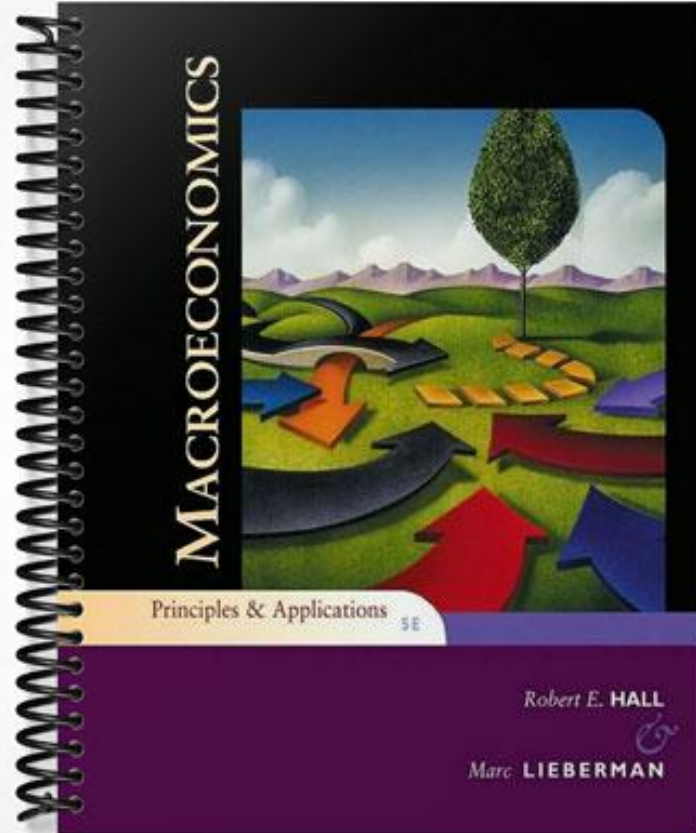


**TEST BANK**



**MACROECONOMICS**



Principles & Applications **5E**

Robert E. HALL

Marc LIEBERMAN

## CHAPTER 2—SCARCITY, CHOICE, AND ECONOMIC SYSTEMS

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### MULTIPLE CHOICE

1. When opportunity costs rise as more of a good is consumed, the production possibilities frontier will be concave (*bowled out*) with respect to the origin.
  - a. True
  - b. False

ANS: A                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

2. By better utilizing existing resources, an economy can produce at a point outside of its current production possibilities frontier.
  - a. True
  - b. False

ANS: B                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

3. The production possibilities frontier is useful for demonstrating both scarcity and productive ~~inefficiency~~ inefficiency.
  - a. True
  - b. False

ANS: A                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

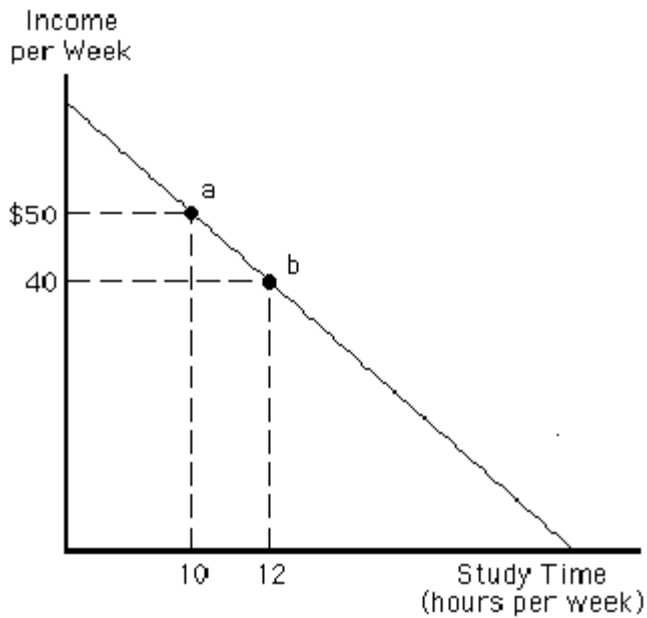
4. An economy's production possibilities frontier is fixed in the long run.
  - a. True
  - b. False

ANS: B                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

5. If capital is not being used efficiently, an economy cannot be operating at a point along its production possibilities frontier.
  - a. True
  - b. False

ANS: A                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

**Figure 2-1**



6. **Figure 2-1** illustrates the trade-off for a particular student between time spent studying per week and income per week from working part-time. What is the opportunity cost for this person of moving from point a to point b?
- \$5 of income per week
  - \$10 of income per week
  - two hours of studying per week
  - \$10 per hour of studying per week
  - \$20 of income per week

ANS: B                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

7. **Figure 2-1** illustrates the trade-off for a particular student between time spent studying per week and income per week from working part-time. What is the opportunity cost for this person of moving from point b to point a?
- \$5 of income per week
  - \$10 of income per week
  - two hours of studying per week
  - \$10 per hour of studying per week
  - \$20 of income per week

ANS: C                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

8. Production possibilities frontiers are typically concave (bowed out) from the origin because
- of the law of supply
  - there is usually a one-for-one trade-off in resources used in production
  - economies of scale enable firms to reduce the average costs of production as output rises
  - the opportunity cost of a good rises as the quantity of the good produced increases
  - resources are often left idle in the firm

ANS: D                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

9. Combinations of goods on the production possibilities frontier
- are unattainable without additional resources
  - can be produced using currently available resources and technology
  - reflect minimum normative value allocations
  - will meet society's *needs* but not its *wants*
  - are attainable only through international trade

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

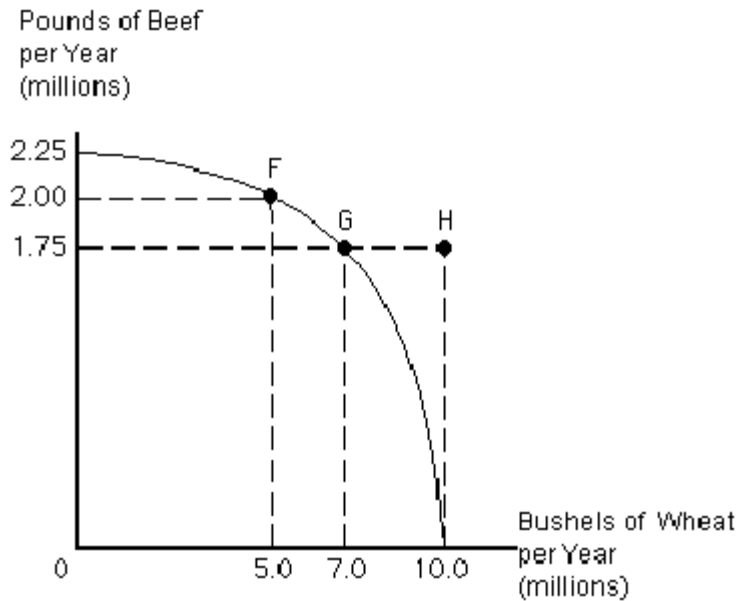
10. Combinations of goods outside the production possibilities curve
- are unattainable given society's technology and resources
  - are combinations that have already been consumed
  - go beyond basic necessities
  - result from involuntary unemployment
  - are the result of economic recessions

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

11. If the economy is producing a combination of goods inside its production possibilities frontier, then
- workers are on vacation
  - a significant number of workers have little education
  - some resources are being wasted
  - technology must improve before output can increase
  - the opportunity cost of producing more output is greater than the value of the additional output that could be produced

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

**Figure 2-2**



12. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. **Figure 2-2** represents the production possibility frontier for beef and wheat. Between points F and G, the opportunity cost increasing wheat by two bushels equals
- 0.25 million pounds of beef
  - 1.75 million pounds of beef
  - 0.125 pounds of beef
  - 8.0 pounds of beef
  - 0.5 pounds of beef

