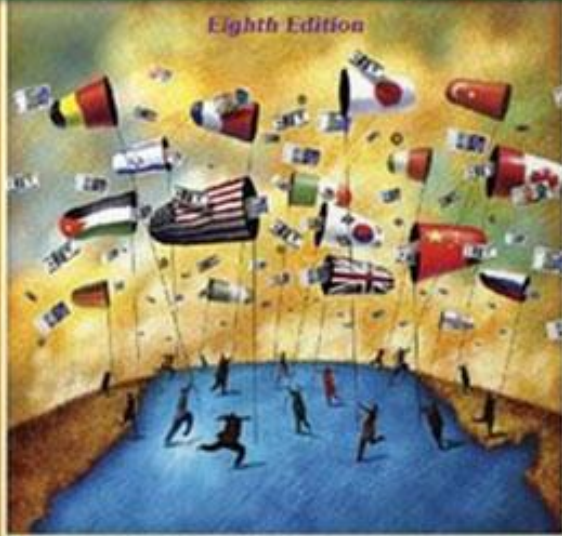


TEST BANK

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Microeconomics

Eighth Edition



Chapter 2--Choice, Opportunity Costs, and Specialization

Student: _____

1. What do economists mean when they refer to the forgone opportunities or forgone benefits of the next-best alternative?

- A. The idea that you can watch TV while studying for your economics exam at the same time
- B. Quantifiable accounting costs
- C. Forgone costs
- D. The highest-valued alternative that must be forgone when a choice is made
- E. All of these choices

2. In economics, the cost of any item or activity always includes

- A. only the actual amount of money expended.
- B. the opportunity cost incurred in purchasing the item or activity.
- C. the amount of money expended plus the rate of inflation.
- D. the sum total of the actual costs involved in the production of the item or activity.
- E. the accounting costs plus the rate of inflation.

3. Which of the following is the *best* definition of the concept of a tradeoff, as discussed in the text?

- A. The tuition you pay to attend college
- B. The price of a movie ticket at prime time
- C. Not having enough information available to make a rational decision
- D. Giving up one good or activity in order to obtain some other good or activity
- E. Having your cake and eating it too

4. Which statement concerning opportunity costs is *not* true?

- A. Opportunity costs can always be expressed in money terms.
- B. Every choice involves opportunity costs.
- C. Opportunity costs are the highest-valued alternatives that must be forgone when a choice is made.
- D. The full cost of an activity includes the opportunity costs.
- E. Economists refer to the forgone benefits of the next-best alternative as opportunity costs.

5. A production possibilities curve shows that more of one type of good can be produced only by

- A. increasing the quantity of other types of goods that are produced.
- B. increasing the quantity of both types of goods that are produced.
- C. decreasing employment.
- D. government intervention.
- E. decreasing the quantity of other types of goods that are produced.

6. According to the textbook's discussion of the production possibilities curve, a nation cannot produce as much of both defense goods and nondefense goods as it wants. Thus, when a nation produces more defense goods, by definition that nation

- A. must forgo the production of nondefense goods, *ceteris paribus*.
- B. does not have to forgo the production of nondefense goods since resources are unlimited.
- C. has to tolerate higher unemployment rates.
- D. can produce more of both defense and nondefense goods only if it can acquire more money.
- E. must produce less of both defense and nondefense goods since any nation's production possibilities curve represents only a Utopian state.

7. Which economic concept is the closest parallel to the saying "There's no free lunch"?

- A. Specialization
- B. Unlimited wants
- C. Underutilization of resources
- D. Opportunity costs
- E. Overutilization of resources

8. The city of Austin can buy roads or light rail. If 10 miles of roads cost \$1 million and 2 miles of light rail cost \$10 million, what is the city's opportunity cost of 1000 miles of roads?

- A. \$100 million
- B. 2 miles of light rail
- C. 200 miles of light rail
- D. \$50 million
- E. \$1,000 million.

9. Ronnie waits one hour in line to buy a ticket to a rock concert. The opportunity cost of buying the \$28 ticket

- A. is Ronnie's best alternative use of the \$28.
- B. is Ronnie's best alternative use of the one hour it took to wait in line.
- C. is the value of the \$28 to the ticket agent.
- D. is Ronnie's best alternative use of both the \$28 and the one hour spent in line.
- E. cannot be measured because there is no opportunity cost associated with consumption.

10. Which of the following examples *best* captures the definition of opportunity cost?

- A. Accepting payment for services rendered
- B. Going to the movies instead of studying for your economics exam
- C. Answering a question correctly on your economics exam
- D. Scoring an eagle on the fifth hole during a golf tournament and winning by one stroke
- E. Leaving a 20 percent tip for great service at a fine restaurant

11. The opportunity cost of going to the movies is not always the same for everyone because

- A. wages are relatively equal across unskilled labor pools.
- B. wages are different across geographic regions, and therefore some people cannot afford the price of a movie ticket.
- C. simply going to a movie involves no opportunity cost.
- D. people have different evaluations of alternatives.
- E. people seldom have the information they need to understand what an opportunity cost is.

12. When constructing a production possibility curve for an economy, we assume which of the following is constant?

- A. The quantity of resources.
- B. The government budget.
- C. The quantity of goods produced.
- D. The price level.
- E. The money supply.

13. The total cost of attending college

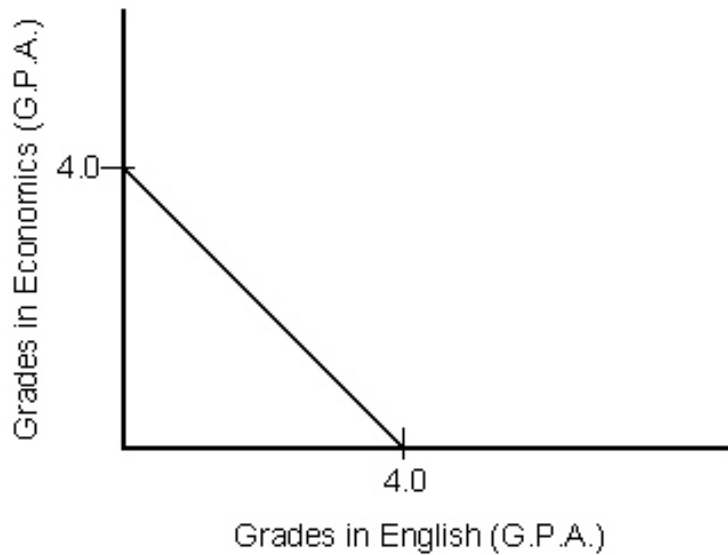
- A. includes only college-related expenses.
- B. is the sum of the costs of tuition, books, and meals.
- C. does not include other options that were sacrificed as a consequence of the decision to attend college.
- D. does not include the lost opportunity to travel.
- E. is the sum of college-related expenses and opportunity cost.

14. Nicky makes \$25,000 a year as a sales clerk. He then decides to quit his job to enter an MBA program full-time (assume Nicky doesn't work in the summer or hold any part-time jobs). His tuition, books, living expenses, and fees total \$15,000 a year. Given this information, the annual total cost of Nicky's MBA studies is

- A. \$10,000.
- B. \$25,000.
- C. \$15,000.
- D. \$40,000.
- E. \$35,000.

15. Economists say that making choices involves comparing
- A. just excess costs.
 - B. only capabilities.
 - C. society's wants.
 - D. marginal costs alone.
 - E. marginal benefits and marginal costs.

16. **Figure 2-1**



- The PPC in Figure 2-1 indicates a student who
- A. is better at economics than English.
 - B. is better at English than economics.
 - C. is equally proficient in economics and English.
 - D. prefers economics to English.
 - E. prefers English to economics.

17. The production possibilities curve illustrates
- A. tradeoffs facing a society.
 - B. that more of one product can be produced if only a little more of the other product is produced.
 - C. the maximum output that can be produced with a limited amount of resources.
 - D. the opportunity cost of alternative choices.
 - E. All of these choices.

18. A point lying outside a nation's production possibilities curve
- A. represents the use of more resources than are available.
 - B. represents the use of less resources than are available.
 - C. represents a state of high unemployment for that nation.
 - D. could easily be achieved if people would just work harder.
 - E. can never be achieved, even if more resources are obtained by the nation.
19. Under what circumstances would a nation be operating inside its production possibilities curve?
- A. The nation has just realized a significant improvement in the production process of a strategically important good.
 - B. The nation is suddenly employing a more highly skilled work force.
 - C. The nation is not utilizing its existing labor force efficiently.
 - D. The nation is producing the maximum amount of output that it can produce, given its limited resources.
 - E. The nation's capital stock doubles.

20. **Figure 2-2**

Production Possibilities Schedule		
Choice	Capital (Investment) goods	Consumption Goods
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

According to the production possibilities schedule in Figure 2-2, if the economy was initially producing combination B and then moved to combination C,

- A. the opportunity cost of the additional unit of capital goods is 7 units of consumption goods.
- B. the opportunity cost of the additional unit of capital goods is 2 units of consumption goods.
- C. the society has managed to produce more of both goods.
- D. one unit of capital goods has to be forgone.
- E. resources were not being used efficiently at combination C.

21. **Figure 2-2**

Production Possibilities Schedule		
Choice	Capital (Investment) goods	Consumption Goods
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

According to the production possibilities schedule in Figure 2-2, a move from choice C to choice D would

- A. give rise to some unemployment.
- B. be preferred by society.
- C. create a marginal opportunity cost of 3 units of consumption goods.
- D. be unobtainable.
- E. not be tolerated by society.

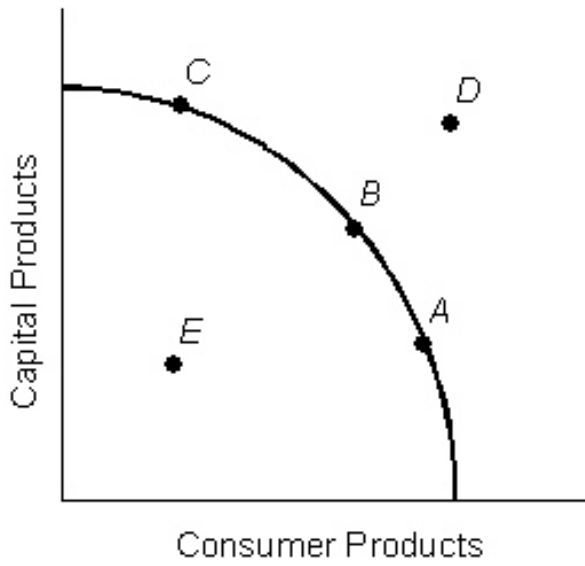
22. When an economy is operating on its production possibilities curve, more production of one good means less production of another because

- A. resources are limited.
- B. resources are not perfectly adaptable to alternative uses.
- C. wants are limited.
- D. wants are unlimited.
- E. some resources are not employed

23. It is possible for a nation to increase the production of defense goods without sacrificing the production of nondefense goods if and only if

- A. the nation is producing at a point inside the production possibilities curve.
- B. the nation has a large pool of fully employed labor and very low wage rates.
- C. the nation has more natural resources available than competing nations.
- D. the nation is a democracy and has a stable political environment.
- E. the central bank of the nation does not implement sound monetary policy.

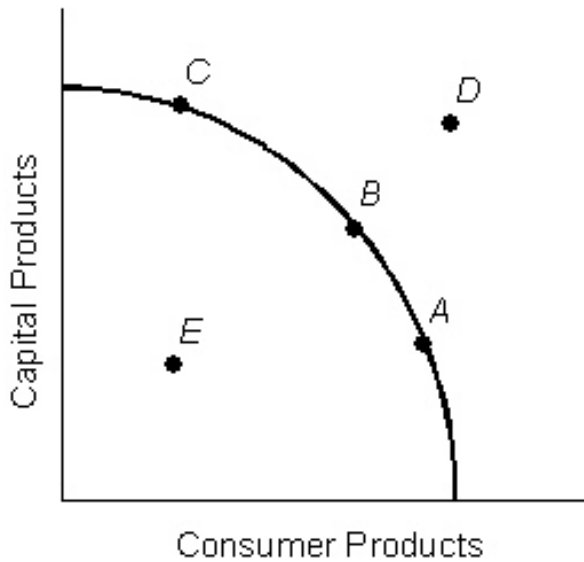
24. **Figure 2-3**



In Figure 2-3, underutilization of resources is represented by point

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

25. **Figure 2-3**



In Figure 2-3, full employment is shown with

- A. points *A*, *B*, and *C*.
- B. point *C*.
- C. point *B*.
- D. point *A*.
- E. None of these

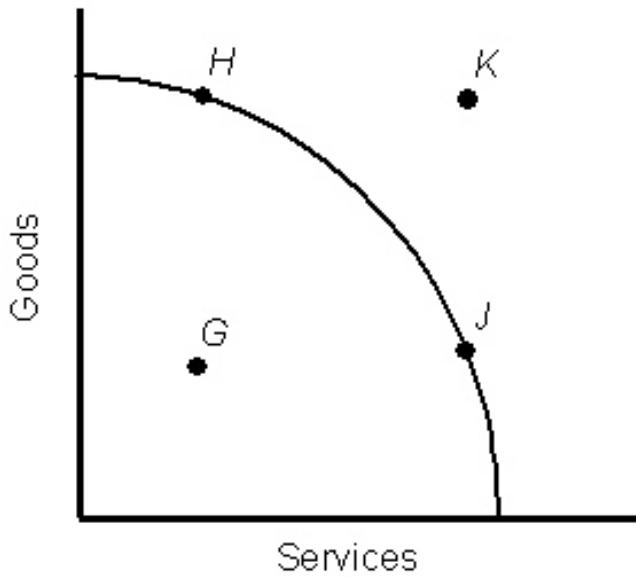
26. A point lying outside the production possibilities curve of a certain nation

- A. angers politicians.
- B. causes labor unrest.
- C. is not achievable at this time for this nation, given its current resources.
- D. is a sign of impending high unemployment.
- E. means this nation has developed a new technology.

27. If a country is at a point inside the PPC, then

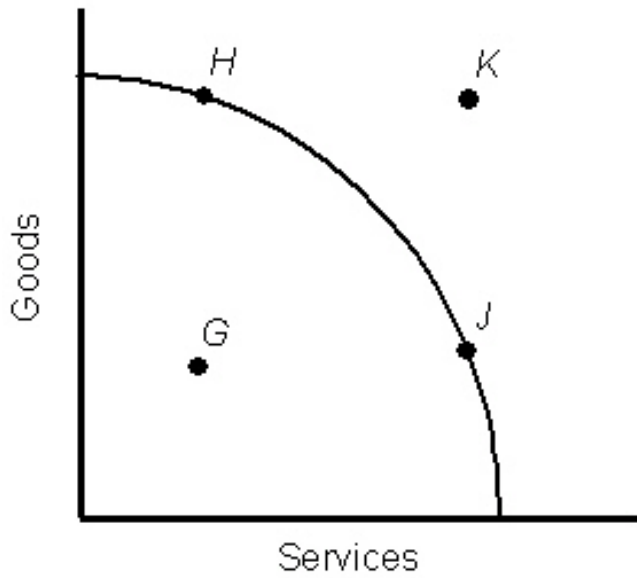
- A. the people must be unhappy.
- B. there are no technology advances.
- C. not all resources are being used efficiently and/or fully.
- D. the country cannot produce more of one good without giving up some of another good.
- E. the population is starving.

28. Figure 2-4



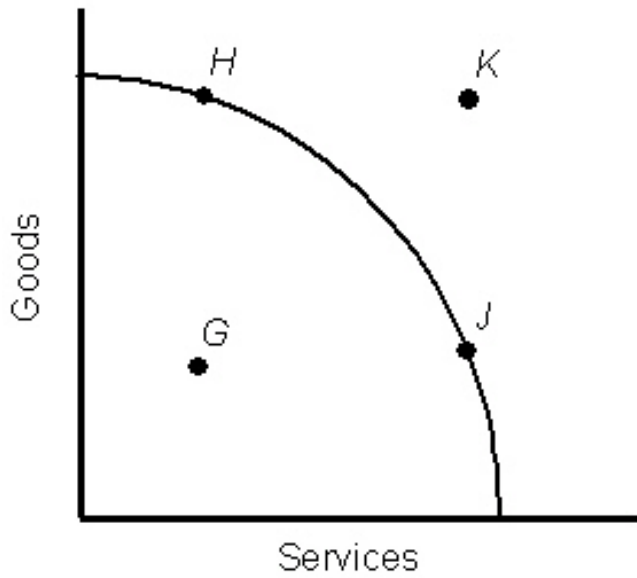
- The production possibilities curve in Figure 2-4 shows that
- A. an economy must have idle resources.
 - B. there are alternative combinations of goods and services that a nation can produce.
 - C. there are alternative minimum combinations of goods and services that a nation can produce.
 - D. a nation can produce more of one product without sacrificing some amount of another product.
 - E. resources are abundant if they are fully and efficiently used.

