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***Economics Today, 18e* (Miller)**
Chapter 2 Scarcity and the World of Trade-Offs

2.1 Scarcity

1) Scarcity arises because
A) resources are finite and are inadequate to meet all human wants.
B) production of goods and services is always slow.
C) companies are slow to explore for new resources.
D) a large number of people live in poverty.
Answer: A
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

2) Scarcity refers to
A) a shortage in a good or service.
B) the ability of society to consume all that it produces.
C) the inability of society to satisfy all human wants because of limited resources.
D) the inability of an individual to purchase a good or service due to her limited income.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

3) Which of the following statements is TRUE about scarcity?
A) Both rich and poor people face the problem of scarcity.
B) Scarcity exists only when supply is insufficient to meet demand.
C) Scarcity exists only when a shortage exists.
D) Scarcity can be eliminated when a country becomes richer.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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4) The problem of economic scarcity applies
A) only in developed countries, because resources are scarce in these nations.
B) only in underdeveloped countries, because there are no productive resources in these nations.
C) only to an economy with an insufficient supply of money.
D) to the economies of all nations, regardless of their level of development.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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5) In every economic system, choices must be made because resources
A) are unlimited, but human desires and wants are limited.
B) are limited, but human desires and wants are unlimited.
C) are unlimited, and so are human desires and wants.
D) are limited, and so are human desires and wants.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

6) In the production of goods and services, trade-offs exist because
A) not all production is efficient.
B) society has only a limited amount of productive resources.
C) buyers and sellers often must negotiate prices.
D) human wants and needs are limited at a particular point in time.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

7) Which of the following statements about economic scarcity is FALSE?
A) Scarcity occurs among the poor and the rich.
B) Scarcity only occurs if there are shortages and people wait in line to buy things.
C) Scarcity results from not having enough resources to produce all the things we want.
D) Scarcity results in the necessity to make choices.
Answer: B
Diff: 1
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8) Which of the following statements is FALSE?
A) Economic goods are available in desired quantities at a zero price.
B) A good is anything that gives satisfaction or happiness to individuals.
C) Services are intangible goods such as dry cleaning, hospital care, and restaurant meal preparation.
D) Wants are unlimited and include all material and nonmaterial desires.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

9) Which of the following statements about scarcity is TRUE?
A) Scarcity is no longer a problem for industrialized countries.
B) Scarcity exists in all societies.
C) Scarcity is a problem only for greedy people.
D) Scarcity is a problem only in countries that do not use markets to organize economic activity.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

10) In 2006, hurricanes damaged many parts of Texas, destroying homes, businesses, schools, and infrastructure. In strictly economic terminology, these hurricanes are said to have caused
A) scarcity, because the damages made food and shelter scarce.
B) scarcity, because some goods were difficult to get.
C) shortages, because supplies were cut off and goods were destroyed.
D) tradeoffs, because some areas of the country were damaged when others were not.
Answer: C
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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11) Scarcity implies that people must
A) be miserable.
B) be selfish.
C) make choices.
D) not be selfish.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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12) Scarcity
A) does not exist in the United States.
B) applies only to developing countries.
C) is caused by production problems.
D) is not a shortage.
Answer: D
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

13) The difference between scarcity and a shortage is that
A) scarcity is caused by poverty and shortages are caused by natural disasters.
B) shortages are a type of scarcity caused by natural disasters while scarcity is caused by human errors.
C) scarcity always is a part of human life while shortages usually are temporary.
D) shortages are always part of human life while scarcity is usually temporary.
Answer: C
Diff: 3
Topic: 2.1 Scarcity
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14) Which of the following is the best example of scarcity?
A) The Talking Teddy is a surprise holiday hit, resulting in long lines of consumers trying to purchase the limited number of available Teddies.
B) Fred only gets a 10-hour lunch break and each day must decide between working out at the gym or socializing with his colleagues.
C) The local market's buy-one-get-one-free sale on strawberries results in more people wanting the berries than producers are able and willing to supply.
D) There is a bumper crop of strawberries, and stores have more berries than they can sell.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

15) Scarcity is caused by
A) unlimited wants running up against limited economic resources.
B) lazy workers.
C) an individual's budget that is insufficient to cover the expenses of certain goods or services.
D) shortages.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

16) Human resources that perform the functions of organizing, managing, and assembling the other factors of production are called
A) physical capital.
B) venture capital.
C) entrepreneurs.
D) productive capital.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
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17) In economic terminology, when a resource is used to produce output it is referred to as
A) an intangible.
B) a factor of production.
C) a service.
D) a fifth element.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

18) All of the following are examples of physical capital EXCEPT
A) buildings.
B) machinery.
C) company stocks and bonds.
D) a hydroelectric power plant.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