ANS: A            PTS: 1            DIF: 3  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

13. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. **Figure 2-2** represents the production possibility frontier for beef and wheat. Production at point H is
- unattainable given currently available technology and resources
  - attainable by more fully employing already available resources
  - attainable by using better technology which is already available
  - attainable if beef production drops to zero
  - attainable if all available resources are used to produce wheat

ANS: A            PTS: 1            DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

14. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. **Figure 2-2** represents the production possibility frontier for beef and wheat. What is assumed constant as the economy moves from point F to point G?
- both d and e
  - the money supply
  - consumer tastes and preferences
  - the level of currently available technology
  - the amount of available resources

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

15. Assume that U.S. agricultural land is used either to raise cattle for beef or to grow wheat. **Figure 2-2** represents the production possibility frontier for beef and wheat. The opportunity cost of moving from point G to point F equals
- 0.25 million bushels of wheat
  - 1.75 million bushels of wheat
  - 0.125 bushels of wheat
  - 8 bushels of wheat
  - 2 bushels of wheat

ANS: E                    PTS: 1                    DIF: 3  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

16. The production possibilities frontier illustrates
- the combinations of goods that could be produced with resources and technology constant
  - how technology influences opportunity costs
  - the law of diminishing returns
  - how price changes affect decision making of individuals
  - the law of demand

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

17. When there is an improvement in technology, holding all else constant,
- the production possibilities frontier will shift inward
  - society faces larger opportunity costs from shifting productive resources from one use to another
  - goods and services will increase in price
  - the economy must have some idle resources
  - the production possibilities frontier will shift outward

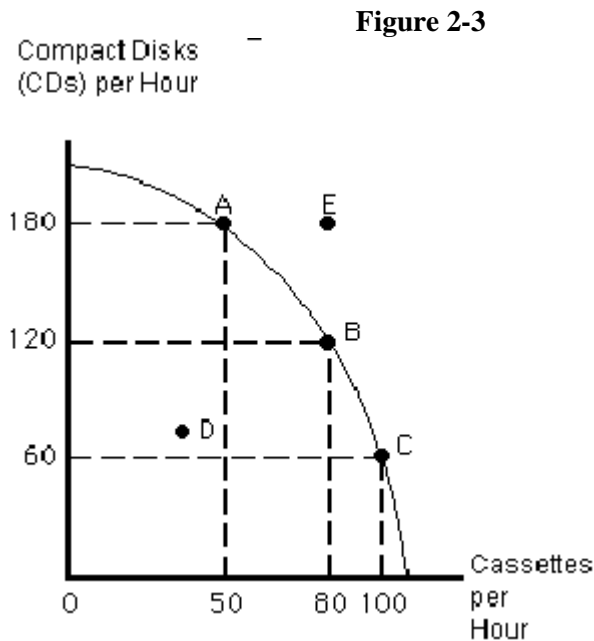
ANS: E                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

18. Which of the following could lead to an inward shift of the production possibilities frontier?
- an increase in the cost of one good
  - an increase in the utilization of resources
  - a rise in the level of technology
  - a law is passed whereby a mandatory retirement age of 60 is imposed
  - a decrease in the utilization of resources

ANS: D                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

19. One of the concepts that is illustrated by a downward sloping production possibilities frontier is that
- technology must change in order to produce more of a particular good
  - to produce more of one good, some of the alternative goods must be given up
  - opportunity cost generally declines as more of a good is produced
  - specialization leads to gains in overall utility for society
  - opportunity cost generally does not vary as more of a good is produced

ANS: B                      PTS: 1                      DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers



20. **Figure 2-3** shows the production possibilities frontier for a music processing plant that can produce both compact disks and cassettes. The opportunity cost of moving from point B to C is
- 20 cassettes
  - 120 compact disks
  - 100 cassettes
  - 60 compact disks
  - 180 compact disks

ANS: D                      PTS: 1                      DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

21. **Figure 2-3** shows the production possibilities frontier for a music processing plant that can produce both compact disks and cassettes. At which point would the plant be under-utilizing its resources?
- A
  - B
  - C
  - D
  - E

ANS: D                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

22. Which point in **Figure 2-3** is not possible for this society to produce?
- a. A
  - b. B
  - c. C
  - d. D
  - e. E

ANS: E                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

23. **Figure 2-3** shows the production possibilities frontier for a music processing plant that can produce both compact disks and cassettes. The opportunity cost of moving from point A to point E is
- a. zero
  - b. 30 cassettes
  - c. 180 compact disks
  - d. cannot be determined because point E is unattainable under current technology and resources
  - e. 80 cassettes

ANS: D                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

24. When all resources used in production are not perfectly substitutable,
- a. specialization does not lead to greater production
  - b. the economy or firm is producing at a point outside of its production possibilities frontier
  - c. there will be constant opportunity costs
  - d. the production possibilities frontier will be concave (bowed outward)
  - e. the economy or firm will only produce one good in equilibrium

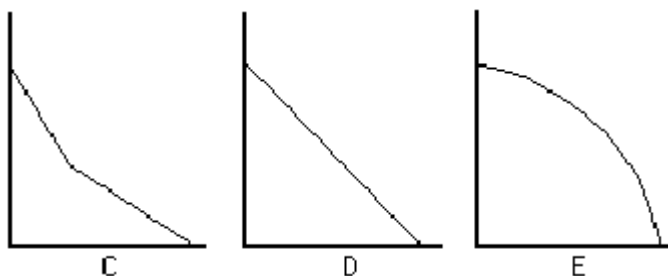
ANS: D                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

**Figure 2-4**





25. Which production possibilities frontier(s) in **Figure 2-4** depict(s) a situation in which all resources are perfect substitutes in production?
- both C and E
  - both D and E
  - C
  - D
  - E

ANS: D                    PTS: 1                    DIF: 3  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

26. If an economy's production possibilities frontier shifted to the right, this would illustrate
- increasing opportunity cost
  - decreasing opportunity cost
  - a fall in resource utilization
  - economic growth
  - a rise in resource utilization

ANS: D                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

<b>Figure 2-5</b>		
Point	#Rockets	#Cruise Ships
A	20	0
B	18	6
C	14	10
D	8	12
E	0	13

27. **Figure 2-5** shows five different combinations of rockets and cruise ships that a country could manufacture. Suppose it decided to produce 18 rockets and 12 cruise ships. Which of the following would be true?
- This combination could not be produced.
  - The country will be at point B.
  - The country will be at point C.
  - The country will not be fully utilizing its resources.
  - The country will be at the midpoint of points B and D.