29. Figure 2-4



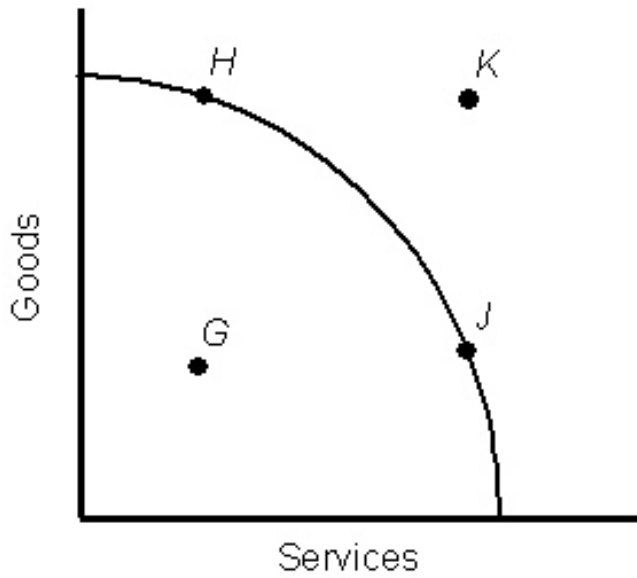
- In Figure 2-4, movement from point *H* to point *J* along the PPC suggests that
- A. goods production will increase and services production will decline.
 - B. services production will increase and goods production will decline.
 - C. goods production and services production will both decline.
 - D. goods production and services production will both increase.
 - E. the economy is experiencing unemployment.

30. Figure 2-4



- Consider the PPC in Figure 2-4. Point *K* indicates
- A. that the production of goods has expanded.
 - B. that the production of services has expanded.
 - C. that the production of goods has contracted.
 - D. that the production of services has contracted.
 - E. a point that is currently unattainable for this economy.

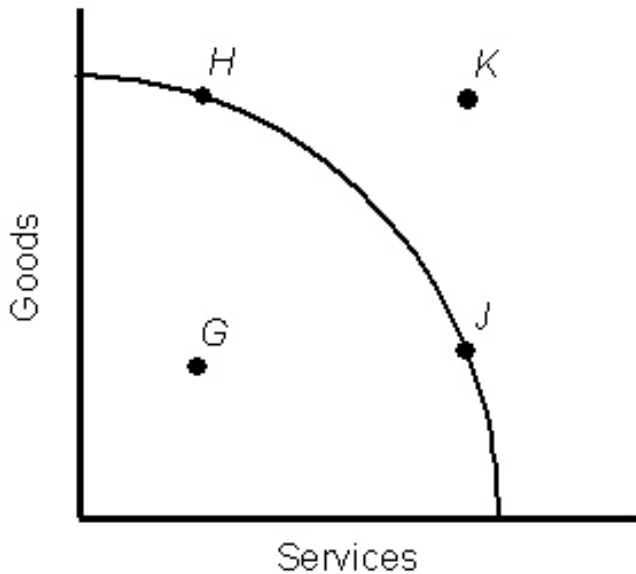
31. **Figure 2-4**



Refer to Figure 2-4. The economy described by the production possibilities curve should operate at a combination represented by point

- A. *G*.
- B. *H*.
- C. *J*.
- D. *K*.
- E. Cannot be determined from the information given.

32. Figure 2-4



- Consider the PPC in Figure 2-4. Point *K* is likely obtainable
- A. if more workers unemployed.
 - B. if more money is available in the economy.
 - C. if economy chooses to consume more.
 - D. workers have better education.
 - E. if economy imports more goods.

33. Which of the following is held constant when a PPC is constructed for the economy?

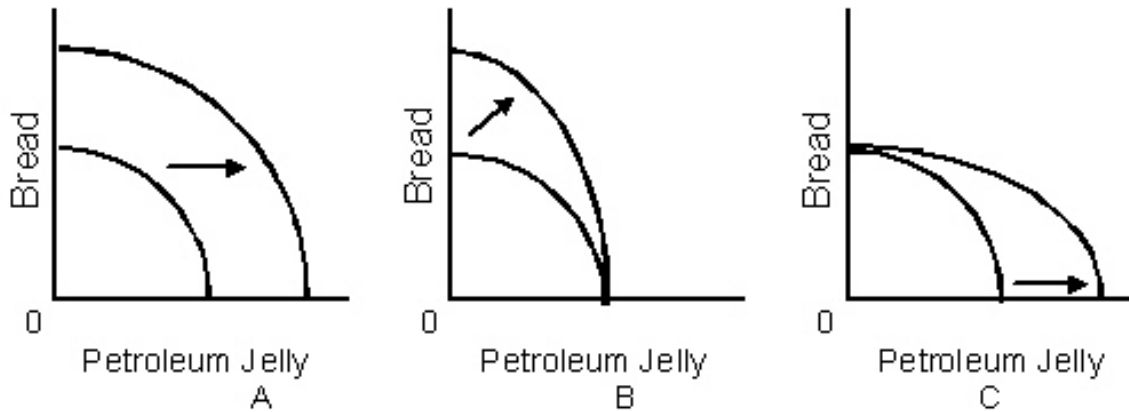
- A. The combination of goods produced
- B. The price level
- C. The marginal opportunity cost
- D. The amount of resources
- E. The amount of goods produced

34. A point lying inside the PPC

- A. illustrates resources being used to their fullest potential.
- B. indicates that resources are not being fully or efficiently used.
- C. is not an attainable combination.
- D. represents an increase in resources.
- E. requires more resources than are presently available.

35. Inefficient use of a nation's technological know-how would
- shift a PPC outward.
 - be depicted as a point on a PPC.
 - be depicted as a point outside or above a PPC.
 - be depicted as a point inside or below a PPC.
 - cause the economy's PPC to bow in.

36. **Figure 2-5**



An economy that produces only bread and petroleum jelly, operating on a bowed-out PPC, now discovers a new source of oil. Assume oil is an input only in the production of petroleum jelly. Which of the graphs in Figure 2-5 depicts the resulting shift of the PPC?

- Figure A only
- Figure B only
- Figure C only
- Figures B and C are both possible
- None of these

37. If a nation is producing at a point below its PPC, then

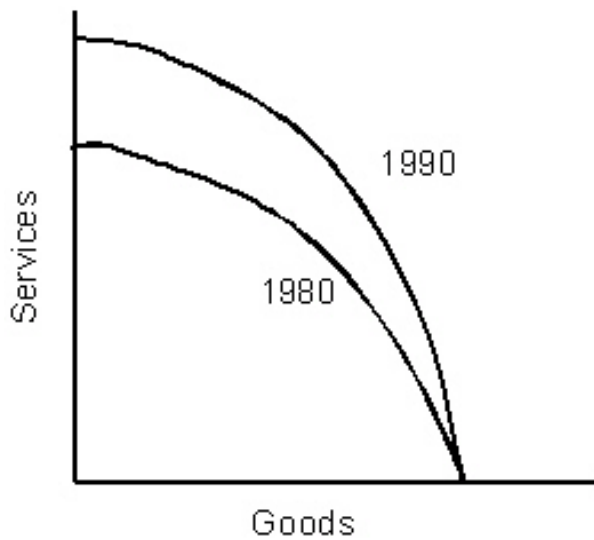
- it is operating at less than maximum efficiency.
- it may not have enough resources.
- it may not have enough technological know-how to produce on the PPC.
- it cannot increase the production of one product without sacrificing another product.
- it is not realizing its opportunity costs.

38. A point outside or above the PPC of a nation

- will shift the PPC outward.
- implies that this nation is not using all of its technological know-how.
- is not attainable for this nation at the current time.
- implies that there are unemployed resources in this nation.
- implies that this nation is using its resources efficiently.

39. If a new labor-saving technology is discovered,
- A. points that were previously unattainable to society may now be attainable.
 - B. the PPC remains unchanged.
 - C. the PPC shifts inward.
 - D. there is movement along the PPC.
 - E. society does not face a new set of tradeoffs.
40. An increase in technology will cause the production possibilities curve to
- A. shift to the left, or inward.
 - B. bow in.
 - C. shift to the right, or outward.
 - D. become a straight line.
 - E. not change.
41. If a nation obtains more resources, points that were outside the production possibilities curve prior to its gaining more resources become
- A. obsolete.
 - B. irrelevant.
 - C. attainable.
 - D. extraneous.
 - E. harmful.
42. Which of the following will *not* cause a rightward shift in a nation's production possibilities curve?
- A. An increase in the quantity of the nation's resources
 - B. Advances in technology
 - C. An increase in the general level of education
 - D. An increase in the labor force
 - E. A reduction in unemployment
43. At any point along a production possibilities curve, we assume that
- A. the economy's resources are fully and efficiently employed.
 - B. specialization occurs.
 - C. the economy's available resources steadily increase.
 - D. the economy's technological level steadily increases.
 - E. None of these occur.

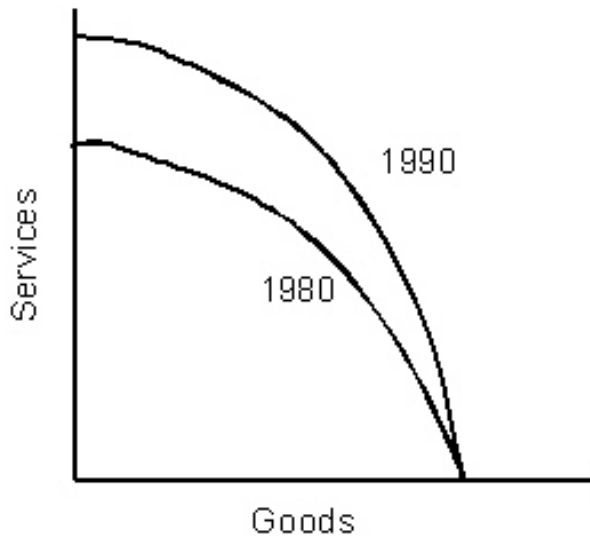
44. **Figure 2-6**



Consider the economy described by the production possibilities curves in Figure 2-6. Between 1980 and 1990, the economy most likely experienced

- A. a decrease in resources associated with producing goods.
- B. a decrease in resources associated with producing services.
- C. an increase in resources associated with producing goods.
- D. an increase in resources associated with producing services.
- E. an increase in resources associated with producing both goods and services.

45. Figure 2-6



Consider the economy described by the production possibilities curves in Figure 2-6. Which of the following statements is true?

- A. The economy produced more goods in 1990 than in 1980.
- B. The economy produced more services in 1990 than in 1980.
- C. The economy is capable of producing more services in 1990 than in 1980.
- D. If the economy produces only goods, it is capable of producing more goods in 1990 than in 1980.
- E. The economy is probably worse off in 1990 than it was in 1980.

46. An economy with unemployed resources can be represented by

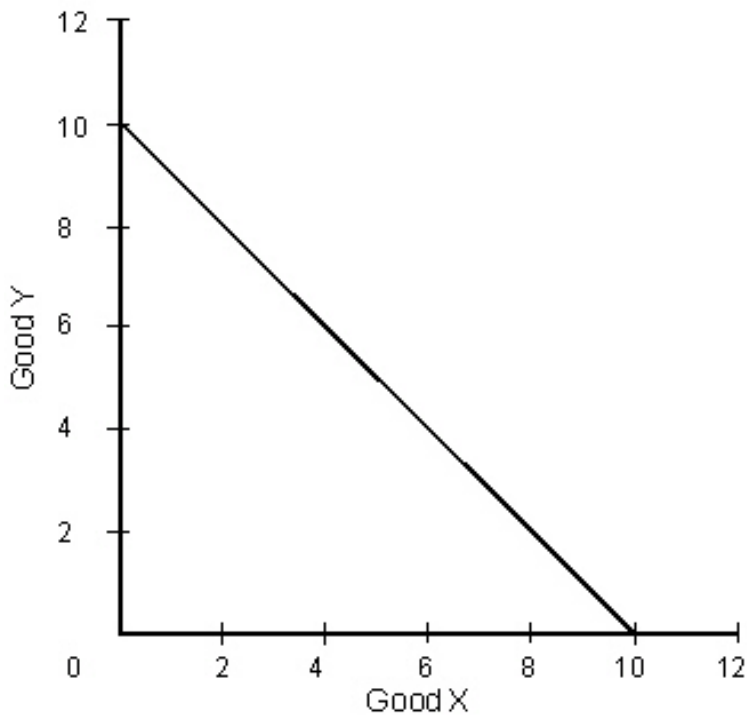
- A. a point on a PPC.
- B. a point inside a PPC.
- C. a point outside a PPC.
- D. the PPC's vertical intercept.
- E. the PPC's horizontal intercept.

47. Economic growth can be illustrated

- A. by a downward movement along the production possibilities curve.
- B. by an upward movement along the production possibilities curve.
- C. by an inward shift of the production possibilities curve.
- D. by an outward shift of the production possibilities curve
- E. by a movement toward the production possibilities curve.

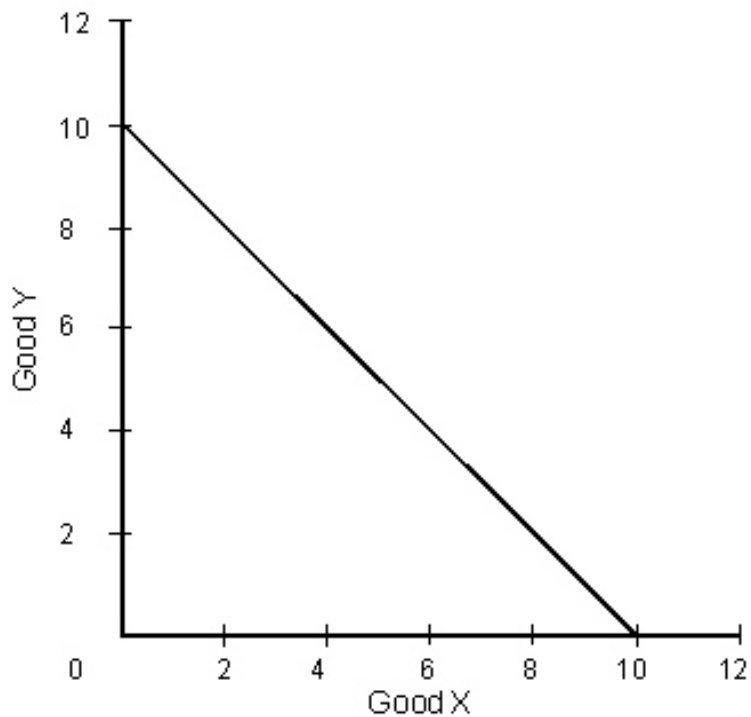
48. Everything else held constant, which of the following will shift a production possibilities curve inward?
- A. A decrease in the employment of resources
 - B. An increase in the working-age population
 - C. An increase in unemployment
 - D. An increase in the availability of natural resources
 - E. A decrease in the amount of capital available

49. **Figure 2-7**



- Consider the PPC in Figure 2-7, describing a firm that can produce good X and good Y. This figure indicates
- A. that both types of products are equally important to society.
 - B. that resources are perfectly adaptable to alternative uses.
 - C. that resources are less efficiently utilized when more of one type of product is produced.
 - D. that greater production of one type means that smaller and smaller amounts of other products must be forgone.
 - E. None of these

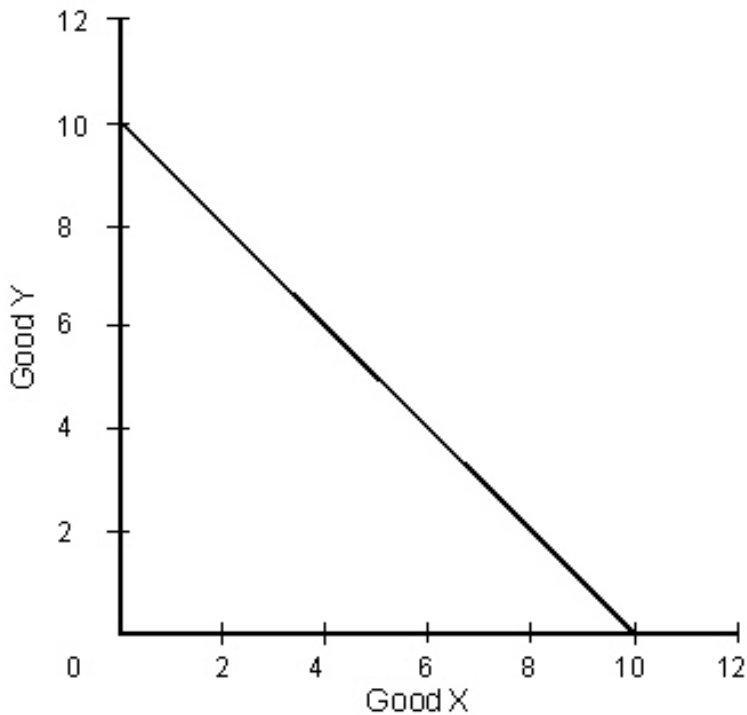
50. Figure 2-7



Consider Figure 2-7, which describes a firm that can produce good X and good Y. Which of the following is true?

