. have the same regulations and social institutions.
b. are on their PPF.
c. face scarcity.
d. operate at peak efficiency.
ANS: c

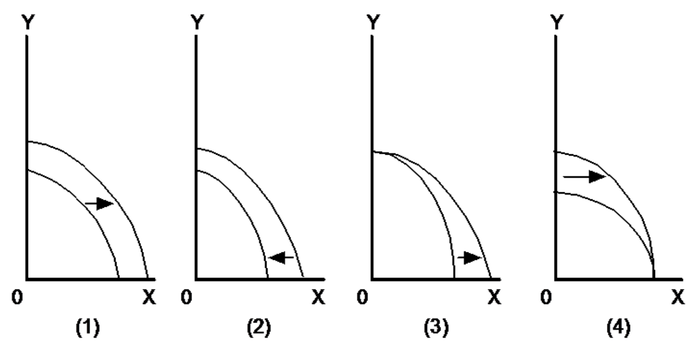
91. Efficiency implies that
a. all consumers' wants are satisfied.
b. no advance in technology will occur in the future.
c. the attainable region is greater than the unattainable region.
d. gains are impossible in one area without losses in another.
e. all of the above
ANS: d

92. Jose has one evening in which to prepare for two exams and can employ two possible strategies:

Strategy	Score in Economics	Score in Statistics
A	94	79
B	77	90

The opportunity cost of receiving a 94 on the Economics exam in terms of the number of points on the Statistics exam is
a. 79
b. 17
c. 11
d. 90
ANS: c

Exhibit 2-6



For questions 93-96, refer to Exhibit 2-6 above.

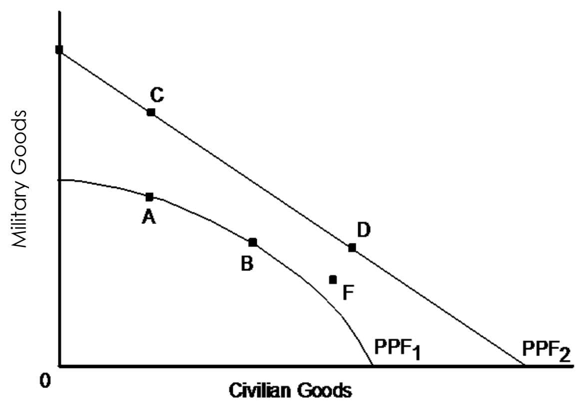
93. Refer to Exhibit 2-6. Which graph depicts a technological breakthrough in the production of good Y only?
a. (1)
b. (2)
c. (3)
d. (4)
e. none of the above
ANS: d

94. Refer to Exhibit 2-6. Which graph depicts a discovery of a new cheap source of energy?
a. (1)
b. (2)
c. (3)
d. (4)
e. none of the above
ANS: a

95. Refer to Exhibit 2-6. Which graph depicts the consequence of a large-scale natural disaster?
    a. (1)
    b. (2)
    c. (3)
    d. (4)
    e. none of the above
    ANS: b

96. Refer to Exhibit 2-6. Which graph depicts society's choice to produce more of good X?
    a. (1)
    b. (2)
    c. (3)
    d. (4)
    e. none of the above
    ANS: e

Exhibit 2-7



For questions 97-100, refer to Exhibit 2-7 above.

97. Refer to Exhibit 2-7. Which of the following statements is true?
    a. Points B and D are more efficient than points A and C.
    b. If the economy's PPF is represented by PPF_1, points A and B are efficient, while C and D are unattainable.
    c. If the economy's PPF is represented by PPF_2, points C and D are efficient, while A and B are unattainable.
    d. both a and c
    ANS: b

98. Refer to Exhibit 2-7. For which of the following is the statement "In order to get more civilian goods, we have to forfeit some military goods" true?
    a. a movement from A to C
    b. a movement from B to D
    c. a movement from C to D
    d. a movement from F to D
    e. none of the above
    ANS: c

99. Refer to Exhibit 2-7. The change in the PPF of the economy from PPF_1 to PPF_2 corresponds to an advance in technology that makes
a. resources completely unspecialized.
b. resources more specialized.
c. it possible to produce more of civilian goods only.
d. it possible to produce more military goods only.
ANS: a

100. Refer to Exhibit 2-7. Point F is
a. unattainable if the economy's PPF is PPF_1.
b. inefficient if the economy's PPF is PPF_2.
c. attainable if the economy's PPF is PPF_2.
d. all of the above
e. none of the above
ANS: d