ANS: A                    PTS: 1                    DIF: 3  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

28. **Figure 2-5** shows five different points along the production possibilities frontier for a country that produces rockets and cruise ships. If the country is currently operating at point C and decided to move to point B,
- the opportunity cost would be four rockets
  - it could not do so, given the current state of technology and quantity of resources
  - the country would have to forego producing six cruise ships
  - the opportunity cost would be four cruise ships

e. the opportunity cost would be six rockets

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

29. Two reasons why an economy might operate inside of its production possibilities frontier are
- productive efficiency and technological change
  - depressions and inflation
  - recessions and productive inefficiency
  - opportunity costs and substitutability of resources used in production
  - productive inefficiency and a decrease in the state of technology

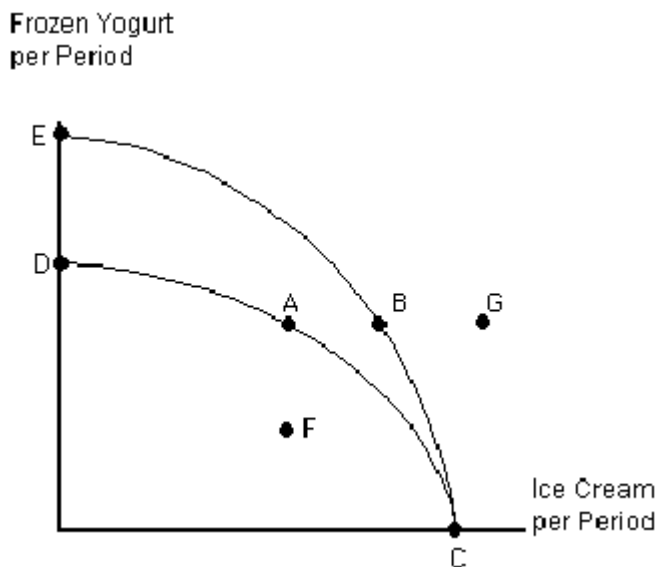
ANS: C                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

**Figure 2-6**



30. A shift in the production possibilities frontier from DC to EC in **Figure 2-6** could be due to a
- technological improvement in the production of ice cream
  - reduction in the rate of unemployment
  - rise in the rate of unemployment
  - technological improvement in the production of frozen yogurt
  - fall in the demand for frozen yogurt

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Production Possibilities Frontiers

31. Along a society's production possibilities frontier,
- the level of technology is changing
  - more of one good can be produced without giving up some of the other good
  - resources are not being fully utilized

- d. available resources are being used efficiently
- e. there is productive inefficiency in the economy

ANS: D                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

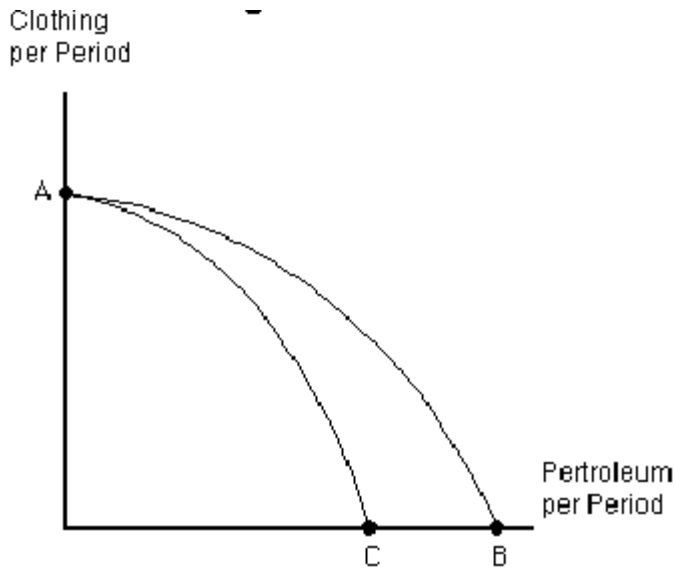
32. Suppose that the country of Utopia produces only steel and coffee. In 1998, Utopia produced 900 tons of steel and 500 pounds of coffee, while in 1999, it produced 1,000 tons of steel and 550 pounds of coffee. Assume that no technological changes occurred in the production of either good and the resource endowment of Utopia did not change. Which of the following is true?
- a. Utopia's opportunity cost of producing additional steel is 50 pounds of coffee.
  - b. Utopia's production must have been productively inefficient in 1998.
  - c. Utopia's opportunity cost of producing additional steel is 1/2 pound of coffee per ton of steel.
  - d. Utopia's opportunity cost of producing additional coffee is 100 tons of steel.
  - e. The production point in 1998 was unattainable given then-current resources and technology.

ANS: B                    PTS: 1                    DIF: 3  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

33. One explanation for the drop in the standard of living in the Soviet Union during World War II is that
- a. the war led to a movement along its production possibilities frontier away from civilian goods and towards military goods
  - b. the war led to an outward shift in the production possibilities frontier due to a rise in the level of technology
  - c. prior to the war, there was much productive inefficiency in the Soviet Union
  - d. the opportunity cost of producing military goods was zero in their economic system
  - e. resources used to produce civilian goods were equally capable of producing military goods

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

**Figure 2-7**



34. Which of the following could explain the shift in the production possibilities frontier from AB to AC in **Figure 2-7**?
- a productive improvement in petroleum production that has no effect on clothing production
  - a productive improvement in clothing production that has no effect on petroleum production
  - an increase in the size of the labor force that can produce either petroleum products or clothing
  - oil drilling in Alaska is ended in order to protect the environment
  - major oil reserves are discovered off the coast of Africa

ANS: D                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

35. Which of the following could explain the shift in the production possibilities frontier shown in **Figure 2-7** from AC to AB?
- technical improvements in both petroleum and clothing production
  - a productive improvement in clothing production that has no effect on petroleum production
  - a decrease in the size of the labor force that can produce either petroleum products or clothing
  - major oil reserves in Alaska are declared off-limits to producers in order to protect the environment
  - major oil reserves are discovered off the coast of Africa

ANS: E                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

36. The production possibilities frontier can be used to illustrate all of the following concepts, except one. Which is the exception?
- productive inefficiency
  - opportunity cost
  - the law of demand

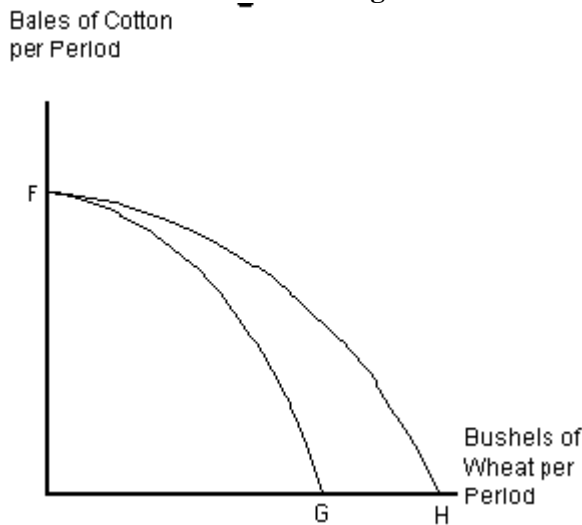
- d. scarcity
- e. the law of increasing opportunity costs

ANS: C                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

37. Assume that U.S. agricultural land is used either to raise cotton for clothing or to grow wheat. Agricultural researchers develop a new wheat hybrid that is more resistant to drought and insects. What effect will this have on the production possibilities frontier for cotton and wheat?
- a. maximum possible production of both cotton and wheat will rise
  - b. maximum possible production of cotton will rise; maximum possible production of wheat will not change
  - c. maximum possible production of wheat will rise; maximum possible production of cotton will not change
  - d. maximum possible production of cotton will rise; maximum possible production of wheat will fall
  - e. maximum possible production of wheat will rise; maximum possible production of cotton will fall

ANS: C                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

**Figure 2-8**



38. Assume that U.S. agricultural land is used either to raise cotton for clothing or to grow wheat. Curve FG in **Figure 2-8** represents the current production possibilities frontier for cotton and wheat. What could cause the production possibilities frontier to shift from FG to FH?
- a. a change in government subsidies that favors wheat production over cotton production
  - b. development of a new fertilizer that improves production of wheat, but has no impact on cotton production
  - c. development of a new fertilizer that improves production of cotton, but has no impact on wheat production
  - d. newly reclaimed swampland that is equally suited to growing either crop
  - e. newly reclaimed swampland that can be used to grow either crop, but is better suited to growing wheat