- A. The firm must produce inside the boundary.
- B. The firm must produce outside the boundary.
- C. The firm should produce 10 units of X and 10 units of Y.
- D. The firm is able to produce 10 units of X or 10 units of Y.
- E. The firm will produce 10 units of X or 10 units of Y.

51. Figure 2-7



Consider the PPC in Figure 2-7, which describes a firm that can produce both good X and good Y. Which of the following is true?

- A. The opportunity cost of one unit of good X is 10 units of good Y.
- B. The opportunity cost of the first unit of good X is 1 unit of good Y.
- C. The opportunity cost of the ninth unit of good X is 9 units of good Y.
- D. The opportunity cost of the tenth unit of good X cannot be determined from the information given.
- E. The opportunity cost of the first unit of good X is 2 units of good Y.

52. As an economy moves along a bowed-out production possibilities curve,

- A. the marginal opportunity costs of producing one good increase with each successive increase of the other good.
- B. the marginal opportunity costs of producing one good decrease with each successive increase of the other good.
- C. the marginal opportunity costs of producing one good stay the same with each successive increase of the other good.
- D. the marginal opportunity costs of producing one good become irrelevant with each successive increase of the other good.
- E. there is no such thing as a bowed-out production possibilities curve.

53. A bowed-out PPC implies that producing more and more of one good will bring about
- A. increasingly larger declines in the production of the other good.
 - B. increasingly smaller declines in the production of the other good.
 - C. a proportionate decrease in the production of the other good.
 - D. economic growth.
 - E. technological improvement.

54. **Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- If the nation depicted in Figure 2-8 is producing at combination E, the opportunity cost of the tenth unit of consumer goods was
- A. 10 units of capital goods.
 - B. 6 units of capital goods.
 - C. 1 unit of capital goods.
 - D. 4 units of capital goods.
 - E. no units of capital goods.

55. **Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- If the nation depicted in Figure 2-8 produced 4 units of consumer goods and 2 units of capital goods, then it
- A. would be using all its resources.
 - B. would be using all its technological know-how.
 - C. would have unemployed resources.
 - D. would be producing at maximum efficiency.
 - E. None of these; this nation is not currently able to produce this combination.

56. **Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- In Figure 2-8, a combination of 9 units of consumer goods and 5 units of capital goods is
- attainable if unemployed resources return to work.
 - attainable if inefficient use of technological know-how is decreased.
 - unattainable and beyond the production possibilities of this nation.
 - unwanted because resources would become unemployed.
 - attainable without any new resources.

57. **Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- Consider Figure 2-8. The PPC representing this schedule would be
- bowed in.
 - bowed out.
 - a negatively sloped straight line.
 - a positively sloped straight line.
 - bowed in if consumer goods are plotted on the horizontal axis and bowed out if capital goods are plotted on the horizontal axis.

58. An economy's PPC illustrates
- the difference between enterprise and entrepreneurship.
 - the difference between innovation and invention.
 - the concepts of scarcity and opportunity cost.
 - the fact that real-world economies have no choices in terms of production.
 - the extent to which an economy consumes what it produces.

59. During Cultural Revolution in the late 1960s and early 1970s,

- A. China's PCC did not shift.
- B. China's production moved along the PCC.
- C. China's PCC shifted outward.
- D. China's PCC shifted inward.
- E. China's economy operated at a point above PCC.

60. What accounts for specialization?

- A. People specialize where opportunity costs are at a maximum.
- B. People specialize where their opportunity costs are lowest.
- C. People do not specialize.
- D. People specialize in the activity that pays the highest wage.
- E. People specialize in the activity that they enjoy the most, no matter what the salary is.

61. Few of us are jacks-of-all-trades. According to the discussion in the textbook, how do we decide where to devote our energies?

- A. We decide to specialize in those activities that require us to give up the smallest amount of other things.
- B. We decide to specialize in those activities that require us to give up the greatest amount of other things.
- C. Only a true jack-of-all-trades can ever expect to be successful.
- D. We decide to specialize in those activities that require us to give up absolutely nothing.
- E. We must all strive to become jacks-of-all-trades.

62. By specializing in activities in which opportunity costs are lowest and then trading, a country or individual will end up with

- A. a huge deficit.
- B. disgruntled workers.
- C. high inflation.
- D. more than if each tried to produce everything.
- E. politicians who could never get reelected because of resentful constituents.

63. The amount of one good or service that must be forgone to obtain an additional unit of another good is known as the

- A. marginal benefit.
- B. marginal opportunity cost.
- C. comparative advantage.
- D. marginal expansion condition.
- E. tradeoff quotient.

64. The most realistic shape of a production possibilities curve is

- A. a bowed-out curve.
- B. a straight line.
- C. a bowed-in curve.
- D. a bent line.
- E. a combination of bowed-out and straight curves.

65. Given the differences in opportunity costs within individual countries, it makes sense for countries

- A. to insist on protection against foreign competition through legislation.
- B. to force protectionism of the most important domestic industries, using tariffs and quotas.
- C. to devalue their currencies at least once a year.
- D. to specialize in activities in which opportunity costs are lowest and then trade.
- E. to specialize in activities in which opportunity costs are highest and then avoid trade in order to manage trade deficit.

66. The choice of which area or activity to specialize in is made on the basis of

- A. average wages in a selected vocation.
- B. opportunity cost.
- C. money spent out of pocket.
- D. absolute cost.
- E. whether or not a person is risk averse.

67. **Figure 2-9**

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, if trade were to occur, which of the following is true?

- A. Country X should export coffee to country Y, but the two countries should not exchange sugar.
- B. Country X should export coffee to country Y, and country Y should export sugar to country X.
- C. Country X should export sugar to country Y, and country Y should export coffee to country X.
- D. Country X should export sugar and coffee to country Y.
- E. Country Y should export sugar and coffee to country X.

68. Figure 2-9

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, if trade were to occur, what is the *most* that country X would be willing to pay for 1 unit of sugar?

- A. 1 unit of coffee
- B. $3/2$ units of coffee
- C. $2/3$ unit of coffee
- D. 200 units of coffee
- E. $1/2$ unit of coffee

69. Figure 2-9

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, if trade were to occur, what is the *least* that country Y would be willing to accept for 1 unit of sugar?

- A. 1 unit of coffee
- B. $3/2$ units of coffee
- C. $2/3$ unit of coffee
- D. 200 units of coffee
- E. $1/2$ unit of coffee

70. **Figure 2-9**

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, assume that before specialization and trade, both countries were producing at production possibility C. Now if each country specializes according to comparative advantage, what will be the gains from trade?

- A. 20 units of sugar and 10 units of coffee
- B. 20 units of coffee and 10 units of sugar
- C. 20 units of coffee
- D. 10 units of sugar
- E. 80 units of coffee and 90 units of sugar

71. **Figure 2-10**

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

In Figure 2-10, Maine has an absolute advantage in producing

- A. both grape juice and apple juice.
- B. only grape juice.
- C. only apple juice.
- D. neither good.
- E. There is not enough information to say.

72. **Figure 2-10**

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

The opportunity cost of producing 1 gallon of grape juice in Maine, according to Figure 2-10, is

- A. 5 gallons of apple juice.
- B. 1/5 gallon of apple juice.
- C. 5 gallons of grape jelly.
- D. 6 gallons of apple juice.
- E. 1/8 gallon of apple juice.

73. Figure 2-10

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

In Figure 2-10, New Hampshire has a comparative advantage in producing

- A. neither good.
- B. grape juice.
- C. both apple and grape juice.
- D. apple juice.
- E. There is not enough information to say.

74. Figure 2-10

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

Refer to Figure 2-10. If the terms of trade were ____ gallon(s) of grape juice for 1 gallon of apple juice, both New Hampshire and Maine would gain from trade.

- A. 6
- B. 3
- C. 0.5
- D. 0.25
- E. 10

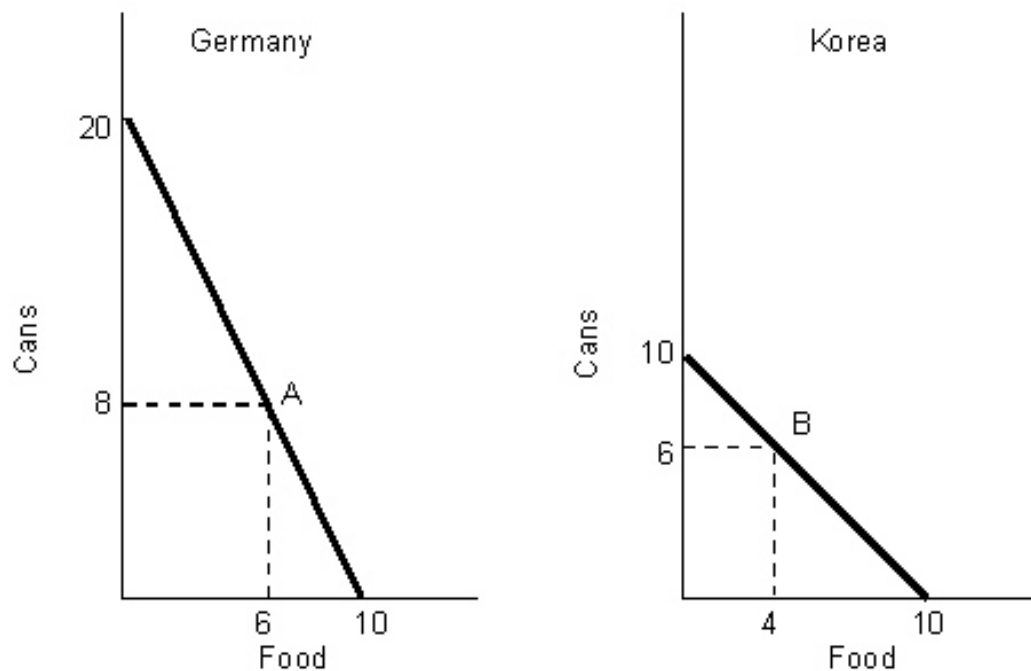
75. Figure 2-10

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

According to Figure 2-10, the opportunity cost of producing 1 gallon of grape juice in New Hampshire is ____ gallon(s) of apple juice.

- A. 1.33
- B. 5/6
- C. 1.5
- D. 6
- E. 2/3

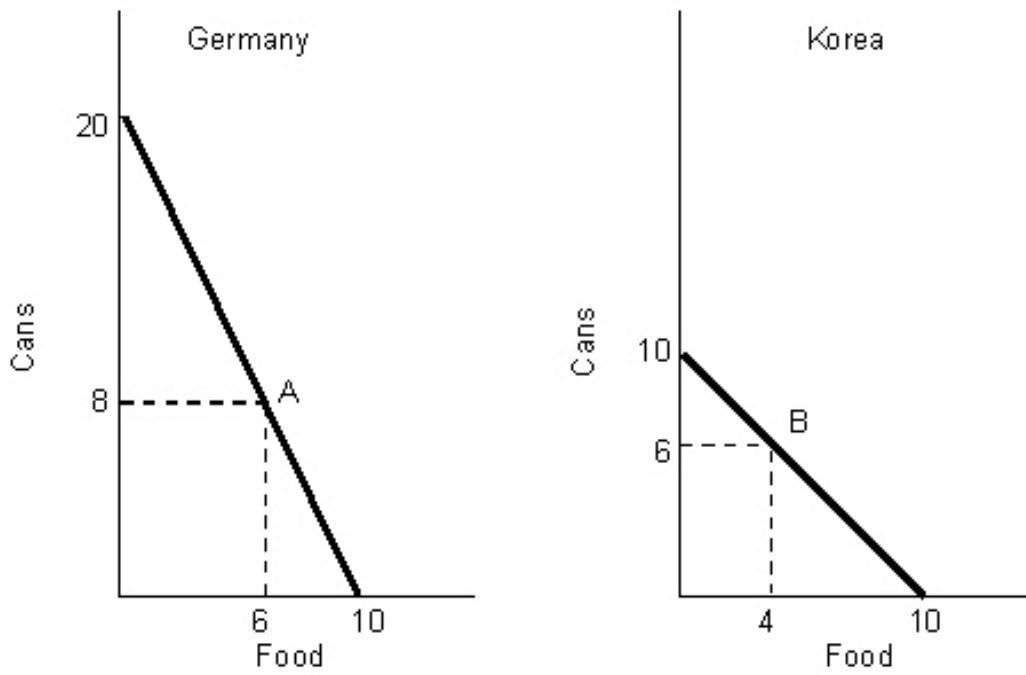
76. Figure 2-11



Suppose that in Figure 2-11, points *A* and *B* represent pre-trade positions. If each country specializes according to comparative advantage, what are the potential gains to trade?

- A. 6 cans
- B. 6 cans and 6 units of food
- C. 6 units of food
- D. 4 units of food
- E. 12 cans

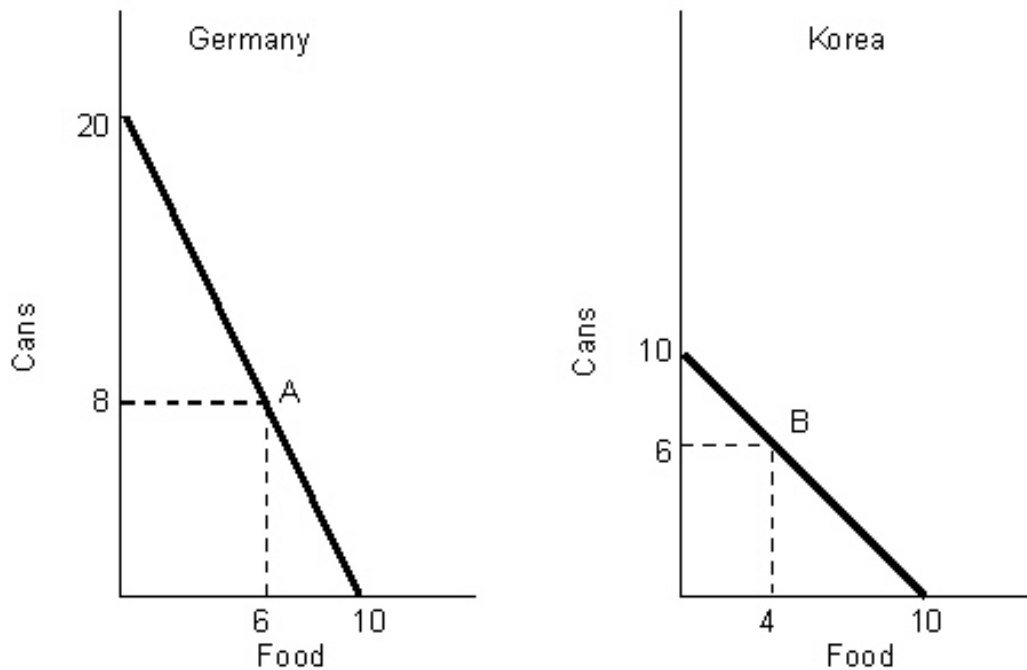
77. **Figure 2-11**



In Figure 2-11, if trade occurs, what is the *most* that Germany would be willing to pay for 1 unit of food?