101. The economy can produce 15X and 15Y, 10X and 20Y, 5X and 25Y, or OX and 30Y, or. It follows that the production possibility frontier (PPF) is
a. a downward-sloping straight line.
b. an upward-sloping straight line.
c. a downward-sloping convex curve.
d. a downward-sloping concave curve.
ANS: a

102. If the economy is on the production possibilities frontier (PPF), the economy is operating
a. inefficiently.
b. with no unemployed resources.
c. efficiently.
d. b and c
e. none of the above
ANS: d

103. Points inside (below) the production possibilities frontier (PPF) are
a. unattainable.
b. attainable.
c. preferable to points on the PPF.
d. attainable in the short run but not in the long run.
e. attainable in the long run but not in the short run.
ANS: b

104. The economy can produce 15X and 15Y, 10X and 20Y, 5X and 25Y, or 0X and 30Y. It follows that opportunity cost of 1X is ___Y.
a. 4.0
b. 5.0
c. 2.5
d. 1.0
e. none of the above
ANS: d

105. If an economy can produce a maximum of 100 units of good X and the opportunity cost of 1X is always 5Y, then what is the maximum units of good Y the economy can produce?
    a. 250
    b. 100
    c. 50
    d. 500
    e. none of the above
    ANS: d

106. An economy can produce either of these two combinations of X and Y: 1,000X and 0Y or 400Y and 0X. Furthermore, the opportunity cost between the two goods is always constant. Which of the following combinations of the two goods, X and Y, is it possible for the economy can produce?
    a. 700X, 280Y
    b. 600X, 250Y
    c. 400X, 150Y
    d. 100X, 600Y
    e. 300X, 280Y
    ANS: e

107. If there is always a 3-for-1 trade between producing good X and Y, it follows that the opportunity cost of X (in terms of Y)
    a. changes at low levels of X.
    b. rises at high levels of Y.
    c. changes at high levels of X.
    d. is always the same.
    ANS: d

108. In the United States, farmers accounted for approximately ____ of the population in 1910, but that figure had changed to around ____ by the late 1990's.
    a. 35%; 2%
    b. 32%; 5%
    c. 23%; 5%
    d. 2%; 35%
    ANS: a

109. The economy is currently on its production possibilities frontier (PPF). A politician says that it is possible to get more of everything—more infrastructure, more schools, more national defense, more spending on social programs, and so on. The politician is
    a. correct if he is assuming a rightward-shifting PPF.
    b. incorrect if he is assuming a rightward-shifting PPF.
    c. incorrect if he is assuming a PPF that does not change.
    d. correct if he is assuming a PPF that does not change.
    e. a and c
    ANS: e

110. The law of increasing opportunity costs states that as
  a. less of a good is produced, the higher the opportunity costs of producing that good.
  b. more of a good is produced, the lower the opportunity costs of producing that good.
  c. more of a good is produced, the higher the opportunity costs of producing that good.
  d. more of a good is produced, the opportunity cost of producing the good remains the same.
  e. a and b
  ANS: c

111. Currently, 100 units of good X are being produced and the opportunity cost of producing 1X is 3Y. If good X is produced at increasing opportunity costs, then when the economy produces 120 units of good X the opportunity cost of producing 1Y (not 1X) could be
  a. 1/4X
  b. 1/3X
  c. 1/2X
  d. 1X
  e. none of the above
  ANS: a

112. What is the reason for the law of increasing opportunity costs?
  a. There is no reason: it just is.
  b. People have varying abilities and those with lower opportunity costs of producing a good produce it before people with higher opportunity costs produce it.
  c. The price of a good rises as more of it is demanded.
  d. As more of a good is produced, the taxes applied to the production of the good rise.
  e. c and d
  ANS: b

113. If a production possibilities frontier (PPF) is concave downward, it follows that
  a. opportunity costs are constant between two goods.
  b. the opportunity costs (of producing the good on the horizontal axis) rise as more of the good is produced.
  c. the opportunity costs (of producing the good on the horizontal axis) fall as more of the good is produced.
  d. the opportunity costs (of producing the good on the horizontal axis) first rise and then fall as more of the good is produced.
  e. none of the above
  ANS: b

114. If the law of increasing opportunity costs is operable, and currently the opportunity cost of producing the 101st unit of good X is 5Y, then the opportunity cost of producing the 201st unit of good is X is likely to be
  a. less than 5Y.
  b. more than 1/5Y but less than 5Y.
  c. more than 5Y
  d. less than 1/5Y but more than zero.
  e. none of the above
  ANS: c