ANS: B                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

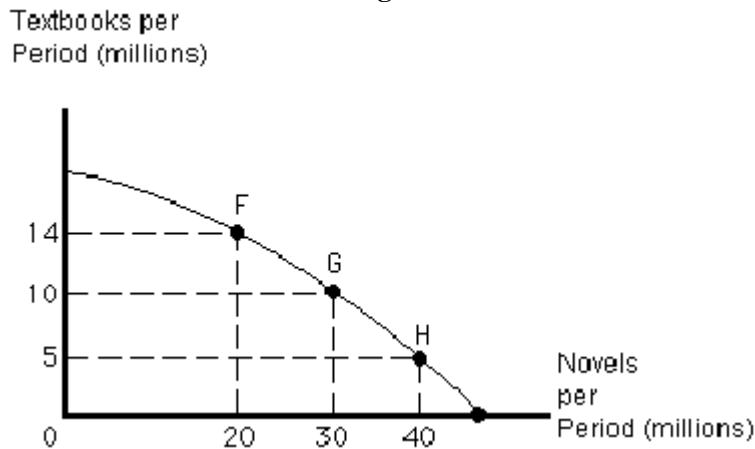
39. The production possibility frontier in **Figure 2-8** assumes that U.S. agricultural land is used either to raise cotton for clothing or to grow wheat. This is an example of a(n)
- critical assumption
  - optimizing assumption
  - assumption of scarcity
  - simplifying assumption
  - realistic assumption

ANS: D                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

40. According to the law of increasing opportunity cost,
- production points outside the production possibility frontier are unattainable
  - the production possibility frontier becomes flatter as production increases along the horizontal axis
  - the opportunity cost of producing a good rises as production of that good falls
  - production points inside the production possibility frontier are unattainable
  - the opportunity cost of producing a good rises as production of that good rises

ANS: E                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

**Figure 2-9**



41. Assume that the publishing industry produces novels and textbooks, as shown in the production possibilities frontier in **Figure 2-9**. Between points F and G, the opportunity cost of ten more novels equals \_\_\_\_\_. Between points G and H, the opportunity cost of ten more novels equals \_\_\_\_\_.
- 0.4 textbooks; 0.5 textbooks
  - 4 textbooks; 5 textbooks
  - 4 million textbooks; 5 million textbooks
  - 2.5 textbooks; 2 textbooks

e. 10 million textbooks; 5 million textbooks

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

42. Assume that the publishing industry produces novels and textbooks, as shown in the production possibilities frontier in **Figure 2-9**. Moving from point H to G, the opportunity cost of those five additional textbooks equals
- 0.5 novels
  - 10 million novels
  - 3 novels
  - 8 novels
  - 2 novels

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

43. Which of the following statements could explain the concave shape of the production possibilities curve in **Figure 2-9**?
- The publishing industry develops improved printing presses.
  - Productive efficiency increases as the publishing industry moves from point F to point H
  - More editors and writers are employed as the publishing industry moves from point F to point H.
  - Some writers are better suited to writing novels; some are better suited to writing textbooks.
  - The prices of paper and ink fall as the publishing industry moves from point H to point F.

ANS: D                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

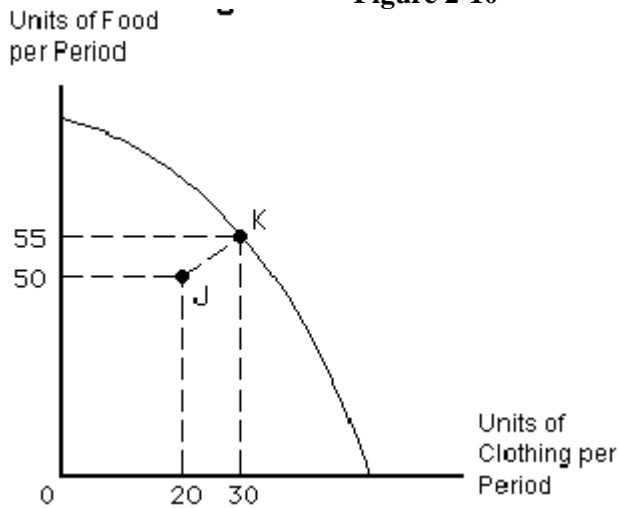
44. The concave shape of the production possibilities frontier reflects
- the law of comparative advantage
  - the law of absolute advantage
  - the law of increasing opportunity cost
  - the simplifying assumption of scarce resources
  - productive inefficiency

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

45. Assume that society is operating on its concave production possibilities frontier. As more and more units of the good on the horizontal axis are produced,
- more and more total resources are employed in the two industries combined
  - larger and larger amounts of the good on the vertical axis must be sacrificed
  - fewer and fewer total resources are employed in the two industries combined
  - more and more units of the good on the vertical axis will be produced
  - smaller and smaller amounts of the good on the vertical axis must be sacrificed

ANS: B                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

**Figure 2-10**



46. Consider the production possibilities frontier for food and clothing in **Figure 2-10**. A movement from point J to point K could be caused by
- the development of new and better technology
  - increasing unemployment
  - the movement of society into a recession
  - the law of increasing opportunity costs
  - eliminating productive inefficiency

ANS: E                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

47. Movement from point K on the production possibilities curve for food and clothing in **Figure 2-10**, to point J inside the curve could be the result of
- an increase in opportunity costs
  - supply and demand
  - greater efficiency
  - a decrease in the population
  - an increase in unemployment

ANS: E                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Production Possibilities Frontiers

48. A country currently is using all its land to produce wheat and grapes. However, the land most suited to growing grapes is being used to produce wheat, and the land most suited to growing wheat is being used to produce grapes. Which of the following statements is true?
- The country is operating outside of its production possibilities frontier.
  - The country is operating along its production possibilities frontier.
  - Wheat production must be sacrificed if the country increases grape production.



- d. Grape production must be sacrificed if the country increases wheat production.
- e. The country is operating inside its production possibilities frontier.

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Frontiers

49. According to the law of increasing opportunity cost,
- a. opportunity cost rises as technology improves
  - b. the production possibilities frontier is a straight line
  - c. opportunity cost rises as society produces more of a good or service
  - d. the production possibilities frontier is convex with respect to the origin (that is bowed toward the origin)
  - e. monetary costs rise as opportunity cost rises

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Increasing Opportunity Cost

50. The law of increasing opportunity cost says that
- a. wages increase as employment increases
  - b. interest rates rise as inflation increases
  - c. the cost of increasing employment opportunities increases with specialization
  - d. the more of something we produce, the less expensive it becomes
  - e. the more of something we produce, the greater is the opportunity cost of producing an additional unit

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Increasing Opportunity Cost

51. The law of increasing opportunity cost is based on the idea that
- a. wages tend to increase with the level of employment
  - b. interest rates tend to rise with increasing inflation
  - c. labor costs for a typical firm are a large and growing proportion of total cost
  - d. most resources are better suited to producing some goods than others
  - e. the less of something we produce, the greater is the opportunity cost of producing still more

ANS: D                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Increasing Opportunity Cost

52. As a society produces more and more of one good, it must give up increasing amounts of the alternative good. This demonstrates the
- a. law of demand
  - b. convexity of the production possibilities frontier
  - c. law of increasing opportunity cost
  - d. principle of productive inefficiency
  - e. effects of shifts in the level of technology

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Increasing Opportunity Cost

53. If a society is operating on its production possibilities frontier, and then decides to produce less health care,
- its standard of living will fall
  - its standard of living will improve
  - some of its resources will become unemployed
  - it will be able to produce more of some other good or service
  - the opportunity cost of producing health care will rise

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Increasing Opportunity Cost

54. If a society is on its production possibilities frontier, and decides to produce more health care,
- the cost of producing an additional unit of health care will rise
  - it must employ some previously unemployed resources
  - its standard of living will rise
  - some kind of inefficiency will occur
  - the cost of producing an additional unit of some other good will rise

ANS: A                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Increasing Opportunity Cost

55. Productive inefficiency could arise from
- a waste of available labor
  - a lack of resources
  - an improvement in technology
  - a movement along the production possibilities frontier
  - too many goods being produced by the country or firm

ANS: A                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

56. Which of the following is an example of productive inefficiency?
- Scientists discover a new substance that dramatically increases potential steel production.
  - A demographic boom leads to a rise in the number of workers in the labor force.
  - The rate of unemployment falls to zero.
  - Computer technicians are forced to answer telephones rather than perform their normal duties.
  - Due to economic growth, the economy reaches a new point along its production possibilities frontier.