- A. 1 can
- B. 2 cans
- C. 1/2 can
- D. 20 cans
- E. 10 cans

78. Figure 2-11



In Figure 2-11, if trade occurs, what is the *least* Korea is willing to accept for 1 unit of food?

- A. 1 can
- B. 2 cans
- C. 1/2 can
- D. 20 cans
- E. 10 cans

79. Which of the following is the *best* definition of comparative advantage?

- A. The ability to produce a good or service at a higher opportunity cost than someone else
- B. The ability to sell more goods or services than anyone else, regardless of the price
- C. The ability to produce all goods and services better than anyone else
- D. The ability to produce a good or service at a lower opportunity cost than someone else
- E. The inability to produce a good or service better than anyone else

80. Should a world-class athlete such as golfer Tiger Woods mow his own lawn?

- A. Yes, because he can obviously do it faster than any gardener he could hire.
- B. Yes, because he can obviously do it cheaper than any gardener he could hire.
- C. Yes, because the gardener would be intimidated by the presence of Tiger Woods.
- D. No, because the gardener has a comparative advantage in playing golf.
- E. No, because Tiger Woods has a comparative advantage in playing golf.

81. Specialization and trade ensure that

- A. we are better off than we would be if we did everything ourselves.
- B. we are worse off than we would be if we did everything ourselves.
- C. unemployment rates will be higher.
- D. resources will be used inefficiently.
- E. an isolationist backlash will follow.

82. Which of the following *best* expresses the rule of specialization?

- A. The individual, firm, or nation will specialize in production of the good or service that has the lowest rate of taxation.
- B. The individual, firm, or nation will never specialize in production of the good or service that has the lowest opportunity cost.
- C. The individual, firm, or nation will specialize in production of the good or service that has the lowest opportunity cost.
- D. The individual, firm, or nation will specialize in production of the good or service that has the highest opportunity cost.
- E. The individual, firm, or nation will not specialize in any good or service, regardless of opportunity costs, to avoid becoming dependent on other nations and preserve its self-sufficiency.

83. Comparative advantage is

- A. the ability to produce a good or service at a lower opportunity cost than another incurs in producing it.
- B. a person's willingness to work hard and be successful.
- C. determined by a person's formal education level.
- D. measured by a person's relative financial security.
- E. always expressed in terms of dollars spent on one good versus dollars spent on an alternative good.

84. Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

According to Scenario 2-1, the opportunity cost for Brian to produce 1 softball is

- A. 4 baseballs.
- B. less than the opportunity cost for Alan to produce 1 softball.
- C. $\frac{1}{4}$ baseball.
- D. $2\frac{1}{2}$ baseballs.
- E. $\frac{2}{5}$ baseball.

85. Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

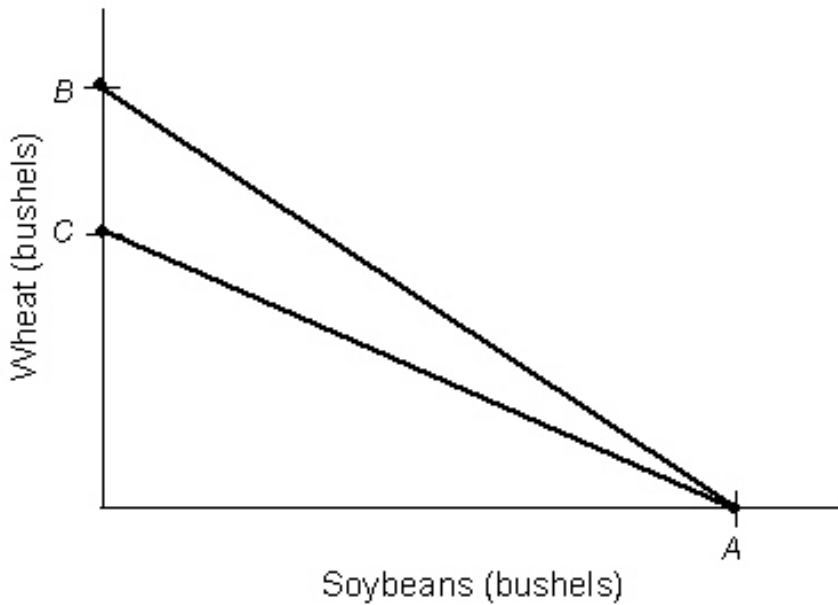
- According to Scenario 2-1, the opportunity cost for Alan to produce 1 baseball is
- A. $1/4$ softball.
 - B. $2/5$ softball.
 - C. less than the opportunity cost for Brian to produce 1 baseball.
 - D. $2\ 1/2$ softballs.
 - E. 4 softballs.

86. Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

- According to Scenario 2-1, Brian has a comparative advantage over Alan in the production of
- A. softballs.
 - B. both softballs and baseballs.
 - C. neither softballs nor baseballs.
 - D. baseballs.
 - E. softballs if he makes no more than 2 an hour

87. **Figure 2-12**



Use Figure 2-12 to answer the next question. Farmer X's production possibilities curve is line AB , and Farmer Y's production possibilities curve is line AC . Given this information, which of the following is true?

- A. Farmer X is better at producing soybeans than Farmer Y.
- B. Farmer X has a comparative advantage in producing soybeans.
- C. Farmer X has a comparative advantage in producing wheat.
- D. Farmer Y can produce soybeans better than Farmer Y.
- E. Farmer X faces increasing opportunity costs when he produces more and more soybeans.

88. **Figure 2-13**

Labor Cost per Unit (in hours)		
	Shoes	Bread
Country A	150	200
Country B	300	250

Consider economies A and B in Figure 2-13. One can correctly conclude that

- A. neither country has a comparative advantage in producing bread.
- B. country A has a comparative advantage in producing both shoes and bread.
- C. country B has a comparative advantage in producing both shoes and bread.
- D. country A has a comparative advantage in producing shoes, and country B has a comparative advantage in producing bread.
- E. country A has a comparative advantage in producing bread, and country B has a comparative advantage in producing shoes.

89. **Figure 2-13**

Labor Cost per Unit (in hours)	Shoes	Bread
Country A	150	200
Country B	300	250

Consider economies A and B in Figure 2-13. Given their respective comparative advantages in production, we should expect

- A. country A to produce both shoes and bread and country B to produce neither.
- B. country A to buy both shoes and bread from country B.
- C. country A to specialize in producing shoes and to buy bread from country B.
- D. country A to specialize in the production of bread and to buy shoes from country B.
- E. each country to produce only for itself.

90. A market economy can develop because

- A. government intervenes.
- B. the public property rights exist.
- C. the private property rights exist.
- D. everyone can have everything.
- E. scarcity no longer exists.

91. According to the article in the text, if Venezuela's Chavez succeeds in effecting land reform, Venezuela's PPC will

- A. not change.
- B. shift inward.
- C. shift outward.
- D. not exist.
- E. None of the above

92. Private property right means

- A. government gives property to its citizens.
- B. ownership of the property.
- C. government does not own property.
- D. citizens have right to use property but not own it.
- E. All of these choices.

93. Which of the following is the most important element in the market economy?

- A. Private property right.
- B. Government has no role in the economy.
- C. Government is the biggest sector in the economy.
- D. Religious freedom.
- E. Freedom of speech and press.

94. According to economic analysis, in making a decision, individuals compare the benefits expected from one option with the benefits expected from other options.

True False

95. You work for your parent's business without pay, so your labor is free.

True False

96. The production possibility curve for an economy indicates all possible combinations of three goods produced, given a constant amount of resources.

True False

97. Story 2-1

Bob went to the movies with his friend James rather than studying or going bowling with his sister. Bob had a test in math the next day.

According to Story 2-1, the opportunity cost of going bowling with his sister is the fun of going to the movies with James.

True False

98. The opportunity cost of going to the movies is always the same for everyone.

True False

99. If you have a choice of consuming two apples, three oranges, or one candy bar, the opportunity cost of the two apples is the candy bar plus the three oranges.

True False

100. An example of opportunity cost is the time you forgo to eat a "free lunch."

True False

101. The total cost of attending college is the sum of the cost of tuition, books, and meals.

True False

102. There is no cost of using your own savings in your business.

True False

103. Since we cannot tolerate waste so we must eliminate it.

True False

104. Given a production possibilities curve for defense goods and nondefense goods, if a nation is producing at a point inside the PPC, then it is possible to increase production of defense goods without sacrificing production of nondefense goods.

True False

105. If a new labor-saving technology is discovered, the PPC shifts inward.

True False

106. A rightward shift of the PPC might be caused by an increase in the general level of education.

True False

107. The construction of a PPC does not require that the economy's resources be fully and efficiently employed.

True False

108. The construction of a PPC does not require that the amount of money in the economy remain constant.

True False

109. Economically, it's possible to move a point on the PPC to another point.

True False

110. An economy's PPC illustrates the extent to which the economy consumes what it produces.

True False

111. If the minimum working age is raised from 16 to 18, the PPC will shift inward.

True False

112. If there is a technological advance that makes the production of automobiles more efficient, a producer of automobiles and other goods will move from a point on its PPC to a point outside its PPC, but a shift of the PPC will not occur.

True False

113. Economic growth is represented by shifting PCC outward.

True False

114. The concepts of scarcity and law of increasing cost can not be derived from PCC.

True False

115. The PPC does not indicate while producing more of one good it's not necessary to produce less of another good.

True False

116. A specialist is a person who is capable of doing only one thing.

True False

117. Trade occurs because countries may produce more than they need.

True False

118. A bowed-out PPC indicates increasing marginal opportunity costs between the goods or services produced.

True False

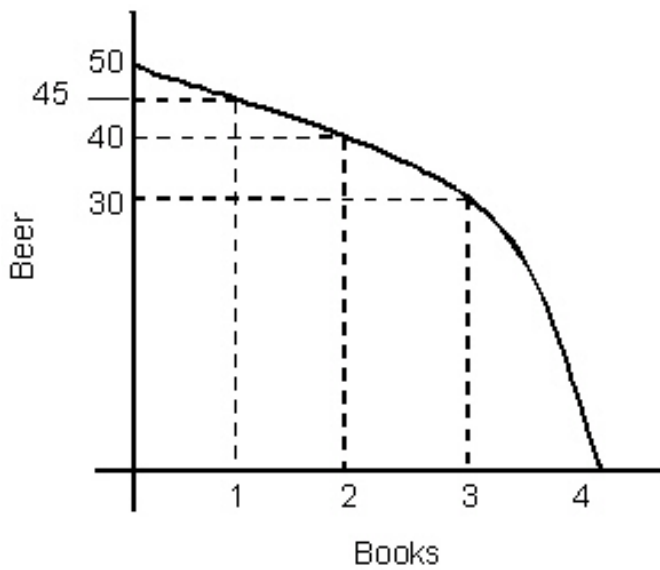
119. When specialized resources that are productive in the production of one good are shifted to the production of another good in which they are relatively less productive, the resulting production possibilities curve of the goods tends to bow in.

True False

120. When a nation is operating on a bowed-out PPC, the production of more of one product will bring about the production of less of another product because resources are scarce.

True False

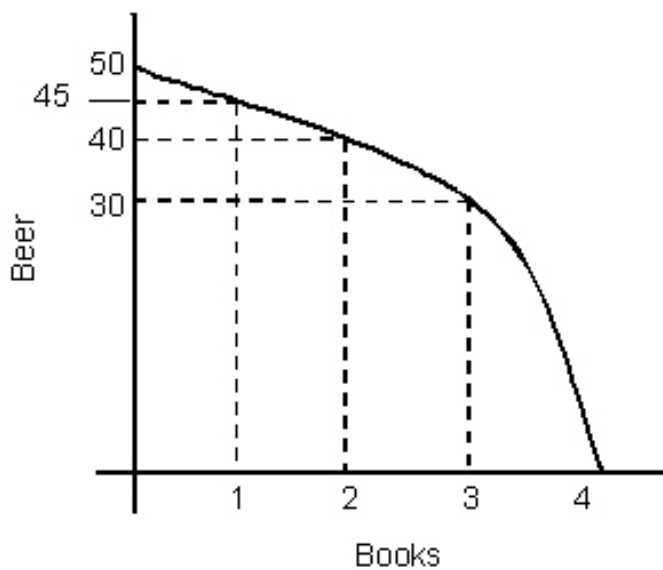
121. **Figure 2-14**



Refer to Figure 2-14. If beer becomes cheaper, the maximum amount of beers that Fred can obtain will increase.

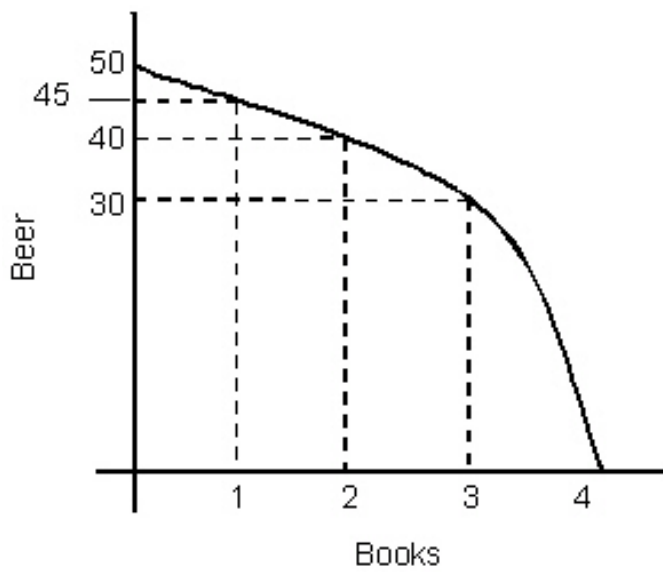
True False

122. **Figure 2-14**



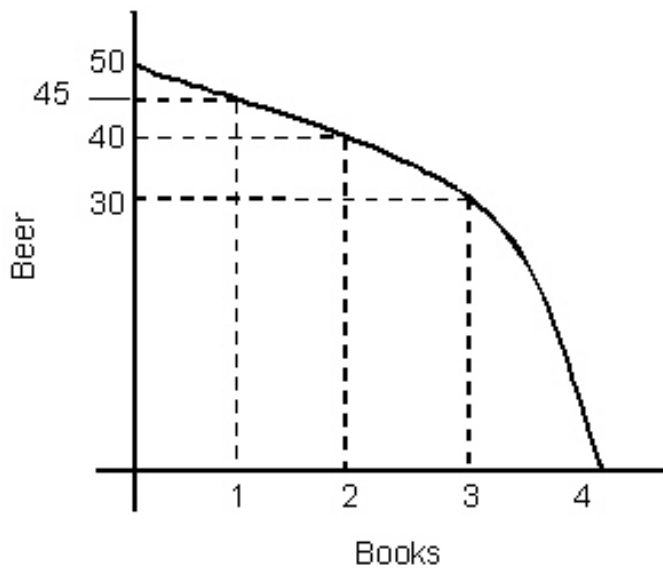
Refer to Figure 2-14. If Fred gets 2 books and 30 beers, he is not using all of his resources
True False

123. **Figure 2-14**



Refer to Figure 2-14. If Fred has 1 book and 45 beers, the marginal opportunity cost of one more book is 40 beers.
True False

124. **Figure 2-14**



Refer to Figure 2-14. Fred could have either 40 beers and 2 books or 48 beers and 1 book.

True False

125. In order to get the most from their productive capabilities, nations and individuals specialize in activities in which their opportunity costs are lowest.

True False

126. International trade is a kind of zero-sum game.

True False

127. Since it is cheaper to produce goods in Mexico, US will not be able to export goods to Mexico.

True False

128. The comparative advantage theory is based on using opportunity cost to determine which country should produce what good for trade.

True False

129. Populations of ocean fish have declined sharply because of the existence of private property rights.

True False

130. A resource-rich country can develop its economy rapidly without giving its citizens private property right.
True False

131. George W. Bush has been classified as a president who strives to maintain a budget surplus.
True False

132. In Argentina, the citizens having legal title to the land have higher income and living standard compared to those without legal title to the land.
True False

Chapter 2--Choice, Opportunity Costs, and Specialization **Key**

1. What do economists mean when they refer to the forgone opportunities or forgone benefits of the next-best alternative?