115. The amount of one good that is forfeited in order to produce more of another good is called
    a. transaction costs.
    b. specialization.
    c. efficiency.
    d. opportunity cost.
    e. none of the above
    ANS: d

116. Which scenario below most accurately describes the process by which a technological change can affect employment patterns across industries?
    a. A technological advance makes it possible to produce more of good X with less labor. As a result, labor is released from producing good X. Some of this labor ends up producing goods Y and Z.
    b. A technological advance makes it possible to produce less of good X with less labor. As a result, labor is released from producing good X. Some of this labor ends up producing good Y.
    c. A technological advance makes it possible to produce more of good X with more labor. As a result, more labor is needed to produce good X. There is less labor available to produce goods Y and Z.
    d. A technological advance makes it possible to produce more of good X with less labor. As a result, labor becomes more important to the production of good X. More labor ends up producing good X.
    e. none of the above
    ANS: a

117. If people (on average) live longer, and the production possibilities frontier (PPF) in the economy shifts outward, does it follow that per-capita output will rise?
    a. Yes, because if the PPF shifts outward, it means there is more output.
    b. No, because when the PPF shifts outward, and there is greater output, the population always rises by a greater percentage than the rise in output.
    c. Not necessarily. First, it depends on whether or not the capacity to produce more output is realized. Then, it depends on the percentage rise in output relative to the percentage rise in the population.
    d. Not necessarily. First, it depends on whether or not the capacity to produce more output is realized. Then, it depends on the percentage rise in output relative to the percentage rise in income.
    ANS: c

118. In a growing economy we would expect to see fewer intense political battles than in a stagnant economy because
  a. in a growing economy one political group can get more of what it wants but only at the expense of some other political group.
  b. in a growing economy one political group can get more of what it wants while another political group can get more of what it wants, too.
  c. in a growing economy not only can one political group get more of what it wants, but if it does, it necessarily means that another political group gets more of what it wants, too.
  d. none of the above

  ANS: b

119. The economy was at point A producing 100X and 200Y. It moved to point B where it produces 200X and 300Y. It follows that
  a. point A may have been a point below the economy's PPF, while point B lies on the PPF.
  b. the economy's PPF could have shifted outward and point A was a point on the economy's old PPF.
  c. the economy has moved from one point on its PPF to another point on the same PPF.
  d. a or b
  e. a or c

  ANS: d

120. If an economy is operating on its production possibilities frontier (PPF), are there any unemployed resources in the economy?
  a. Yes, because if there weren't any unemployed resources the economy would be producing beyond its PPF.
  b. No, because if there were any unemployed resources the economy would be producing below its PPF.
  c. It depends on whether the economy's PPF is a concave (downward-sloping) curve or a straight line.
  d. Yes, because there are always some natural resources that are unemployed.
  e. The answer is "yes," but not for any of the reasons specified in answers a through d.

  ANS: b

121. Efficiency implies
  a. the possibility of gains in one area without losses in another.
  b. that more output has been produced.
  c. the impossibility of gains in one area without losses in another.
  d. that prices are stable.
  e. c and d

  ANS: c

122. An economy can produce the following combinations of goods: 50X and 0Y, 40X and 10Y, 30X and 20Y, 20X and 30Y, 10X and 40Y, and 0X and 50Y. The production possibilities frontier (PPF) for the economy is
  a. concave downward because the opportunity cost of producing the 10th unit of Y is greater than the opportunity cost of producing the first unit of Y.
  b. a straight (downward-sloping) line because the opportunity cost of producing the two goods is constant.
  c. concave downward because the opportunity cost of producing the 40th unit of Y is less than the opportunity cost of producing the 10th unit of Y.
  d. a straight (downward-sloping) line because the opportunity cost of producing the 10th unit of X is greater than the opportunity cost of producing the 40th unit of X.
  e. a straight (downward-sloping) line because the opportunity cost of producing the 30th unit of Y is greater than the opportunity cost of producing the 30th unit of X.
  ANS: b

123. Which of the following is *not* true about production possibilities frontiers?
  a. moving from one point to another on a PPF incurs a tradeoff.
  b. economic growth is shown by shifting the PPF outward.
  c. unemployment of resources is shown by shifting the PPF inward.
  d. none of the above, they are all true
  ANS: c

124. Country X has a high unemployment rate. It follows that country X is operating
  a. beyond its production possibilities frontier (PPF).
  b. on its PPF.
  c. inside (below) its PPF.
  d. at an efficient point on its PPF.
  e. b and d
  ANS: c