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

57. Suppose that an economy produces civilian goods and military goods. If technological breakthroughs increase its ability to produce military goods, then
- fewer military goods will be produced
  - more civilian goods will be produced
  - the opportunity cost of producing military goods will rise
  - there will be productive inefficiency in the economy
  - the production possibilities frontier will pivot outward around the axis for military goods

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

58. A country currently is using all its land to produce wheat and grapes. However, the land most suited to growing grapes is being used to produce wheat, and the land most suited to growing wheat is being used to produce grapes. This is an example of
- increasing opportunity costs
  - involuntary unemployment
  - productive inefficiency
  - central planning
  - communal ownership

ANS: C                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

59. A country currently is using all its land to produce wheat and grapes. However, the land most suited to growing grapes is being used to produce wheat, and the land most suited to growing wheat is being used to produce grapes. Which of the following statements is true?
- Production of both wheat and grapes can be increased by shifting tracts of land to their best uses.
  - Production of both wheat and grapes can be increased only if more land becomes available.
  - production of wheat can increase only if production of grapes decreases.
  - Production of grapes can increase only if more labor and machinery become available.
  - Production of neither wheat nor grapes is possible without more land becoming available.

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

60. Production is *productively efficient* when
- the maximum possible output is being produced from a given collection of inputs
  - people are working their hardest
  - no more capital can be substituted for labor
  - technological innovation is no longer desirable
  - workers perform their duties at the expected level, even if they are physically capable of doing more

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

61. If the labor force in an economy is not fully employed, then
- the economy is operating outside of its production possibilities frontier
  - the economy is operating on its production possibilities frontier
  - there must have been an increase in technology to compensate for the labor shortage
  - the opportunity cost of producing more of one good is negative
  - the economy is operating inside its production possibilities frontier

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

62. World War II led to a dramatic increase in economic growth in the United States because
- the war caused the U.S. to move along its production possibilities frontier away from consumer goods and towards military goods
  - the economy was already at close to full employment
  - there were unemployed resources in the U.S. economy prior to the war
  - the economy shifted production towards more profitable consumer goods during the war
  - the opportunity cost of producing military goods increased considerably during the war years

ANS: C                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Search for a Free Lunch

63. Specialization of labor typically leads to higher levels of productive inefficiency in an economy.
- True
  - False

ANS: B                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Specialization and Exchanges

64. The world's total output will be greater the more self-sufficient each of the world's economies becomes.
- True
  - False

ANS: B                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

65. All of the following, except one, help explain why specialization leads to greater production than is otherwise possible. Which is the exception?
- It allows the organization of production in business firms.
  - Specialization reduces the time lost in moving from one activity to another.
  - As workers repeat an activity over and over, they hone their skills and become more expert.
  - Specialization allows workers to be assigned to the activities for which they have the greater natural ability.
  - The more often workers repeat an activity, the more stimulating and enjoyable they find it.

ANS: E                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

66. The specialization of labor
- leads to a reduction in unemployment
  - means that less equipment will be employed when labor and capital are substitutes in production
  - expands the output a society can produce
  - decreases the costs to the firm of coordinating activities
  - effectively separates labor from management

ANS: C                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

67. The principle of specialization and exchange implies that
- total production is highest when individuals specialize according to their absolute advantages
  - productive inefficiency increases as producers in society specialize
  - exchange can only occur when there is specialization in the economy
  - gains from specialization will only occur when society is operating at a point along its production possibilities frontier
  - total production is highest when individuals specialize according to their comparative advantages

ANS: E                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

68. Specialization leads to greater production than is otherwise possible
- only if different workers have different natural abilities
  - only if production is organized within business firms
  - under capitalism, but not under communism
  - even if different workers have identical natural abilities
  - under communal ownership, but not under capitalism

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

69. Specialization and exchange result in
- lower production levels than would otherwise be possible
  - higher living standards than would otherwise be possible
  - more down-time as workers switch activities more frequently
  - the assignment of workers to activities according to their preferences
  - self-sufficiency

ANS: B                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

70. If Alicia limits the range of her productive activities rather than trying to be self-sufficient, she is engaging in
- specialization
  - exchange
  - absolute advantage
  - increasing opportunity costs
  - reducing her standard of living

ANS: A                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Specialization and Exchanges

71. Molly needs 30 minutes to wash the car and 45 minutes to mow the lawn. Renee needs 1 hour to wash the car and 2 hours to mow the lawn. Which of the following statements is correct?
- Molly should specialize in both tasks.
  - Renee should specialize in both tasks.
  - Each woman should specialize in the task in which she has the absolute advantage.
  - Absolute advantage is not an appropriate guide for determining specialization.
  - Neither woman should specialize.

ANS: D                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Specialization and Exchanges

72. Which of the following best defines the specialization of resources?
- Workers are compensated as individuals.
  - Special resources are needed to produce most goods.
  - Each resource is paid for in full.
  - Each resource is paid the most if it is specialized.
  - Each resource is focused on a limited number of productive activities.

ANS: E                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Specialization and Exchanges

73. Economies organize according to the principle of specialization and exchange because doing so
- enables the government to exercise greater control than would otherwise be possible
  - forces people to work longer hours than they would do normally
  - eliminates the "law of increasing opportunity costs"
  - enables workers to move up to management in the least amount of time
  - enables greater production and higher standards of living to be realized than would otherwise be possible

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Specialization and Exchanges

74. If Indiana has an absolute advantage over Maine in producing both corn and ball bearings, then
- Indiana should produce both corn and ball bearings
  - there are no benefits possible from specialization
  - Maine should produce ball bearings and Indiana should produce corn
  - Indiana should produce ball bearings and Maine should produce corn
  - they still may benefit from specialization, but more information is needed to determine which state should specialize in each

ANS: E                    PTS: 1                    DIF: 3  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Specialization and Exchanges

75. Specialization and exchange
- generally leads to increased production of some goods at the cost of decreased production of other goods

- b. causes the production possibilities frontier to shift inward
- c. increases total production of every good only if the total amount of resources also increases
- d. alters the allocation of production among individuals or nations, but does not alter total production levels
- e. allows greater total production of every good without an increase in the total amount of resources

ANS: E                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Specialization and Exchanges

76. Suppose that the United States has an absolute advantage over Mexico in producing both agricultural and manufactured goods. In the U. S., the opportunity cost of 1 unit of agricultural output is 2 units of manufactured goods. In Mexico, the opportunity cost of 1 unit of agricultural output is 1.5 units of manufactured goods. Total production in the U. S. and Mexico will be maximized if
- a. the U. S. specializes in both types of output
  - b. Mexico specializes in both types of output
  - c. the U. S. specializes in agricultural goods and Mexico specializes in manufactured goods
  - d. the U. S. specializes in manufactured goods and Mexico specializes in agricultural goods
  - e. each country achieves self-sufficiency

ANS: D                    PTS: 1                    DIF: 3  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Specialization and Exchanges