A. The idea that you can watch TV while studying for your economics exam at the same time

B. Quantifiable accounting costs

C. Forgone costs

D. The highest-valued alternative that must be forgone when a choice is made

E. All of these choices

2. In economics, the cost of any item or activity always includes

A. only the actual amount of money expended.

B. the opportunity cost incurred in purchasing the item or activity.

C. the amount of money expended plus the rate of inflation.

D. the sum total of the actual costs involved in the production of the item or activity.

E. the accounting costs plus the rate of inflation.

3. Which of the following is the *best* definition of the concept of a tradeoff, as discussed in the text?

A. The tuition you pay to attend college

B. The price of a movie ticket at prime time

C. Not having enough information available to make a rational decision

D. Giving up one good or activity in order to obtain some other good or activity

E. Having your cake and eating it too

4. Which statement concerning opportunity costs is *not* true?

A. Opportunity costs can always be expressed in money terms.

B. Every choice involves opportunity costs.

C. Opportunity costs are the highest-valued alternatives that must be forgone when a choice is made.

D. The full cost of an activity includes the opportunity costs.

E. Economists refer to the forgone benefits of the next-best alternative as opportunity costs.

5. A production possibilities curve shows that more of one type of good can be produced only by

- A. increasing the quantity of other types of goods that are produced.
- B. increasing the quantity of both types of goods that are produced.
- C. decreasing employment.
- D. government intervention.
- E.** decreasing the quantity of other types of goods that are produced.

6. According to the textbook's discussion of the production possibilities curve, a nation cannot produce as much of both defense goods and nondefense goods as it wants. Thus, when a nation produces more defense goods, by definition that nation

- A.** must forgo the production of nondefense goods, *ceteris paribus*.
- B. does not have to forgo the production of nondefense goods since resources are unlimited.
- C. has to tolerate higher unemployment rates.
- D. can produce more of both defense and nondefense goods only if it can acquire more money.
- E. must produce less of both defense and nondefense goods since any nation's production possibilities curve represents only a Utopian state.

7. Which economic concept is the closest parallel to the saying "There's no free lunch"?

- A. Specialization
- B. Unlimited wants
- C. Underutilization of resources
- D.** Opportunity costs
- E. Overutilization of resources

8. The city of Austin can buy roads or light rail. If 10 miles of roads cost \$1 million and 2 miles of light rail cost \$10 million, what is the city's opportunity cost of 1000 miles of roads?

- A.** \$100 million
- B. 2 miles of light rail
- C. 200 miles of light rail
- D. \$50 million
- E. \$1,000 million.

9. Ronnie waits one hour in line to buy a ticket to a rock concert. The opportunity cost of buying the \$28 ticket

- A. is Ronnie's best alternative use of the \$28.
- B. is Ronnie's best alternative use of the one hour it took to wait in line.
- C. is the value of the \$28 to the ticket agent.
- D.** is Ronnie's best alternative use of both the \$28 and the one hour spent in line.
- E. cannot be measured because there is no opportunity cost associated with consumption.

10. Which of the following examples *best* captures the definition of opportunity cost?

- A. Accepting payment for services rendered
- B.** Going to the movies instead of studying for your economics exam
- C. Answering a question correctly on your economics exam
- D. Scoring an eagle on the fifth hole during a golf tournament and winning by one stroke
- E. Leaving a 20 percent tip for great service at a fine restaurant

11. The opportunity cost of going to the movies is not always the same for everyone because

- A. wages are relatively equal across unskilled labor pools.
- B. wages are different across geographic regions, and therefore some people cannot afford the price of a movie ticket.
- C. simply going to a movie involves no opportunity cost.
- D.** people have different evaluations of alternatives.
- E. people seldom have the information they need to understand what an opportunity cost is.

12. When constructing a production possibility curve for an economy, we assume which of the following is constant?

- A.** The quantity of resources.
- B. The government budget.
- C. The quantity of goods produced.
- D. The price level.
- E. The money supply.

13. The total cost of attending college

- A. includes only college-related expenses.
- B. is the sum of the costs of tuition, books, and meals.
- C. does not include other options that were sacrificed as a consequence of the decision to attend college.
- D. does not include the lost opportunity to travel.
- E.** is the sum of college-related expenses and opportunity cost.

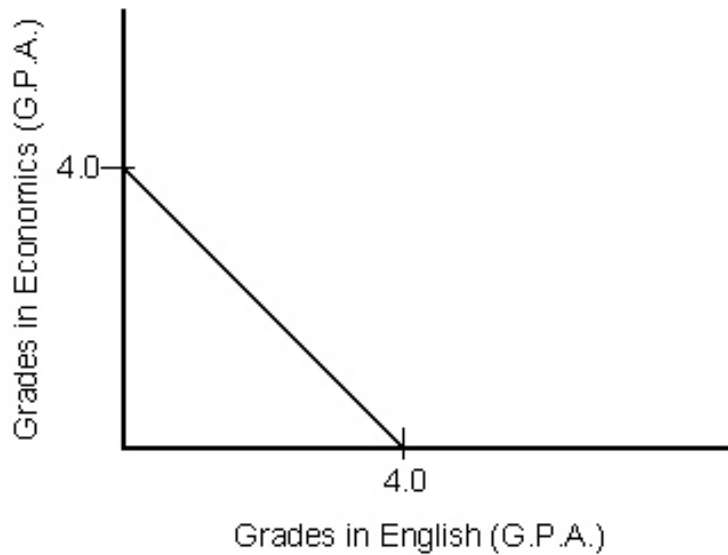
14. Nicky makes \$25,000 a year as a sales clerk. He then decides to quit his job to enter an MBA program full-time (assume Nicky doesn't work in the summer or hold any part-time jobs). His tuition, books, living expenses, and fees total \$15,000 a year. Given this information, the annual total cost of Nicky's MBA studies is

- A. \$10,000.
- B. \$25,000.
- C. \$15,000.
- D.** \$40,000.
- E. \$35,000.

15. Economists say that making choices involves comparing

- A. just excess costs.
- B. only capabilities.
- C. society's wants.
- D. marginal costs alone.
- E. marginal benefits and marginal costs.**

16. **Figure 2-1**



The PPC in Figure 2-1 indicates a student who

- A. is better at economics than English.
- B. is better at English than economics.
- C. is equally proficient in economics and English.**
- D. prefers economics to English.
- E. prefers English to economics.

17. The production possibilities curve illustrates

- A. tradeoffs facing a society.
- B. that more of one product can be produced if only a little more of the other product is produced.
- C. the maximum output that can be produced with a limited amount of resources.
- D. the opportunity cost of alternative choices.
- E. All of these choices.**

18. A point lying outside a nation's production possibilities curve
- A.** represents the use of more resources than are available.
 - B. represents the use of less resources than are available.
 - C. represents a state of high unemployment for that nation.
 - D. could easily be achieved if people would just work harder.
 - E. can never be achieved, even if more resources are obtained by the nation.
19. Under what circumstances would a nation be operating inside its production possibilities curve?
- A. The nation has just realized a significant improvement in the production process of a strategically important good.
 - B. The nation is suddenly employing a more highly skilled work force.
 - C.** The nation is not utilizing its existing labor force efficiently.
 - D. The nation is producing the maximum amount of output that it can produce, given its limited resources.
 - E. The nation's capital stock doubles.

20. **Figure 2-2**

Production Possibilities Schedule		
Choice	Capital (Investment) goods	Consumption Goods
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

According to the production possibilities schedule in Figure 2-2, if the economy was initially producing combination B and then moved to combination C,

- A. the opportunity cost of the additional unit of capital goods is 7 units of consumption goods.
- B.** the opportunity cost of the additional unit of capital goods is 2 units of consumption goods.
- C. the society has managed to produce more of both goods.
- D. one unit of capital goods has to be forgone.
- E. resources were not being used efficiently at combination C.

21. **Figure 2-2**

Production Possibilities Schedule		
Choice	Capital (Investment) goods	Consumption Goods
A	0	10
B	1	9
C	2	7
D	3	4
E	4	0

According to the production possibilities schedule in Figure 2-2, a move from choice C to choice D would

- A. give rise to some unemployment.
- B. be preferred by society.
- C.** create a marginal opportunity cost of 3 units of consumption goods.
- D. be unobtainable.
- E. not be tolerated by society.

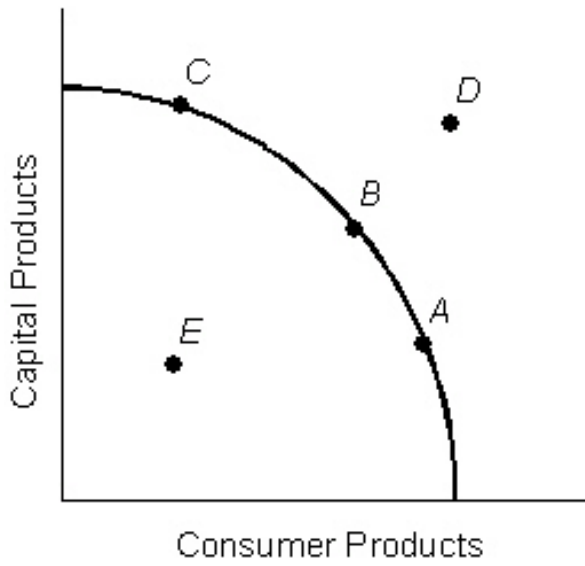
22. When an economy is operating on its production possibilities curve, more production of one good means less production of another because

- A.** resources are limited.
- B. resources are not perfectly adaptable to alternative uses.
- C. wants are limited.
- D. wants are unlimited.
- E. some resources are not employed

23. It is possible for a nation to increase the production of defense goods without sacrificing the production of nondefense goods if and only if

- A.** the nation is producing at a point inside the production possibilities curve.
- B. the nation has a large pool of fully employed labor and very low wage rates.
- C. the nation has more natural resources available than competing nations.
- D. the nation is a democracy and has a stable political environment.
- E. the central bank of the nation does not implement sound monetary policy.

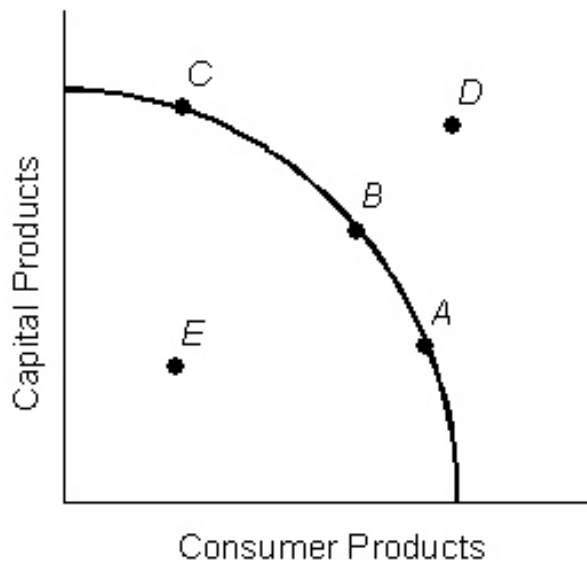
24. Figure 2-3



In Figure 2-3, underutilization of resources is represented by point

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

25. **Figure 2-3**



In Figure 2-3, full employment is shown with

- A. points *A*, *B*, and *C*.
- B. point *C*.
- C. point *B*.
- D. point *A*.
- E. None of these

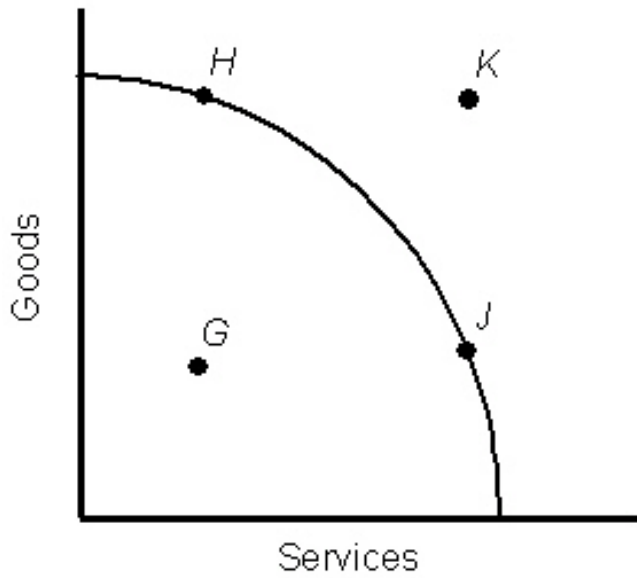
26. A point lying outside the production possibilities curve of a certain nation

- A. angers politicians.
- B. causes labor unrest.
- C. is not achievable at this time for this nation, given its current resources.
- D. is a sign of impending high unemployment.
- E. means this nation has developed a new technology.

27. If a country is at a point inside the PPC, then

- A. the people must be unhappy.
- B. there are no technology advances.
- C. not all resources are being used efficiently and/or fully.
- D. the country cannot produce more of one good without giving up some of another good.
- E. the population is starving.

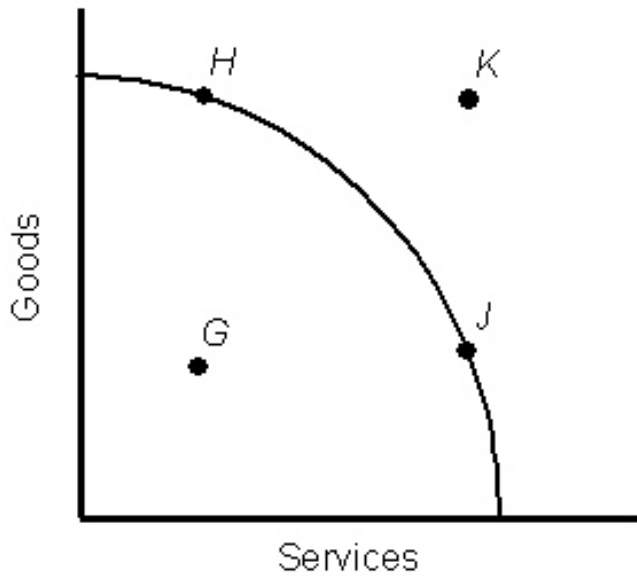
28. Figure 2-4



The production possibilities curve in Figure 2-4 shows that

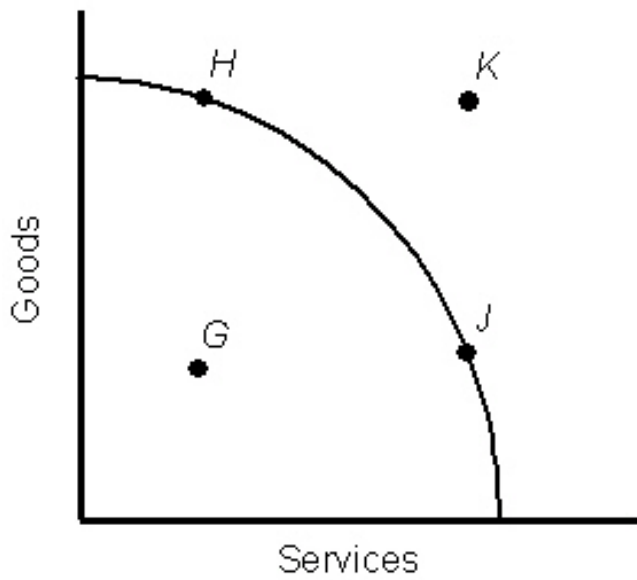
- A. an economy must have idle resources.
- B.** there are alternative combinations of goods and services that a nation can produce.
- C. there are alternative minimum combinations of goods and services that a nation can produce.
- D. a nation can produce more of one product without sacrificing some amount of another product.
- E. resources are abundant if they are fully and efficiently used.