125. Country 1 produces two goods, A and B. Country 2 produces two goods, C and D. Currently, country 1 produces 100A and 200B and country 2 produces 300A and 700B. Which of the following statements is true?
  a. If country 1 is on its production possibilities frontier, then country 2 must be on its PPF, too.
  b. The PPF for country 1 is necessarily closer to the origin (or further to the left) than the PPF for country 2.
  c. If country 1 is operating inefficiently, then so is country 2.
  d. Country 2 is operating on its PPF, but country 1 is clearly not operating on its PPF.
  e. none of the above
  ANS: e

126. Which of the following statements is false?
  a. Exchanges that benefit the people that take part in them never have third-party effects.
  b. An adverse third-party effect is sometimes referred to as a negative externality.
  c. Negative externalities do not occur if consumers' surplus is greater than producers' surplus.
  d. a and c
  e. a, b, and c
  ANS: d

127. Yesterday, Bob and Maria were not willing to trade $40 for a book. Today, they are. What made the difference?
   a. It is possible that yesterday the transaction costs were higher than they are today.
   b. It is possible that today the transaction costs are higher than they were yesterday.
   c. It is possible that yesterday Maria didn't value what Bob had more than what she had, but that today she does value what Bob has more than what she has.
   d. It is possible that today Maria doesn't value what Bob has more than what she has.
   e. a and c
   ANS: e

128. A potential (unrealized) exchange can turn into an actual exchange if transaction costs
   a. remain the same, *ceteris paribus*.
   b. rise, *ceteris paribus*.
   c. fall, *ceteris paribus*.
   d. either b or c
   e. either a or c
   ANS: c

129. Buying on the Internet often has an advantage over shopping at a store because
   a. the transaction costs of buying on the Internet are generally lower.
   b. the transaction costs of buying on the Internet are generally higher.
   c. buying on the Internet generally has zero transaction costs.
   d. a and c.
   ANS: a

130. If Sean can bake bread at a lower opportunity cost than Jason, and Jason can produce paintings at a lower opportunity cost than Sean, it follows that
   a. Sean has a comparative advantage in paintings and Jason has a comparative advantage in baking bread.
   b. Both Sean and Jason have a comparative advantage in baking bread.
   c. Both Sean and Jason have a comparative disadvantage in producing paintings.
   d. Sean has a comparative advantage in baking bread and Jason has a comparative advantage in producing paintings.
   e. There is not enough information to answer the question.
   ANS: d

131. Carlos can produce the following combinations of X and Y: 10X and 10Y, 5X and 15Y, and 0X and 20Y. The opportunity cost of one unit of X for Carlos is
   a. 1 unit of Y.
   b. 2 units of Y.
   c. 1/2 unit of Y.
   d. 1/4 unit of Y.
   e. none of the above
   ANS: a

132. Keisha can produce the following combinations of X and Y: 100X and 20Y, 50X and 30Y, or 0X and 40Y. The opportunity cost of one unit of Y for Keisha is
   a. 5 units of X.
   b. 0.2 units of X.
   c. 3 units of X.
   d. 1/2 unit of X.
   e. none of the above
   ANS: a

133. Michael can produce the following combinations of X and Y: 10X and 10Y, 5X and 15Y, and 0X and 20Y. Vernon can produce the following combinations of X and Y: 100X and 20Y, 50X and 30Y, or 0X and 40Y. It follows that
   a. Michael has the comparative advantage in producing X and Vernon has the comparative advantage in producing Y.
   b. Michael has the comparative advantage in producing Y and Vernon has the comparative advantage in producing X.
   c. Neither Michael nor Vernon has a comparative advantage in producing X.
   d. Neither Michael nor Vernon has a comparative advantage in producing Y.
   e. There is not enough information to answer the question.
   ANS: b

134. A person has a comparative advantage in the production of a good when they can produce the product at a(n) ________ opportunity cost compared to another person.
   a. higher
   b. increasing
   c. lower
   d. equal
   ANS: c

135. If a loaf of bread costs $2 and a jug of wine costs $5, the terms of exchange of one jug of wine in terms of bread are
   a. 2.5 loaves
   b. 10.0 loaves
   c. 0.4 loaves
   d. none of the above
   e. The answer can’t be calculated from the information given.
   ANS: a

136. Daniel buys a new stereo from Tran and plays it so loudly that Bill cannot sleep. This is an example of
   a. opportunity costs.
   b. negative externalities.
   c. unexploited exchange.
   d. transactions costs.
   ANS: b