77. One kind of gain from specialization is that
- a. most individuals gain at the expense of someone else
  - b. people develop expertise
  - c. people get to do only what they like
  - d. people cannot be bossed around
  - e. people gain political power

ANS: B                    PTS: 1                    DIF: 1  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Specialization and Exchanges

78. If Bob has an absolute advantage over Pete in both typing and woodworking, then Bob also has a comparative advantage over Pete in both activities.
- a. True
  - b. False

ANS: B                    PTS: 1                    NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Further Gains to Specialization: Comparative Advantage

79. According to the law of comparative advantage, individuals and economies should specialize in producing those goods and services in which they have a comparative advantage.
- a. True
  - b. False

ANS: A                    PTS: 1                    NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

80. Sven has a comparative advantage over Alice in cooking but not in doing the laundry. Which of the following must be true?
- Sven must have an absolute advantage in both cooking and doing the laundry.
  - Sven has a lower opportunity cost in doing the laundry.
  - Sven has an absolute advantage in doing the laundry.
  - Alice must have an absolute advantage in cooking.
  - Sven must have a lower opportunity cost than Alice for cooking.

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

81. Bill can cook dinner in 45 minutes and mow the lawn in 1.5 hours. Eileen can cook dinner in 1.5 hours and mow the lawn in 2 hours. Which of the following statements is correct?
- Bill has both an absolute advantage and a comparative advantage in cooking dinner.
  - Bill has both an absolute advantage and a comparative advantage in mowing the lawn.
  - Eileen has both an absolute advantage and a comparative advantage in cooking dinner.
  - Eileen has both an absolute advantage and a comparative advantage in mowing the lawn.
  - Bill has the comparative advantage in both cooking dinner and mowing the lawn.

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

82. Bill can cook dinner in 45 minutes and mow the lawn in 1.5 hours. Eileen can cook dinner in 1.5 hours and mow the lawn in 2 hours. Which of the following statements is correct?
- Bill should specialize in both tasks.
  - Bill should specialize in cooking dinner; Eileen should specialize in mowing the lawn.
  - Bill should specialize in mowing the lawn; Eileen should specialize in cooking dinner.
  - Eileen should specialize in both tasks.
  - neither person should specialize.

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

83. Bill can cook dinner in 45 minutes and mow the lawn in 1.5 hours. Eileen can cook dinner in 1.5 hours and mow the lawn in 2 hours. Bill's opportunity cost of mowing the lawn is
- $\frac{1}{2}$  of a dinner
  - 2 dinners
  - $\frac{3}{4}$  of a dinner
  - $1\frac{1}{3}$  dinners
  - $2\frac{2}{3}$  dinners

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage



84. Jenni can change a car's oil in 10 minutes and clean a bathroom in 20 minutes. Rob can change a car's oil in 20 minutes and clean a bathroom in 10 minutes. Therefore,
- Jenni should clean the bathroom and Rob should change the car's oil
  - Rob should clean the bathroom and Jenni should change the car's oil
  - there are no gains from specialization
  - Rob has an absolute advantage in both activities
  - Jenni has an absolute advantage in cleaning the bathroom

ANS: B                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Further Gains to Specialization: Comparative Advantage

85. If Arthur has a comparative advantage in sewing and Susan has a comparative advantage in accounting, then
- Arthur must have an absolute advantage in sewing
  - Arthur must have an absolute advantage in accounting
  - Susan must have an absolute advantage in sewing
  - we cannot conclude anything about absolute advantage
  - Susan must have an absolute advantage in accounting

ANS: D                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Further Gains to Specialization: Comparative Advantage

<b>Figure 2-11</b>		
	Jack	Jill
Pails Fetched Per Hour	20	4
Boards Sawed Per Hour	10	8

86. Using the information in **Figure 2-11**, Jill's opportunity cost of fetching each additional pail is
- 2 boards sawed
  - 1/2 of a board sawed
  - 8 boards sawed
  - 1/5 of a board sawed
  - 10 boards sawed

ANS: A                    PTS: 1                    DIF: 3  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Further Gains to Specialization: Comparative Advantage

87. According to the information in **Figure 2-11**,
- Jill has an absolute advantage in fetching pails
  - Jill has an absolute advantage in sawing boards
  - Jill has a comparative advantage in sawing boards
  - Jack has a comparative advantage in sawing boards
  - Jill has a comparative advantage in fetching pails

ANS: C                    PTS: 1                    DIF: 3  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade

TOP: Further Gains to Specialization: Comparative Advantage

88. According to the information in **Figure 2-11**, Jill's opportunity cost of sawing a board is
- 5 pails of water
  - 1/2 of a pail of water
  - 4 pails of water
  - 2 pails of water
  - 8 pails of water

ANS: B                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Further Gains to Specialization: Comparative Advantage

**Figure 2-12**

	Bob	Tom
Political Jokes per day	10	11
Celebrity Jokes per day	2	12

89. Suppose Bob and Tom are writing jokes for a their new TV show. Suppose there are two types of jokes, political jokes and jokes about celebrities. The number of jokes that can be produced by each person in each category are listed in **Figure 2-12**. From this table they should
- have Bob specialize in both political and celebrity jokes
  - have Tom specialize in both political and celebrity jokes
  - cooperate on the writing of both political and celebrity jokes
  - have Bob write political jokes and Tom write celebrity jokes
  - have Tom write political jokes and Bob write celebrity jokes

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Further Gains to Specialization: Comparative Advantage

90. Suppose Bob and Tom are writing jokes for a their new TV show. Suppose there are two types of jokes, political jokes and jokes about celebrities. The number of jokes that can be produced by each person in each category are listed in **Figure 2-12**. From this table you can tell that
- Bob has an absolute advantage in both political and celebrity jokes
  - Tom has an absolute advantage in both political and celebrity jokes
  - Bob has a comparative advantage in both political and celebrity jokes
  - Tom has a comparative advantage in both political and celebrity jokes
  - there are no gains from specialization

ANS: B                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Gains from trade, specialization and trade

TOP: Further Gains to Specialization: Comparative Advantage

91. Suppose Bob and Tom are writing jokes for a their new TV show. Suppose there are two types of jokes, political jokes and jokes about celebrities. The number of jokes that can be produced by each person in each category are listed in **Figure 2-12**. From this table you can tell that
- Bob has an absolute advantage in both political and celebrity jokes
  - Tom has an absolute advantage in both political and celebrity jokes but a comparative advantage in political jokes only
  - Bob has a comparative advantage in both political and celebrity jokes

- d. Tom has an comparative advantage in both political and celebrity jokes
- e. Tom has an absolute advantage in both political and celebrity jokes but a comparative advantage in celebrity jokes only

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

92. The principle of comparative advantage states that
- a. whoever has a comparative advantage in producing a good or service also has the absolute advantage
  - b. whoever has an absolute advantage in producing a good or service also has the comparative advantage
  - c. whoever can produce a good or service using fewer resources than another individual has the comparative advantage
  - d. total production of every good or service can be greater if individuals specialize according to their comparative advantage
  - e. comparative advantage is maximized if each individual specializes according to his or her absolute advantage

ANS: D                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

93. Maximizing output by following the principle of comparative advantage requires
- a. specialization only
  - b. exchange only
  - c. both specialization and exchange
  - d. neither specialization nor exchange
  - e. either specialization or exchange, but not both

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

94. The principle of comparative advantage says that
- a. every individual should specialize in producing that good for which the absolute cost is the smallest
  - b. the output of society as a whole will be the greatest if every individual specializes in producing that commodity for which his opportunity cost is the smallest
  - c. monopoly power is gained by specializing in a large market and reducing costs
  - d. monopoly power is gained by specializing in a small market and producing a differentiated product
  - e. your financial investments should be "compared" in a common fashion to determine your maximum advantage