29. Figure 2-4



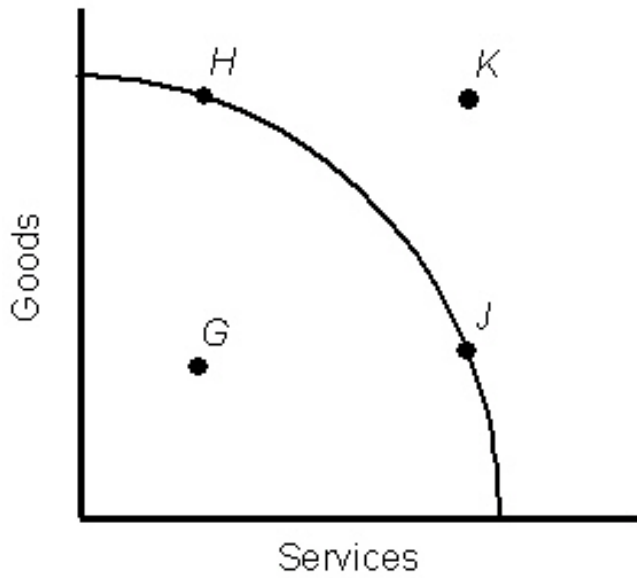
- In Figure 2-4, movement from point *H* to point *J* along the PPC suggests that
- A. goods production will increase and services production will decline.
 - B. services production will increase and goods production will decline.**
 - C. goods production and services production will both decline.
 - D. goods production and services production will both increase.
 - E. the economy is experiencing unemployment.

30. Figure 2-4



- Consider the PPC in Figure 2-4. Point *K* indicates
- A. that the production of goods has expanded.
 - B. that the production of services has expanded.
 - C. that the production of goods has contracted.
 - D. that the production of services has contracted.
 - E.** a point that is currently unattainable for this economy.

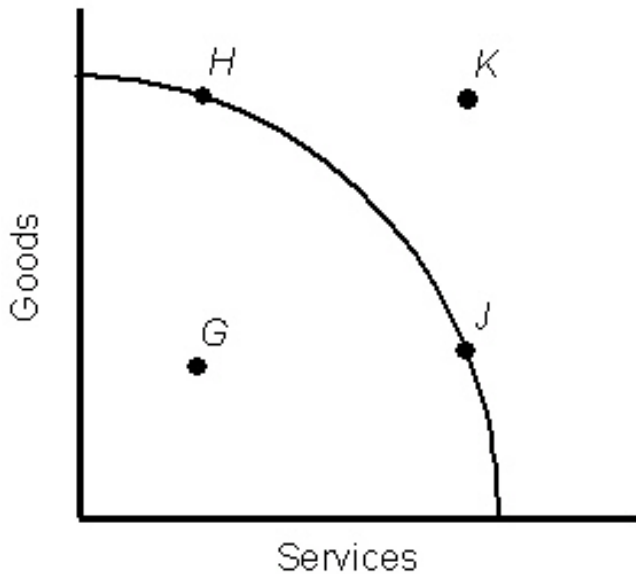
31. Figure 2-4



Refer to Figure 2-4. The economy described by the production possibilities curve should operate at a combination represented by point

- A. *G*.
- B. *H*.
- C. *J*.
- D. *K*.
- E.** Cannot be determined from the information given.

32. Figure 2-4



- Consider the PPC in Figure 2-4. Point *K* is likely obtainable
- A. if more workers unemployed.
 - B. if more money is available in the economy.
 - C. if economy chooses to consume more.
 - D.** workers have better education.
 - E. if economy imports more goods.

33. Which of the following is held constant when a PPC is constructed for the economy?

- A. The combination of goods produced
- B. The price level
- C. The marginal opportunity cost
- D.** The amount of resources
- E. The amount of goods produced

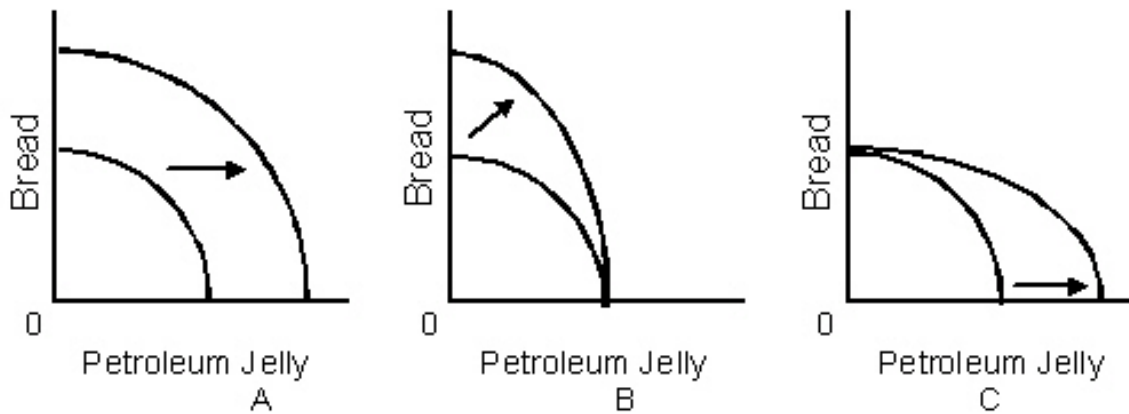
34. A point lying inside the PPC

- A. illustrates resources being used to their fullest potential.
- B.** indicates that resources are not being fully or efficiently used.
- C. is not an attainable combination.
- D. represents an increase in resources.
- E. requires more resources than are presently available.

35. Inefficient use of a nation's technological know-how would

- A. shift a PPC outward.
- B. be depicted as a point on a PPC.
- C. be depicted as a point outside or above a PPC.
- D.** be depicted as a point inside or below a PPC.
- E. cause the economy's PPC to bow in.

36. Figure 2-5



An economy that produces only bread and petroleum jelly, operating on a bowed-out PPC, now discovers a new source of oil. Assume oil is an input only in the production of petroleum jelly. Which of the graphs in Figure 2-5 depicts the resulting shift of the PPC?

- A. Figure A only
- B. Figure B only
- C.** Figure C only
- D. Figures B and C are both possible
- E. None of these

37. If a nation is producing at a point below its PPC, then

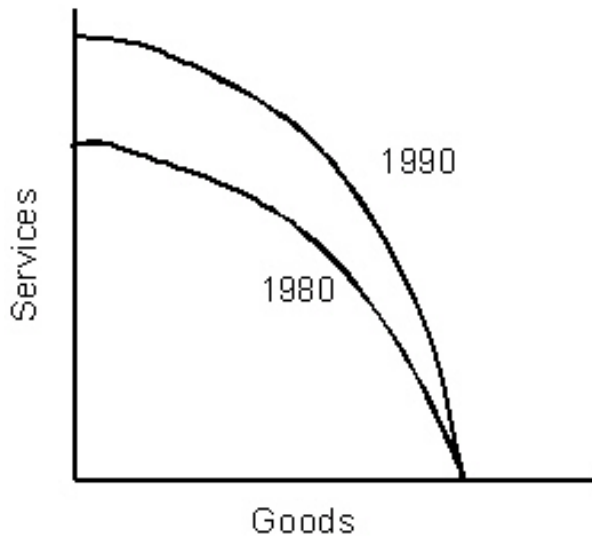
- A.** it is operating at less than maximum efficiency.
- B. it may not have enough resources.
- C. it may not have enough technological know-how to produce on the PPC.
- D. it cannot increase the production of one product without sacrificing another product.
- E. it is not realizing its opportunity costs.

38. A point outside or above the PPC of a nation

- A. will shift the PPC outward.
- B. implies that this nation is not using all of its technological know-how.
- C.** is not attainable for this nation at the current time.
- D. implies that there are unemployed resources in this nation.
- E. implies that this nation is using its resources efficiently.

39. If a new labor-saving technology is discovered,
- A. points that were previously unattainable to society may now be attainable.
 - B. the PPC remains unchanged.
 - C. the PPC shifts inward.
 - D. there is movement along the PPC.
 - E. society does not face a new set of tradeoffs.
40. An increase in technology will cause the production possibilities curve to
- A. shift to the left, or inward.
 - B. bow in.
 - C. shift to the right, or outward.
 - D. become a straight line.
 - E. not change.
41. If a nation obtains more resources, points that were outside the production possibilities curve prior to its gaining more resources become
- A. obsolete.
 - B. irrelevant.
 - C. attainable.
 - D. extraneous.
 - E. harmful.
42. Which of the following will *not* cause a rightward shift in a nation's production possibilities curve?
- A. An increase in the quantity of the nation's resources
 - B. Advances in technology
 - C. An increase in the general level of education
 - D. An increase in the labor force
 - E. A reduction in unemployment
43. At any point along a production possibilities curve, we assume that
- A. the economy's resources are fully and efficiently employed.
 - B. specialization occurs.
 - C. the economy's available resources steadily increase.
 - D. the economy's technological level steadily increases.
 - E. None of these occur.

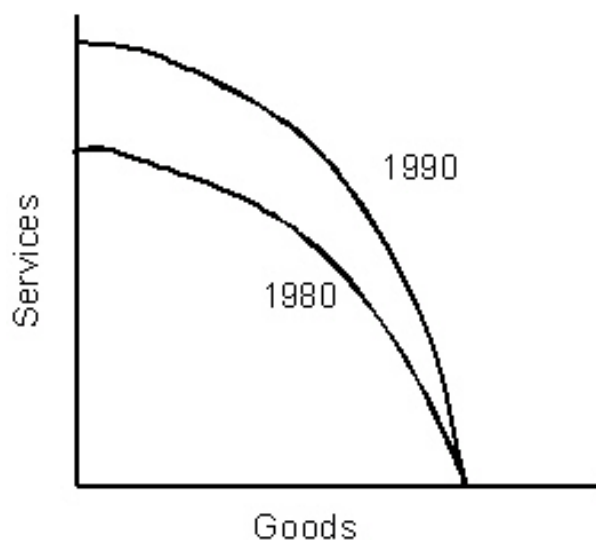
44. **Figure 2-6**



Consider the economy described by the production possibilities curves in Figure 2-6. Between 1980 and 1990, the economy most likely experienced

- A. a decrease in resources associated with producing goods.
- B. a decrease in resources associated with producing services.
- C. an increase in resources associated with producing goods.
- D.** an increase in resources associated with producing services.
- E. an increase in resources associated with producing both goods and services.

45. Figure 2-6



Consider the economy described by the production possibilities curves in Figure 2-6. Which of the following statements is true?

- A. The economy produced more goods in 1990 than in 1980.
- B. The economy produced more services in 1990 than in 1980.
- C.** The economy is capable of producing more services in 1990 than in 1980.
- D. If the economy produces only goods, it is capable of producing more goods in 1990 than in 1980.
- E. The economy is probably worse off in 1990 than it was in 1980.

46. An economy with unemployed resources can be represented by

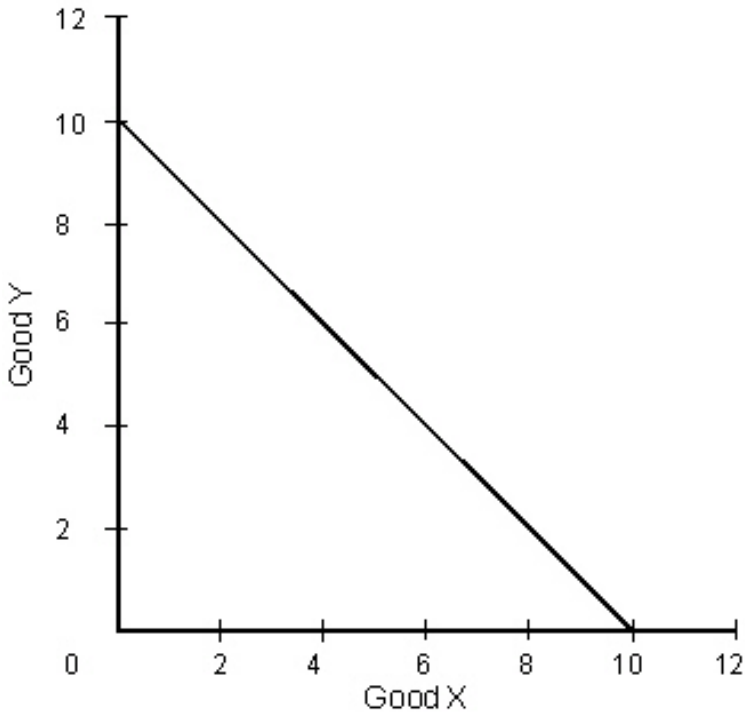
- A. a point on a PPC.
- B.** a point inside a PPC.
- C. a point outside a PPC.
- D. the PPC's vertical intercept.
- E. the PPC's horizontal intercept.

47. Economic growth can be illustrated

- A. by a downward movement along the production possibilities curve.
- B. by an upward movement along the production possibilities curve.
- C. by an inward shift of the production possibilities curve.
- D.** by an outward shift of the production possibilities curve
- E. by a movement toward the production possibilities curve.

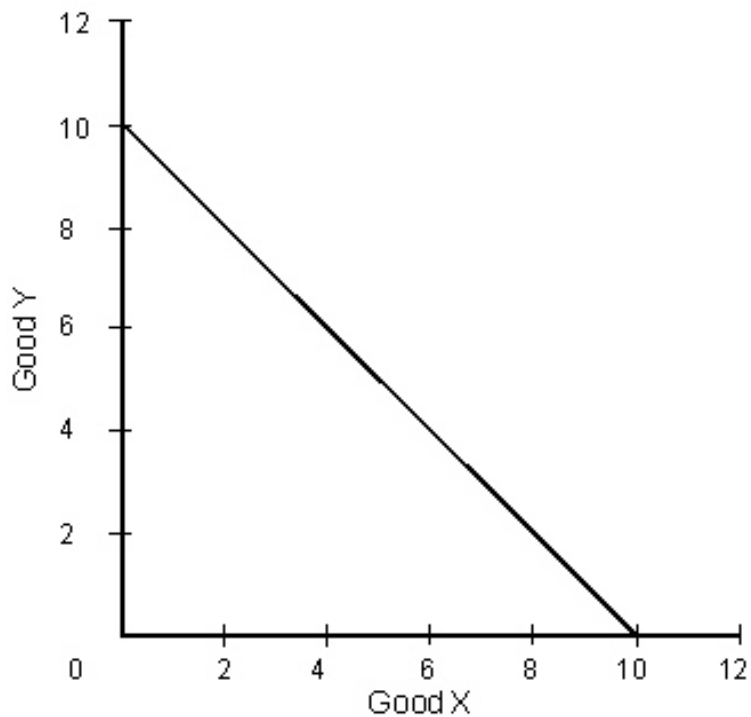
48. Everything else held constant, which of the following will shift a production possibilities curve inward?
- A. A decrease in the employment of resources
 - B. An increase in the working-age population
 - C. An increase in unemployment
 - D. An increase in the availability of natural resources
 - E.** A decrease in the amount of capital available

49. **Figure 2-7**



- Consider the PPC in Figure 2-7, describing a firm that can produce good X and good Y. This figure indicates
- A. that both types of products are equally important to society.
 - B.** that resources are perfectly adaptable to alternative uses.
 - C. that resources are less efficiently utilized when more of one type of product is produced.
 - D. that greater production of one type means that smaller and smaller amounts of other products must be forgone.
 - E. None of these

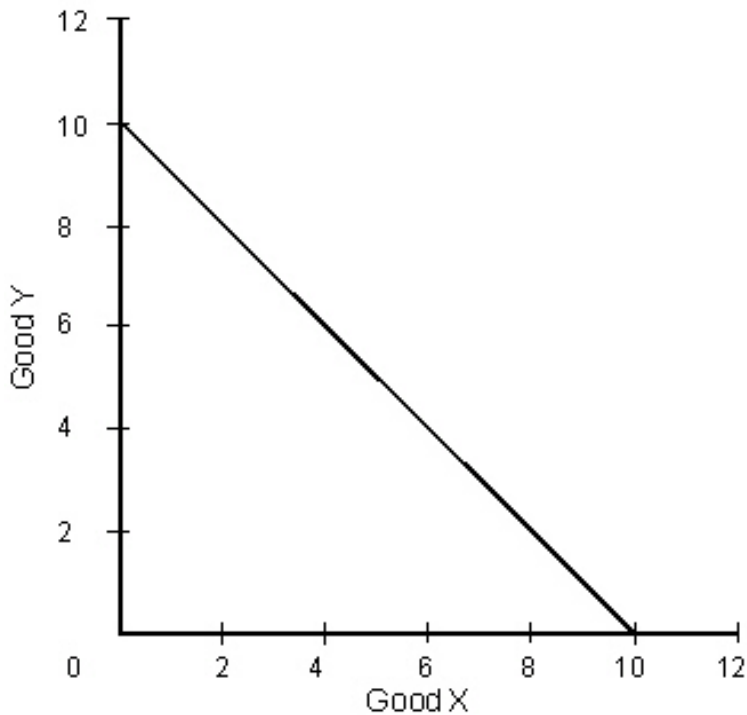
50. Figure 2-7



Consider Figure 2-7, which describes a firm that can produce good X and good Y. Which of the following is true?