137. Different economic systems:
  a. answer different sets of basic economic questions.
  b. come to different answers to the same basic economic questions.
  c. differ in both the basic economic questions and their answers.
  d. have both the same basic economic questions and answers to them.
  ANS: b

138. An economic system that combines capitalist and socialist economic principles is called
  a. communism.
  b. fiscalism.
  c. feudalism.
  d. mixed capitalism.
  ANS: d

139. Many economists believe that the collapse of the Soviet Union was caused by
  a. economic growth that was too rapid to control.
  b. the Soviet government's decision to emphasize production of military goods while the people wanted more consumer goods.
  c. more than 20 years of surpluses of consumer goods.
  d. a and b
  e. a and c
  ANS: b

140. Capitalist thinkers believe that prices
  a. are useful in helping to ration goods and services.
  b. convey information to the buyer.
  c. provide incentives.
  d. a and b
  e. a, b and c
  ANS: e

141. Capitalist thinkers believe that prices
  a. are necessary to ensure that resources are allocated to their best use.
  b. provide no incentives to consumers if set above their maximum buying price.
  c. are not necessary for resource allocation, but are one of several possible allocation devices.
  d. provide information only to buyers, but not to sellers.
  ANS: a

142. Under socialism the _______________ determine(s) where on the PPF the economy operates, while capitalism uses the _______________ to make this and other economic decisions.
  a. market; government
  b. government; market
  c. buyers; sellers
  d. sellers; buyers
  ANS: b

True/False

1. Most countries are either purely capitalistic or purely socialistic.
ANS: F

2. In 1980, the Soviet Union spent over twice as much of its output on military goods compared to the United States.
ANS: T

3. A decrease in unemployment causes the PPF to shift outward.
ANS: F

4. The law of increasing opportunity cost results from the varying ability of resources to adapt to the production of different goods.
ANS: T

5. Production possibilities curves can shift outward but they do not shift inward.
ANS: F

6. Capitalists are much more likely to support wage and price controls than socialists.
ANS: F

7. Business firms produce things, but individuals do not.
ANS: F

8. Efficiency implies that more of one good can not be produced without a loss of production of the other good.
ANS: T

9. *Terms of trade* refers to the existence of trade restrictions such as tariffs.
ANS: F

10. If the PPF for two goods is a downward-sloping straight line, the resources used to produce those goods are perfectly interchangeable.
ANS: T

11. It is possible for one person to have a comparative advantage in the production of both goods being produced.
ANS: F

12. Economists use the term *inefficiency* to describe adverse third-party effects of a transaction.
ANS: F

13. Consumer surplus is the difference between the maximum price the buyer is willing and able to pay for a good and the actual price paid.
ANS: T

14. A decrease in the quantity of resources available causes a movement down along a PPF.
ANS: F

15. If transaction costs are reduced, a potential trade can turn into an actual trade.
ANS: T

Essays

1. Give a definition of an advance in technology. Describe the effect of an advance in technology on the PPF.

   ANS: An advance in technology commonly refers to the ability to produce more output with a fixed amount of resources or the same amount of output with a smaller amount of resources. When technology advances the PPF shifts outward.

2. Why is the PPF typically bowed-outward? Under what circumstances would the PPF be a straight line?

   ANS: The PPF is typically bowed-outward due to the law of increasing opportunity costs. As more of a product is produced, it becomes increasingly more difficult to find resources that are well-suited to producing that product. Therefore, the opportunity cost of producing more units grows and the PPF becomes steeper and steeper. The PPF is a straight line when the resources used to produce the two products are perfectly interchangeable, and thus the opportunity cost of producing more units is constant.

3. Discuss the differences between the socialist and capitalist views of the role of prices in the economy.

   ANS: Under socialism, market prices are viewed as being set by greedy business owners. Socialists therefore control prices via the government in an attempt to reduce some of the economic power of the sellers. Capitalists use price as a rationing device, to convey information and to serve as an incentive to respond to information.

4. Describe what efficient production means. How is efficiency represented by a PPF?

   ANS: An economy is producing efficiently if it is producing the maximum amount of output with a set amount of resources and technology. Efficiency is represented by all of the points that lie along the PPF.

5. Explain how the study of economics might be beneficial to a history major.

   ANS: Many historical events are linked to the economic issues of that era. Understanding economic terms and theories can help historians to more fully comprehend the intricacies of a historical event or period. In addition, an understanding of cause and effect relationships within economics can help a historian evaluate the conclusions drawn by other historians.