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Further Gains to Specialization: Comparative Advantage

95. A person has a comparative advantage if

- a. she can produce everything more cheaply than her co-worker can
- b. she can produce everything at a faster rate than her co-worker can
- c. she can produce a good with a smaller opportunity cost than her co-worker can
- d. she sees through corporate and government manipulation
- e. she gets rich through inheritance

ANS: C                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Further Gains to Specialization: Comparative Advantage

96. When individuals concentrate on a limited number of productive activities, this is known as
- a. shirking
  - b. productive inefficiency
  - c. exchange
  - d. specialization
  - e. an economic system

ANS: D                    PTS: 1                    DIF: 1  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Absolute Advantage: A Detour

97. If Japan could produce more steel in a year than the United States using the same amount of resources, then
- a. Japan must have an absolute advantage in producing steel
  - b. the United States must have a comparative advantage in producing steel
  - c. Japan must have a comparative advantage in producing steel
  - d. neither the United States nor Japan will have a comparative advantage in producing steel
  - e. there would be no gains from specialization

ANS: A                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Absolute Advantage: A Detour

98. If Pat can produce a good or service at a lower opportunity cost than Chris can, then
- a. Pat has a comparative advantage in producing the good or service
  - b. no gains are possible through specialization
  - c. Pat must have an absolute advantage in producing the good or service
  - d. Pat must be more talented than Chris
  - e. society is at a point along its production possibilities frontier

ANS: A                    PTS: 1                    DIF: 1  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Gains from trade, specialization and trade  
 TOP: Absolute Advantage: A Detour

99. Molly needs 30 minutes to wash the car and 45 minutes to mow the lawn. Renee needs 1 hour to wash the car and 2 hours to mow the lawn. Which of the following statements is correct?
- a. Molly has an absolute advantage in washing the car; Renee has an absolute advantage in mowing the lawn.
  - b. Molly has an absolute advantage in mowing the lawn; Renee has an absolute advantage in washing the car.
  - c. Molly has an absolute advantage in both tasks.

- d. Renee has an absolute advantage in both tasks.
- e. Neither woman has an absolute advantage in washing the car.

ANS: C                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Absolute Advantage: A Detour

100. If Chris can produce a service using fewer resources than Pat would, then Chris
- a. has an absolute advantage in producing that service
  - b. has a comparative advantage in producing that service
  - c. has both an absolute advantage and a comparative advantage in producing that service
  - d. is productively efficient
  - e. cannot have a comparative advantage in producing that service

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Absolute Advantage: A Detour

101. If Mary has an absolute advantage over Bill in performing each of two tasks, then
- a. Mary must have a comparative advantage in both tasks
  - b. Mary cannot benefit by specializing in one and trading with Bill for the other
  - c. Mary should specialize in both tasks
  - d. Mary cannot have a comparative advantage in either task
  - e. Mary should specialize in the one in which she has a comparative advantage

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Absolute Advantage: A Detour

102. A person has an absolute advantage in producing a good if he can
- a. produce it using fewer resources than another person
  - b. produce it while sacrificing less than another person in terms of foregone output
  - c. corner the market
  - d. use other peoples' money to produce it
  - e. work out some long term payment plan for financing the good

ANS: A                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Gains from trade, specialization and trade  
TOP: Absolute Advantage: A Detour

103. Every economic system requires a means for determining resource allocation.
- a. True
  - b. False

ANS: A                    PTS: 1                    NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                    TOP: Resource Allocation

104. In deciding where to operate along its production possibilities frontier, a society is answering the question of
- a. which goods and services should be produced with its scarce resources
  - b. what production methods should be used to produce goods and services

- c. how will output be allocated among the individuals in the society
- d. what prices will be charged for goods and services
- e. how much will it trade with other societies in the world

ANS: A                      PTS: 1                      DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resource Allocation

105. If the U.S. government decides to distribute surplus cheese to food banks for the homeless, the government is addressing the question of
- a. which goods and services should be produced with society's scarce resources
  - b. what production methods should be used to produce goods and services
  - c. how will output be allocated among the individuals in the society
  - d. what prices will be charged for goods and services
  - e. determining the optimal degree of specialization

ANS: C                      PTS: 1                      DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resource Allocation

106. If the Ford Motor Company decides to use more robots in its manufacturing plants, the company is addressing the question of
- a. which goods and services should be produced with society's scarce resources
  - b. what production methods should be used to produce goods and services
  - c. how will output be allocated among the individuals in the society
  - d. what prices will be charged for goods and services
  - e. the optimal degree of central planning

ANS: B                      PTS: 1                      DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resource Allocation

107. In deciding to produce more agricultural goods and fewer manufactured goods, a society is addressing the question of
- a. where on its production possibilities frontier to operate
  - b. what production methods should be used to produce goods and services
  - c. how will output be allocated among the individuals in the society
  - d. what prices will be charged for goods and services
  - e. the optimal degree of central planning

ANS: A                      PTS: 1                      DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resource Allocation

108. The three problems of resource allocation are faced by
- a. traditional societies
  - b. command systems
  - c. centrally planned economies
  - d. market economies
  - e. all types of societies

ANS: E                      PTS: 1                      DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost                      TOP: Resource Allocation

109. A method of allocating scarce resources is a necessary component of
- all economic systems
  - all economic systems except market capitalism
  - centrally-planned socialism and market socialism only
  - centrally-planned capitalism and market capitalism only
  - all economic systems except centrally planned socialism

ANS: A                    PTS: 1                    DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Resource Allocation

110. In a market economy, most of what we consume is obtained by
- a command system
  - greed
  - altruism
  - exchange
  - central planning

ANS: D                    PTS: 1                    DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

111. In a market system, resources are allocated by
- the orders of authority
  - traditional practices
  - prices
  - absolute advantage
  - production possibilities frontiers

ANS: C                    PTS: 1                    DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

112. Under a socialist system,
- most resources are owned by the state
  - most resources are shared with the whole community
  - market prices determine how resources are distributed
  - conflicts are usually resolved by consensus
  - most resources are privately owned

ANS: A                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

113. The three primary systems for allocating resources are
- tradition, command, and central planning
  - tradition, central planning, and communal
  - command, market, and socialism
  - tradition, command, and market
  - communal, command, and capitalism

ANS: D                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

114. Traditional economies tend to be
- unstable and unpredictable
  - stable, predictable, and growing
  - unstable, unpredictable, and stagnant
  - unstable and unpredictable, but growing
  - stable and predictable, but stagnant

ANS: E                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

115. An economy with a government planning commission that provides explicit instructions for resource allocation is an example of
- a command economy
  - a communal economy
  - a traditional economy
  - a market economy
  - market socialism

ANS: A                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

116. Under a market system of resource allocation, the most important limitations on individual freedom of action are imposed by
- tradition
  - the government
  - the scarcity of resources
  - the stagnation of the economy
  - the rigidity of the economy's rules

ANS: C                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation

117. Under a market system of resource allocation
- prices determine what consumers buy while the government determines what firms produce
  - prices determine what firms produce while the government determines what consumers buy
  - prices determine both what firms produce and what consumers buy
  - the government determines both what firms produce and what consumers buy
  - the government allocates resources while prices allocate goods and services

ANS: C                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: The Three Methods of Resource Allocation



118. A weakness of the market system of resource allocation is that
- such economies tend to be stagnant
  - most participants in such an economy have low standards of living
  - there are no limits on an individual's freedom of action
  - it does not address the problem of initial inequities in endowments
  - its participants are free to act according to their desires