- A. The firm must produce inside the boundary.
- B. The firm must produce outside the boundary.
- C. The firm should produce 10 units of X and 10 units of Y.
- D.** The firm is able to produce 10 units of X or 10 units of Y.
- E. The firm will produce 10 units of X or 10 units of Y.

51. Figure 2-7



Consider the PPC in Figure 2-7, which describes a firm that can produce both good X and good Y. Which of the following is true?

- A. The opportunity cost of one unit of good X is 10 units of good Y.
- B.** The opportunity cost of the first unit of good X is 1 unit of good Y.
- C. The opportunity cost of the ninth unit of good X is 9 units of good Y.
- D. The opportunity cost of the tenth unit of good X cannot be determined from the information given.
- E. The opportunity cost of the first unit of good X is 2 units of good Y.

52. As an economy moves along a bowed-out production possibilities curve,

- A.** the marginal opportunity costs of producing one good increase with each successive increase of the other good.
- B. the marginal opportunity costs of producing one good decrease with each successive increase of the other good.
- C. the marginal opportunity costs of producing one good stay the same with each successive increase of the other good.
- D. the marginal opportunity costs of producing one good become irrelevant with each successive increase of the other good.
- E. there is no such thing as a bowed-out production possibilities curve.

53. A bowed-out PPC implies that producing more and more of one good will bring about
- A. increasingly larger declines in the production of the other good.
 - B. increasingly smaller declines in the production of the other good.
 - C. a proportionate decrease in the production of the other good.
 - D. economic growth.
 - E. technological improvement.

54. **Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- If the nation depicted in Figure 2-8 is producing at combination E, the opportunity cost of the tenth unit of consumer goods was
- A. 10 units of capital goods.
 - B. 6 units of capital goods.
 - C. 1 unit of capital goods.
 - D. 4 units of capital goods.
 - E. no units of capital goods.

55. **Figure 2-8**

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- If the nation depicted in Figure 2-8 produced 4 units of consumer goods and 2 units of capital goods, then it
- A. would be using all its resources.
 - B. would be using all its technological know-how.
 - C. would have unemployed resources.
 - D. would be producing at maximum efficiency.
 - E. None of these; this nation is not currently able to produce this combination.

56. Figure 2-8

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- In Figure 2-8, a combination of 9 units of consumer goods and 5 units of capital goods is
- A. attainable if unemployed resources return to work.
 - B. attainable if inefficient use of technological know-how is decreased.
 - C.** unattainable and beyond the production possibilities of this nation.
 - D. unwanted because resources would become unemployed.
 - E. attainable without any new resources.

57. Figure 2-8

Production Possibilities Schedule		
Combination	Capital Goods	Consumer Goods
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

- Consider Figure 2-8. The PPC representing this schedule would be
- A. bowed in.
 - B.** bowed out.
 - C. a negatively sloped straight line.
 - D. a positively sloped straight line.
 - E. bowed in if consumer goods are plotted on the horizontal axis and bowed out if capital goods are plotted on the horizontal axis.

58. An economy's PPC illustrates
- A. the difference between enterprise and entrepreneurship.
 - B. the difference between innovation and invention.
 - C.** the concepts of scarcity and opportunity cost.
 - D. the fact that real-world economies have no choices in terms of production.
 - E. the extent to which an economy consumes what it produces.

59. During Cultural Revolution in the late 1960s and early 1970s,

- A. China's PCC did not shift.
- B. China's production moved along the PCC.
- C. China's PCC shifted outward.
- D.** China's PCC shifted inward.
- E. China's economy operated at a point above PCC.

60. What accounts for specialization?

- A. People specialize where opportunity costs are at a maximum.
- B.** People specialize where their opportunity costs are lowest.
- C. People do not specialize.
- D. People specialize in the activity that pays the highest wage.
- E. People specialize in the activity that they enjoy the most, no matter what the salary is.

61. Few of us are jacks-of-all-trades. According to the discussion in the textbook, how do we decide where to devote our energies?

- A.** We decide to specialize in those activities that require us to give up the smallest amount of other things.
- B. We decide to specialize in those activities that require us to give up the greatest amount of other things.
- C. Only a true jack-of-all-trades can ever expect to be successful.
- D. We decide to specialize in those activities that require us to give up absolutely nothing.
- E. We must all strive to become jacks-of-all-trades.

62. By specializing in activities in which opportunity costs are lowest and then trading, a country or individual will end up with

- A. a huge deficit.
- B. disgruntled workers.
- C. high inflation.
- D.** more than if each tried to produce everything.
- E. politicians who could never get reelected because of resentful constituents.

63. The amount of one good or service that must be forgone to obtain an additional unit of another good is known as the

- A. marginal benefit.
- B.** marginal opportunity cost.
- C. comparative advantage.
- D. marginal expansion condition.
- E. tradeoff quotient.

64. The most realistic shape of a production possibilities curve is

- A.** a bowed-out curve.
- B. a straight line.
- C. a bowed-in curve.
- D. a bent line.
- E. a combination of bowed-out and straight curves.

65. Given the differences in opportunity costs within individual countries, it makes sense for countries

- A. to insist on protection against foreign competition through legislation.
- B. to force protectionism of the most important domestic industries, using tariffs and quotas.
- C. to devalue their currencies at least once a year.
- D.** to specialize in activities in which opportunity costs are lowest and then trade.
- E. to specialize in activities in which opportunity costs are highest and then avoid trade in order to manage trade deficit.

66. The choice of which area or activity to specialize in is made on the basis of

- A. average wages in a selected vocation.
- B.** opportunity cost.
- C. money spent out of pocket.
- D. absolute cost.
- E. whether or not a person is risk averse.

67. **Figure 2-9**

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, if trade were to occur, which of the following is true?

- A. Country X should export coffee to country Y, but the two countries should not exchange sugar.
- B.** Country X should export coffee to country Y, and country Y should export sugar to country X.
- C. Country X should export sugar to country Y, and country Y should export coffee to country X.
- D. Country X should export sugar and coffee to country Y.
- E. Country Y should export sugar and coffee to country X.

68. Figure 2-9

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, if trade were to occur, what is the *most* that country X would be willing to pay for 1 unit of sugar?

- A.** 1 unit of coffee
- B. $3/2$ units of coffee
- C. $2/3$ unit of coffee
- D. 200 units of coffee
- E. $1/2$ unit of coffee

69. Figure 2-9

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, if trade were to occur, what is the *least* that country Y would be willing to accept for 1 unit of sugar?

- A. 1 unit of coffee
- B. $3/2$ units of coffee
- C.** $2/3$ unit of coffee
- D. 200 units of coffee
- E. $1/2$ unit of coffee

70. Figure 2-9

Production Possibilities Schedule				
	Country X		Country Y	
Choice	Coffee	Sugar	Coffee	Sugar
A	200	0	100	0
B	160	40	80	30
C	120	80	60	60
D	80	120	40	90
E	40	160	20	120
F	0	200	0	150

In Figure 2-9, assume that before specialization and trade, both countries were producing at production possibility C. Now if each country specializes according to comparative advantage, what will be the gains from trade?

- A. 20 units of sugar and 10 units of coffee
- B. 20 units of coffee and 10 units of sugar**
- C. 20 units of coffee
- D. 10 units of sugar
- E. 80 units of coffee and 90 units of sugar

71. Figure 2-10

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

In Figure 2-10, Maine has an absolute advantage in producing

- A. both grape juice and apple juice.**
- B. only grape juice.
- C. only apple juice.
- D. neither good.
- E. There is not enough information to say.

72. Figure 2-10

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

The opportunity cost of producing 1 gallon of grape juice in Maine, according to Figure 2-10, is

- A. 5 gallons of apple juice.
- B. 1/5 gallon of apple juice.**
- C. 5 gallons of grape jelly.
- D. 6 gallons of apple juice.
- E. 1/8 gallon of apple juice.

73. **Figure 2-10**

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

In Figure 2-10, New Hampshire has a comparative advantage in producing

- A. neither good.
- B. grape juice.
- C. both apple and grape juice.
- D. apple juice.**
- E. There is not enough information to say.

74. **Figure 2-10**

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

Refer to Figure 2-10. If the terms of trade were ____ gallon(s) of grape juice for 1 gallon of apple juice, both New Hampshire and Maine would gain from trade.

- A. 6
- B. 3**
- C. 0.5
- D. 0.25
- E. 10

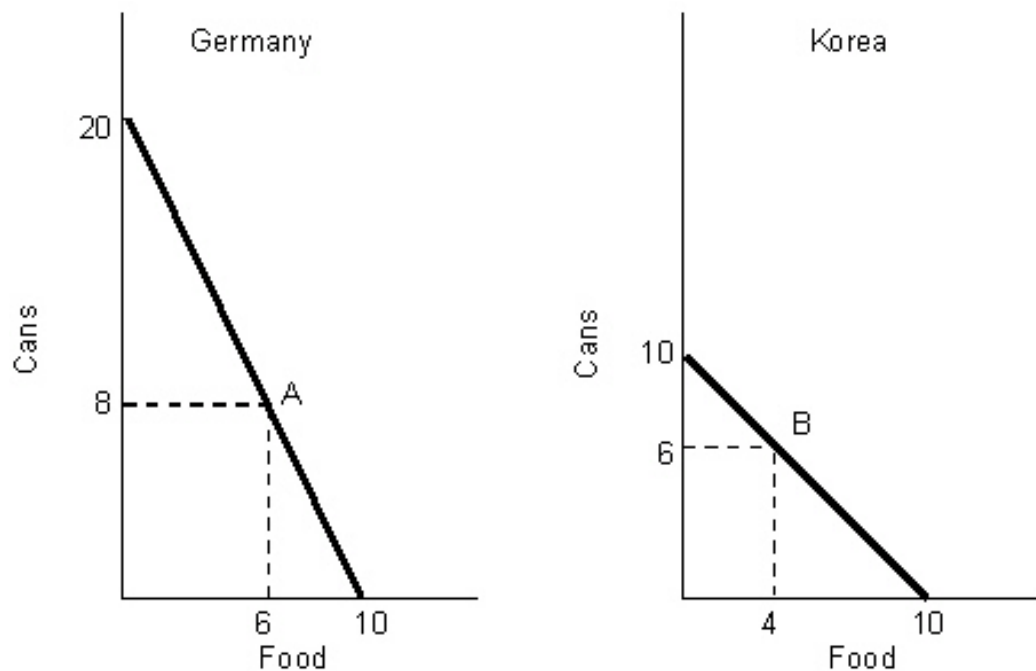
75. **Figure 2-10**

Labor Hours Required to Produce 1 Gallon of	In Maine	In New Hampshire
Grape juice	1 hour	9 hours
Apple juice	5 hours	6 hours

According to Figure 2-10, the opportunity cost of producing 1 gallon of grape juice in New Hampshire is ____ gallon(s) of apple juice.

- A. 1.33
- B. 5/6
- C. 1.5**
- D. 6
- E. 2/3

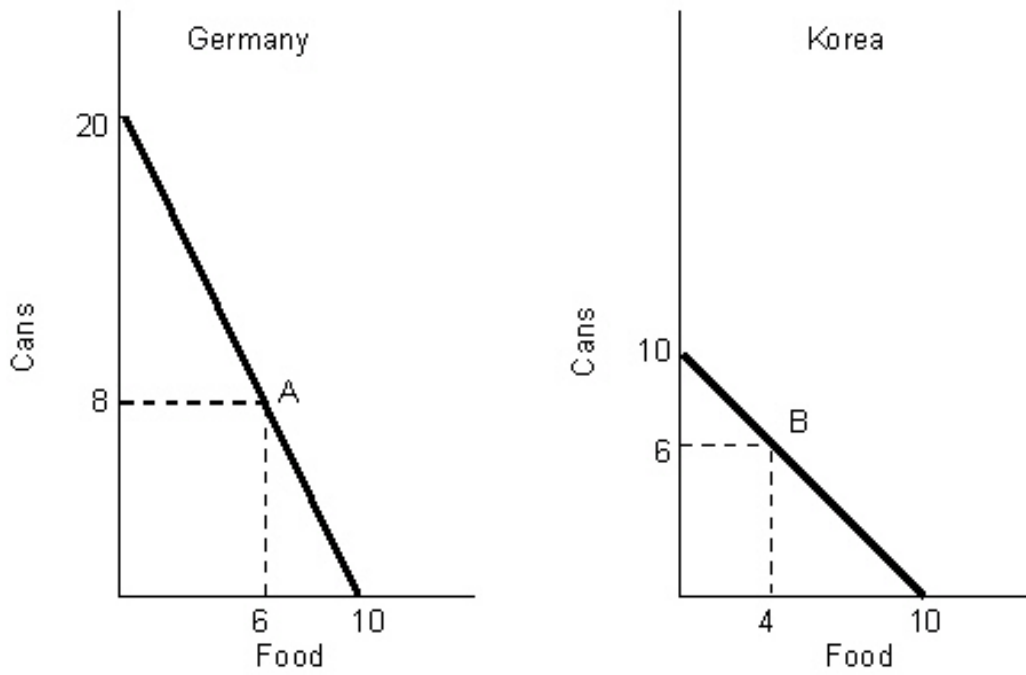
76. Figure 2-11



Suppose that in Figure 2-11, points *A* and *B* represent pre-trade positions. If each country specializes according to comparative advantage, what are the potential gains to trade?

- A. 6 cans**
- B. 6 cans and 6 units of food
- C. 6 units of food
- D. 4 units of food
- E. 12 cans

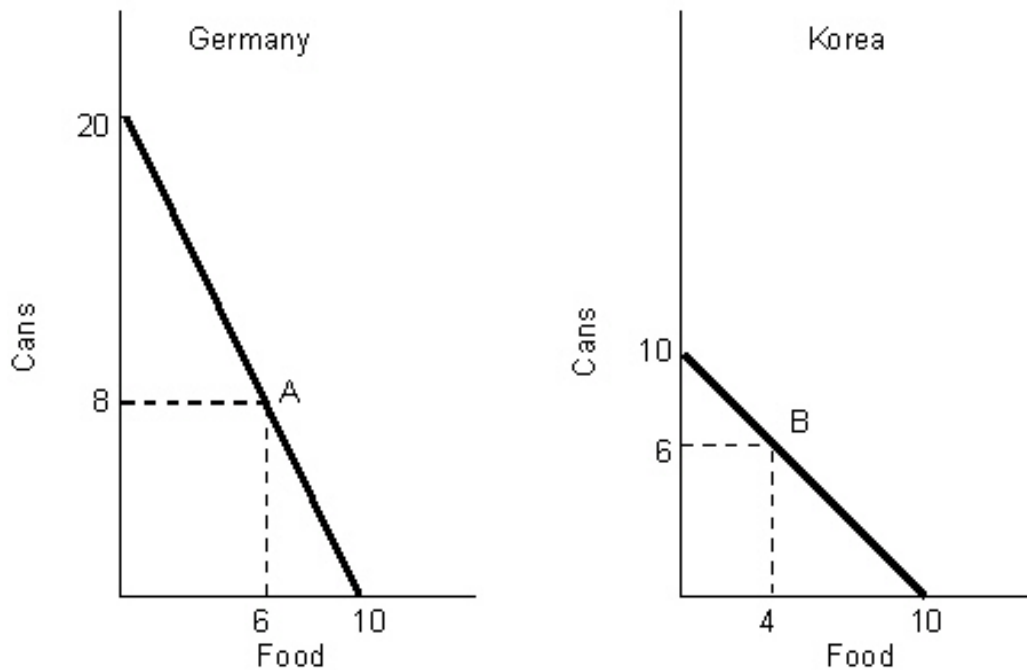
77. Figure 2-11



In Figure 2-11, if trade occurs, what is the *most* that Germany would be willing to pay for 1 unit of food?