19) Entrepreneurs are important to market economies because
A) they engage in risk taking and innovation.
B) they make up a large portion of low-skilled labor.
C) they take few risks and thereby, suffer fewer bankruptcies.
D) they represent the bulk of employment at large corporations.
Answer: A
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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20) Which of the following are considered factors of production?
I. Land
II. Labor
III. Physical capital
IV. Entrepreneurship
A) I and II only
B) I and III only
C) I, II and III only
D) I, II, III and IV
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

21) All of the following are economic resources, or factors of production EXCEPT
A) land.
B) physical capital.
C) money.
D) entrepreneurship.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

22) In economic terminology, the accumulated training and education that workers receive to increase their productivity is referred to as
A) entrepreneurship.
B) human capital.
C) labor.
D) physical capital.
Answer: B
Diff: 1
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23) Physical capital is distinguished from human capital because
A) physical capital refers to trained people.
B) physical capital refers to equipment and machinery, whereas human capital refers to trained people.
C) human capital refers only to day laborers.
D) physical capital refers to trained people, whereas human capital refers to equipment and machinery.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

24) In economics, the term *physical capital*
A) refers to funds used by businesses to acquire goods and services.
B) refers to all manufactured resources used for production.
C) refers to the process of raising funds through the stock market.
D) defines the stock of merchandise already produced.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

25) Human capital is
A) what people get from physical capital.
B) the accumulation of skills, training and education of workers.
C) the value obtained from selling stocks and bonds.
D) the human resources that perform the function of raising capital.
Answer: B
Diff: 1
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26) The conversion of resources into consumer goods or services is called
A) human capital.
B) production.
C) opportunity cost.
D) absolute advantage.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

27) Services can be thought of as
A) unvalued goods.
B) unwanted goods.
C) free goods.
D) intangible goods.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

28) Economic goods are defined as
A) tangible items only.
B) services only.
C) anything from which an individual derives satisfaction.
D) any item which is available in sufficient quantity at zero price.
Answer: C
Diff: 2
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29) If the quantity desired of something exceeds the amount available at zero price, that item is called
A) capital.
B) an economic good.
C) an intangible good.
D) a bad.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

30) Which is the best example of an intangible good?
A) the car you dream of owning but cannot afford
B) the suit you hope will make a good impression when you go on job interviews
C) the textbook study guide you hope will prepare you to perform well on examinations
D) the advice and expertise provided by the music store clerk who sold you that CD
Answer: D
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

31) At a zero price, which of the following conditions is TRUE for an economic good?
A) Its quantity supplied exceeds its quantity demanded.
B) Its quantity demanded exceeds its quantity supplied.
C) Its quantity demanded equals its quantity supplied.
D) Scarcity disappears.
Answer: B
Diff: 1
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32) The most basic concept in economics is
A) wealth.
B) income.
C) scarcity.
D) spending.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

33) Scarcity
A) exists in all human societies.
B) is a problem for less-developed nations only.
C) used to be a problem, but is not an issue for modern industrial nations.
D) afflicts greedy people only.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

34) Scarcity affects
A) only rich people.
B) only poor people.
C) only middle income people.
D) all people.
Answer: D
Diff: 1
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35) Scarcity is
A) a shortage of goods and services.
B) poverty and misery.
C) a situation in which the resources for producing the goods and services that people desire are sufficient to satisfy people's desires.
D) a situation in which the resources required to produce the goods and services that people desire are insufficient to satisfy all wants.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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36) Scarcity implies that
A) people should limit their wants, since shortages exist.
B) firms should be more efficient when producing goods.
C) people must make choices.
D) nonrenewable resources should never be used.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

37) Economic goods are
A) abundant goods, about which we must constantly make decisions about their best use.
B) all imaginable items from which individuals derive satisfaction or happiness.
C) goods that are scarce, for which the quantity demanded exceeds the quantity supplied at a zero price.
D) goods that are scarce, for which the quantity demanded exceeds the quantity supplied at any price.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
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38) Scarcity exists because
A) the majority of people in the world are poor.
B) people are too greedy and refuse to share what they have with others.
C) human wants exceed what can be produced with the limited resources available.
D) not enough new technology is being used to eliminate scarcity.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

39) Extremely cold winter weather has destroyed oranges in Florida. The freeze has caused
A) scarcity because there are less oranges now than people want.
B) scarcity because people have to switch to other types of citrus fruits.
C) a shortage because people cannot obtain as many oranges as they wish to buy at the pre-freeze price.
D) a shortage because the orange growers will have less income.
Answer: C
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

40) The existence of scarcity means that
A) there are not enough resources to satisfy unlimited human wants.
B) firms will increase their production to eliminate the scarcity.
C) the government will step in to eliminate the scarcity.
D) firms working with the government will allocate resources to eliminate the scarcity.
Answer: A
Diff: 2
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41) Jane is a top-level executive earning a high salary. Jane has just ordered a luxury car only to be told that she will have to wait three weeks for it to be delivered. Which of the following statements is TRUE?
A) The car is not a scarce good.
B) The car is an economic good.
C) The car is human capital.
D) The car is an intangible good.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