ANS: D                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

119. The system of resource allocation in the United States is a
- pure market system
  - market system with elements of tradition and command
  - market system with elements of tradition, but not command
  - traditional system with elements of market, but not command
  - pure tradition system

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

120. Tax collections in the United States are an example of
- tradition in a mainly market system
  - command in a mainly tradition system
  - market in a mainly tradition system
  - tradition in a mainly command system
  - command in a mainly market system

ANS: E                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

121. Under market capitalism, resources are allocated primarily through
- government decree
  - voter consensus
  - tradition
  - lottery
  - prices

ANS: E                    PTS: 1                    DIF: 1  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

122. The social problem of resource allocation requires society to decide
- all of the following
  - both d and e
  - how output should be produced
  - what goods and services should be produced
  - who gets what society produces

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

123. In a traditional economy, decisions about what to produce, how to produce, and who should get society's output are made by
- the market
  - the government
  - repeating what was done in the past
  - business firms
  - nonprofit firms

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

124. In a command system, the decision about what should be produced is made by
- a central authority
  - the market
  - repeating what was done in the past
  - business firms
  - consumers

ANS: A                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

125. In a market economy,
- the government primarily determines the distribution of resources
  - prices determine the allocation of resources
  - what society produces is what it produced in the past
  - resource costs increase as specialization increases
  - absolute advantage is the primary determinant of resource allocation

ANS: B                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

126. The role of prices in a market economy is to
- make producers rich at the expense of consumers
  - replicate what society produced in the past
  - determine the allocation of resources
  - enforce what the government chooses
  - force consumers to pay for business profits

ANS: C                    PTS: 1                    DIF: 2  
NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: The Three Methods of Resource Allocation

127. The U.S. system of resource ownership
- a. is pure capitalism
  - b. excludes any state ownership of resources
  - c. includes government restrictions on the use of privately owned resources
  - d. is designed to eliminate the problem of scarce resources
  - e. excludes any communal ownership

ANS: C                    PTS: 1                    DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Resource Ownership

128. Which of the following is an essential feature of any economic system?
- a. absolute advantage
  - b. the profit motive for producers
  - c. a voting procedure for choosing leaders
  - d. prices determine resource allocation
  - e. scarce resources

ANS: E                    PTS: 1                    DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Types of Economic Systems

129. Under a capitalist economic system,
- a. the state owns all or most of the resources
  - b. people are forced to work for a living
  - c. resources are privately owned
  - d. the government determines the allocation of resources
  - e. prices eventually become unnecessary

ANS: C                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Types of Economic Systems

130. An economic system includes
- a. money, stocks and bonds
  - b. a mechanism for allocating resources and a mode of resource ownership
  - c. a mechanism for dividing up resources and a way to ensure that technology advances
  - d. a mechanism for allocating stocks, bonds and money and a mode of technology
  - e. government ownership, labor time, and machines

ANS: B                    PTS: 1                    DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Types of Economic Systems

131. Under market capitalism, resources are allocated by
- a. command and owned privately
  - b. the market and owned privately
  - c. command and owned by the state
  - d. the market and owned by the state
  - e. tradition and owned by all

ANS: B                    PTS: 1                    DIF: 3

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Types of Economic Systems

132. An economic system in which resources are privately owned and allocated by the market is called
- market capitalism
  - market socialism
  - centrally-planned capitalism
  - centrally-planned socialism
  - a tradition-based economy

ANS: A                      PTS: 1                      DIF: 2

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Types of Economic Systems

133. We say there is productive inefficiency in saving lives if
- there is some way to save more lives
  - there is some way to save more lives without sacrificing any other goods or services
  - all resources are devoted to saving lives
  - no resources are devoted to saving lives
  - anyone dies before reaching his or her life expectancy

ANS: B                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Using the Theory: Are We Saving Lives Efficiently?

134. A society is saving lives (productively) efficiently if
- there are no unemployed resources in the health care sector
  - there are no unemployed resources anywhere in the economy
  - there is no way to save more lives
  - there is no way to save more lives without sacrificing some other goods or services
  - the opportunity cost of saving one more life is zero

ANS: D                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Using the Theory: Are We Saving Lives Efficiently?

135. An economy is said to be saving lives efficiently
- if the number of lives saved increases each year
  - whenever the cost of saving lives is decreasing
  - if it is operating on its production possibilities frontier
  - if more resources are devoted to saving lives than to any other activity
  - if fewer resources are devoted to saving lives than to any other activity

ANS: C                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets

LOC: Scarcity, tradeoffs, and opportunity cost

TOP: Using the Theory: Are We Saving Lives Efficiently?

136. Productivity efficiency in saving lives
- is not possible to today's economy
  - is guaranteed in today's economy
  - occurs when the economy is saving the maximum possible number of lives
  - requires producing on the economy's production possibilities frontier
  - occurs where the production possibilities frontier intersects the "lives saved" axis

ANS: D                      PTS: 1                      DIF: 1

NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Using the Theory: Are We Saving Lives Efficiently?

137. We say that a particular life saving method is efficient
- if it requires very few resources
  - if it requires many resources
  - if total expenditures on that method are low
  - if the cost per life year saved is very high
  - if the cost per life year saved is very low

ANS: E                    PTS: 1                    DIF: 1  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Using the Theory: Are We Saving Lives Efficiently?

138. One way to increase economic efficiency in saving lives is to
- shift resources toward methods with low cost per life saved
  - shift resources toward methods with high cost per life saved
  - allocate more resources to saving lives
  - allocate fewer resources to saving lives
  - move along the production possibilities frontier and increase the number of lives saved

ANS: A                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Using the Theory: Are We Saving Lives Efficiently?

139. If a life can be saved for \$250 using Method A and \$260 using Method B,
- it would be efficient to shift resources from A to B
  - it would be efficient to shift resources from B to A
  - both methods should be pursued to the maximum extent possible
  - neither method should be used if methods with higher dollar values are available
  - both methods are on the economy's production possibilities frontier

ANS: B                    PTS: 1                    DIF: 2  
 NAT: Financial theories, analysis, reporting, and markets  
 LOC: Scarcity, tradeoffs, and opportunity cost  
 TOP: Using the Theory: Are We Saving Lives Efficiently?

**Figure 2-13**  
**Total Lives Saved**

Dollars Invested in Procedure	Procedure 1	Procedure 2
\$1,000,000	100	20
\$2,000,000	150	29
\$3,000,000	175	37
\$4,000,000	190	42
\$5,000,000	192	43

140. Referring to **Figure 2-13**, if you had to choose how to allocated \$5 million and your objective was to save the most lives, you would
- allocate all \$5 million to Procedure 1
  - allocate all \$5 million to Procedure 2
  - allocate \$1 million to Procedure 1 and \$4 million to Procedure 2

- d. allocate \$2 million to Procedure 1 and \$3 million to Procedure 2
- e. allocate \$3 million to Procedure 1 and \$2 million to Procedure 2

ANS: C                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Using the Theory: Are We Saving Lives Efficiently?

141. Referring to **Figure 2-13**, if you had to choose how to allocated \$5 million and your objective was to save the most lives, you would observe that there is
- a. constant opportunity cost between procedures
  - b. increasing opportunity cost between procedures
  - c. no opportunity cost between procedures because human lives are invaluable
  - d. no tradeoff between procedures because Procedure 1 is much better than Procedure 2
  - e. no tradeoff between procedures because Procedure 2 is much better than Procedure 1

ANS: B                      PTS: 1                      NAT: Financial theories, analysis, reporting, and markets  
LOC: Scarcity, tradeoffs, and opportunity cost  
TOP: Using the Theory: Are We Saving Lives Efficiently?