- A. 1 can
- B. 2 cans**
- C. 1/2 can
- D. 20 cans
- E. 10 cans

78. Figure 2-11



In Figure 2-11, if trade occurs, what is the *least* Korea is willing to accept for 1 unit of food?

- A. 1 can
- B. 2 cans
- C. 1/2 can
- D. 20 cans
- E. 10 cans

79. Which of the following is the *best* definition of comparative advantage?

- A. The ability to produce a good or service at a higher opportunity cost than someone else
- B. The ability to sell more goods or services than anyone else, regardless of the price
- C. The ability to produce all goods and services better than anyone else
- D. The ability to produce a good or service at a lower opportunity cost than someone else
- E. The inability to produce a good or service better than anyone else

80. Should a world-class athlete such as golfer Tiger Woods mow his own lawn?

- A. Yes, because he can obviously do it faster than any gardener he could hire.
- B. Yes, because he can obviously do it cheaper than any gardener he could hire.
- C. Yes, because the gardener would be intimidated by the presence of Tiger Woods.
- D. No, because the gardener has a comparative advantage in playing golf.
- E. No, because Tiger Woods has a comparative advantage in playing golf.

81. Specialization and trade ensure that

- A. we are better off than we would be if we did everything ourselves.
- B. we are worse off than we would be if we did everything ourselves.
- C. unemployment rates will be higher.
- D. resources will be used inefficiently.
- E. an isolationist backlash will follow.

82. Which of the following *best* expresses the rule of specialization?

- A. The individual, firm, or nation will specialize in production of the good or service that has the lowest rate of taxation.
- B. The individual, firm, or nation will never specialize in production of the good or service that has the lowest opportunity cost.
- C. The individual, firm, or nation will specialize in production of the good or service that has the lowest opportunity cost.
- D. The individual, firm, or nation will specialize in production of the good or service that has the highest opportunity cost.
- E. The individual, firm, or nation will not specialize in any good or service, regardless of opportunity costs, to avoid becoming dependent on other nations and preserve its self-sufficiency.

83. Comparative advantage is

- A. the ability to produce a good or service at a lower opportunity cost than another incurs in producing it.
- B. a person's willingness to work hard and be successful.
- C. determined by a person's formal education level.
- D. measured by a person's relative financial security.
- E. always expressed in terms of dollars spent on one good versus dollars spent on an alternative good.

84. Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

According to Scenario 2-1, the opportunity cost for Brian to produce 1 softball is

- A. 4 baseballs.
- B. less than the opportunity cost for Alan to produce 1 softball.
- C. 1/4 baseball.
- D. 2 1/2 baseballs.
- E. 2/5 baseball.

85. Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

According to Scenario 2-1, the opportunity cost for Alan to produce 1 baseball is

- A. 1/4 softball.
- B.** 2/5 softball.
- C. less than the opportunity cost for Brian to produce 1 baseball.
- D. 2 1/2 softballs.
- E. 4 softballs.

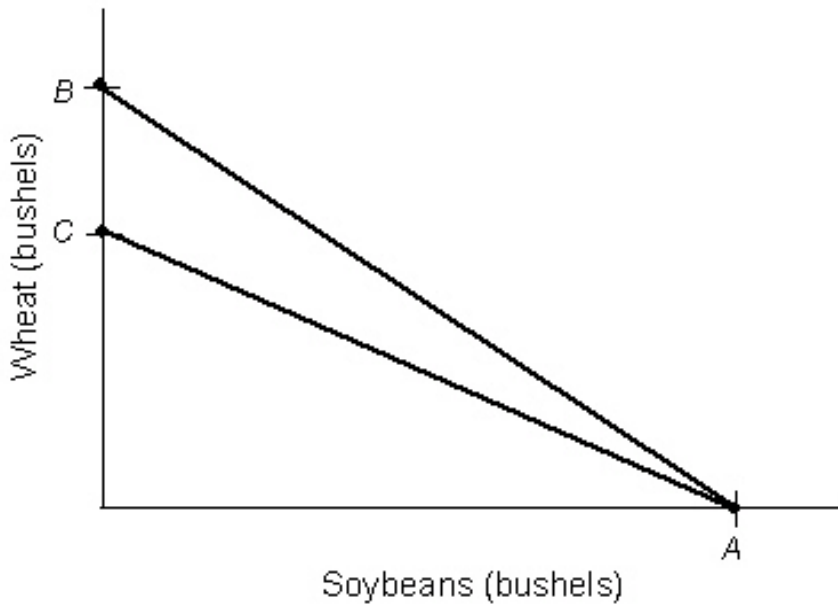
86. Scenario 2-1

Alan and Brian work at a baseball and softball manufacturing plant. Alan can produce either 10 baseballs or 4 softballs in an hour. Brian can produce either 8 baseballs or 2 softballs in an hour.

According to Scenario 2-1, Brian has a comparative advantage over Alan in the production of

- A. softballs.
- B. both softballs and baseballs.
- C. neither softballs nor baseballs.
- D.** baseballs.
- E. softballs if he makes no more than 2 an hour

87. **Figure 2-12**



Use Figure 2-12 to answer the next question. Farmer X's production possibilities curve is line AB , and Farmer Y's production possibilities curve is line AC . Given this information, which of the following is true?

- A. Farmer X is better at producing soybeans than Farmer Y.
- B. Farmer X has a comparative advantage in producing soybeans.
- C.** Farmer X has a comparative advantage in producing wheat.
- D. Farmer Y can produce soybeans better than Farmer Y.
- E. Farmer X faces increasing opportunity costs when he produces more and more soybeans.

88. **Figure 2-13**

Labor Cost per Unit (in hours)	Shoes	Bread
Country A	150	200
Country B	300	250

Consider economies A and B in Figure 2-13. One can correctly conclude that

- A. neither country has a comparative advantage in producing bread.
- B. country A has a comparative advantage in producing both shoes and bread.
- C. country B has a comparative advantage in producing both shoes and bread.
- D.** country A has a comparative advantage in producing shoes, and country B has a comparative advantage in producing bread.
- E. country A has a comparative advantage in producing bread, and country B has a comparative advantage in producing shoes.

89. Figure 2-13

Labor Cost per Unit (in hours)	Shoes	Bread
Country A	150	200
Country B	300	250

Consider economies A and B in Figure 2-13. Given their respective comparative advantages in production, we should expect

- A. country A to produce both shoes and bread and country B to produce neither.
- B. country A to buy both shoes and bread from country B.
- C. country A to specialize in producing shoes and to buy bread from country B.
- D.** country A to specialize in the production of bread and to buy shoes from country B.
- E. each country to produce only for itself.

90. A market economy can develop because

- A. government intervenes.
- B. the public property rights exist.
- C.** the private property rights exist.
- D. everyone can have everything.
- E. scarcity no longer exists.

91. According to the article in the text, if Venezuela's Chavez succeeds in effecting land reform, Venezuela's PPC will

- A. not change.
- B.** shift inward.
- C. shift outward.
- D. not exist.
- E. None of the above

92. Private property right means

- A. government gives property to its citizens.
- B.** ownership of the property.
- C. government does not own property.
- D. citizens have right to use property but not own it.
- E. All of these choices.

93. Which of the following is the most important element in the market economy?

- A. Private property right.
- B. Government has no role in the economy.**
- C. Government is the biggest sector in the economy.
- D. Religious freedom.
- E. Freedom of speech and press.

94. According to economic analysis, in making a decision, individuals compare the benefits expected from one option with the benefits expected from other options.

TRUE

95. You work for your parent's business without pay, so your labor is free.

FALSE

96. The production possibility curve for an economy indicates all possible combinations of three goods produced, given a constant amount of resources.

FALSE

97. **Story 2-1**

Bob went to the movies with his friend James rather than studying or going bowling with his sister. Bob had a test in math the next day.

According to Story 2-1, the opportunity cost of going bowling with his sister is the fun of going to the movies with James.

TRUE

98. The opportunity cost of going to the movies is always the same for everyone.

FALSE

99. If you have a choice of consuming two apples, three oranges, or one candy bar, the opportunity cost of the two apples is the candy bar plus the three oranges.

FALSE

100. An example of opportunity cost is the time you forgo to eat a "free lunch."

TRUE

101. The total cost of attending college is the sum of the cost of tuition, books, and meals.

FALSE

102. There is no cost of using your own savings in your business.

FALSE

103. Since we cannot tolerate waste so we must eliminate it.

FALSE

104. Given a production possibilities curve for defense goods and nondefense goods, if a nation is producing at a point inside the PPC, then it is possible to increase production of defense goods without sacrificing production of nondefense goods.

TRUE

105. If a new labor-saving technology is discovered, the PPC shifts inward.

FALSE

106. A rightward shift of the PPC might be caused by an increase in the general level of education.

TRUE

107. The construction of a PPC does not require that the economy's resources be fully and efficiently employed.

FALSE

108. The construction of a PPC does not require that the amount of money in the economy remain constant.

TRUE

109. Economically, it's possible to move a point on the PPC to another point.

TRUE

110. An economy's PPC illustrates the extent to which the economy consumes what it produces.

FALSE

111. If the minimum working age is raised from 16 to 18, the PPC will shift inward.

TRUE

112. If there is a technological advance that makes the production of automobiles more efficient, a producer of automobiles and other goods will move from a point on its PPC to a point outside its PPC, but a shift of the PPC will not occur.

FALSE

113. Economic growth is represented by shifting PCC outward.

TRUE

114. The concepts of scarcity and law of increasing cost can not be derived from PCC.

FALSE

115. The PPC does not indicate while producing more of one good it's not necessary to produce less of another good.

FALSE

116. A specialist is a person who is capable of doing only one thing.

FALSE

117. Trade occurs because countries may produce more than they need.

FALSE

118. A bowed-out PPC indicates increasing marginal opportunity costs between the goods or services produced.

TRUE

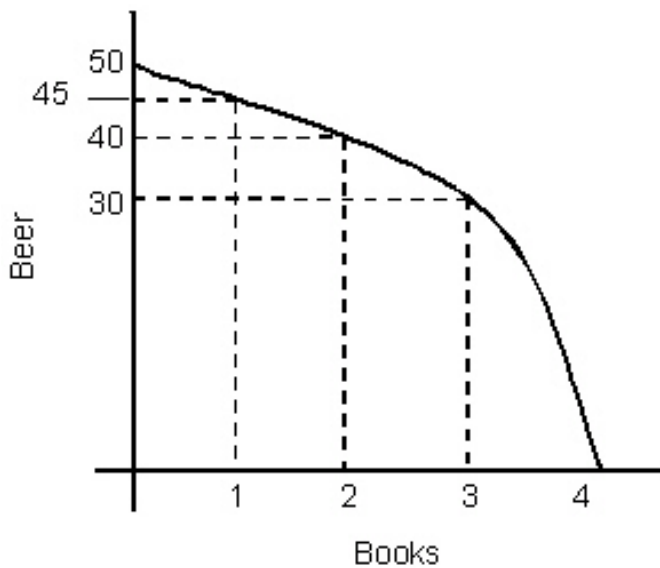
119. When specialized resources that are productive in the production of one good are shifted to the production of another good in which they are relatively less productive, the resulting production possibilities curve of the goods tends to bow in.

FALSE

120. When a nation is operating on a bowed-out PPC, the production of more of one product will bring about the production of less of another product because resources are scarce.

TRUE

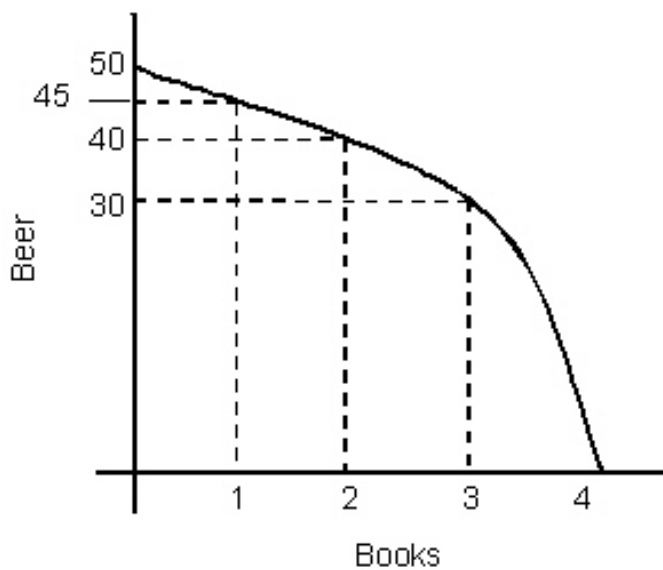
121. **Figure 2-14**



Refer to Figure 2-14. If beer becomes cheaper, the maximum amount of beers that Fred can obtain will increase.

TRUE

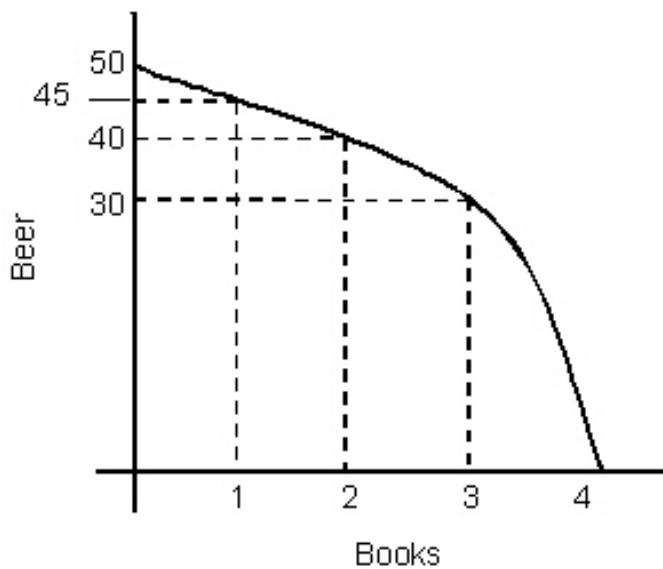
122. Figure 2-14



Refer to Figure 2-14. If Fred gets 2 books and 30 beers, he is not using all of his resources

TRUE

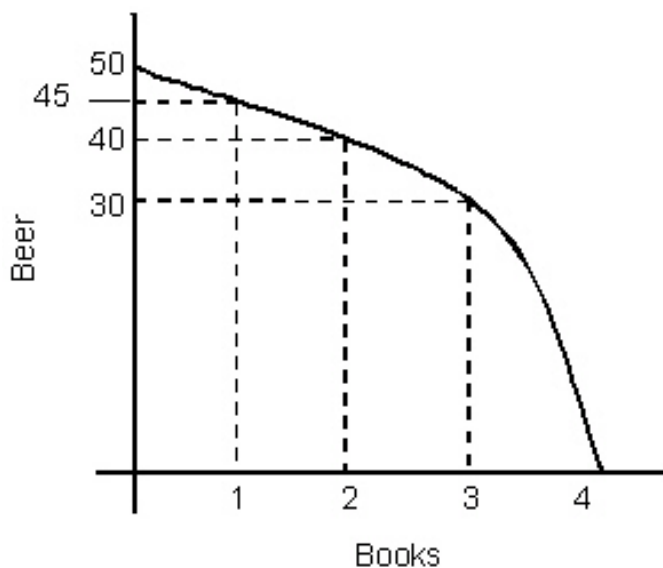
123. Figure 2-14



Refer to Figure 2-14. If Fred has 1 book and 45 beers, the marginal opportunity cost of one more book is 40 beers.

FALSE

124. **Figure 2-14**



Refer to Figure 2-14. Fred could have either 40 beers and 2 books or 48 beers and 1 book.

FALSE

125. In order to get the most from their productive capabilities, nations and individuals specialize in activities in which their opportunity costs are lowest.

TRUE

126. International trade is a kind of zero-sum game.

FALSE

127. Since it is cheaper to produce goods in Mexico, US will not be able to export goods to Mexico.

FALSE

128. The comparative advantage theory is based on using opportunity cost to determine which country should produce what good for trade.

TRUE

129. Populations of ocean fish have declined sharply because of the existence of private property rights.

FALSE

130. A resource-rich country can develop its economy rapidly without giving its citizens private property right.

FALSE

131. George W. Bush has been classified as a president who strives to maintain a budget surplus.

FALSE

132. In Argentina, the citizens having legal title to the land have higher income and living standard compared to those without legal title to the land.

TRUE