42) Scarcity and shortages differ in that
A) scarcity is caused by natural disasters and shortages are caused by mistakes people make.
B) scarcity is a condition of human life while shortages are usually temporary phenomena related to an imbalance between the amount desired and the amount produced.
C) scarcity is a type of shortage but shortage is a broader concept.
D) shortages apply to resource markets while scarcity applies to product markets.
Answer: B
Diff: 3
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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43) There are not enough of four goods to satisfy the wants of people. For good A, this is true when the price is $100. This is true for good B at a price of $10, for good C at a price of $1, and for good D at a price of zero. Which situation reflects scarcity rather than shortage?
A) A
B) B
C) C
D) D
Answer: D
Diff: 3
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44) Production refers to
A) physically producing material goods only.
B) any activity carried on by a firm, whether a corporation, partnership, or sole proprietorship.
C) any activity that results in the conversion of resources into goods and services that can be consumed.
D) any activity that causes a material conversion of manufactured goods.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

45) Which of the following activities are production?
A) combining flour, milk, and eggs to make cookies
B) moving coal from southern Illinois to an electrical power plant in northern Illinois
C) taking ice cubes from a tray to put in a drink
D) All of the above are production.
Answer: D
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

46) In economics, resources are also known as
A) minerals.
B) factories.
C) factors of production.
D) human capital.
Answer: C
Diff: 1
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47) Which type of resource will improve through more education and training by workers?
A) money
B) physical capital
C) natural resources
D) human capital
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

48) A tractor used to prepare land for planting is called
A) land.
B) labor.
C) physical capital.
D) human capital.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

49) Naturally occurring diamonds are an example of
A) land.
B) labor.
C) physical capital.
D) human capital.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

50) A man-made resource such as a building or a machine is an example of which resource?
A) entrepreneurial ability
B) labor
C) physical capital
D) human capital
Answer: C
Diff: 1
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51) Which of the following is NOT an economic resource?
A) money
B) low-skilled labor
C) coal
D) an engineer
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

52) Bonnie volunteers to help make floral arrangements at a flower shop. She is an example of
A) entrepreneurial ability.
B) labor.
C) physical capital.
D) human capital.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

53) Bonnie is a self employed. She makes floral arrangements in a building she rents. She owns the delivery vehicle and has hired a delivery driver. She is an example of
A) entrepreneurial ability.
B) labor.
C) physical capital.
D) human capital.
Answer: A
Diff: 2
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54) A person goes to college to become an engineer. This is an example of an
A) investment in physical capital.
B) investment in human capital.
C) increase in entrepreneurship.
D) increase in labor.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

55) An irrigation system is installed on a farm in North Dakota. This is an example of which factor of production?
A) labor
B) land
C) human capital
D) physical capital
Answer: D
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

56) Which of the following is NOT an example of investment in human capital?
A) a medical student's internship
B) the purchase of a personal computer for playing games
C) A mechanic attends a training workshop on a new type of engine.
D) Johnny learns how to read.
Answer: B
Diff: 2
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57) Juanita has just opened a new business selling pet supplies through the Internet.
A) Juanita is an entrepreneur.
B) Juanita is not providing economic goods since people purchase the goods.
C) Juanita is not providing economic goods since pet supplies are not being sold in a store.
D) Juanita is not an entrepreneur since there are other businesses that sell pet supplies.
Answer: A
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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58) Which of the following is a TRUE statement?
A) All goods are economic goods.
B) All economic goods are goods, but not all goods are economic goods.
C) Economic goods and goods mean the same thing.
D) Economic goods do not include services while goods do include services.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

59) Which of the following is NOT an economic good?
A) a haircut
B) broccoli
C) garbage
D) a textbook
Answer: C
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

60) John has decided to view the solar eclipse tomorrow. The eclipse is an example of
A) a good.
B) an economic good.
C) a service.
D) entrepreneurship.
Answer: A
Diff: 1
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61) A typical economic good has which one of the following characteristics?
A) The desired quantity exceeds the quantity available at a zero price.
B) The quantity available exceeds the desired quantity at a zero price.
C) It uses no resources to produce.
D) It is never scarce.
Answer: A
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

62) A waitress brings a free glass of wine when you sit down in a restaurant. This glass of wine is
A) a service because the waitress carried it instead of making it.
B) a good, but not an economic good because there is no price charged for the wine.
C) a nongood because there is no price charged for the wine.
D) an economic good because wine is produced with scarce resources, even if it is free to you.
Answer: D
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

63) Which of the following is NOT a service?
A) physical labor purchased by a producer
B) things purchased by a consumer that do not have physical characteristics
C) a diamond used in an engagement ring
D) tasks performed by someone else
Answer: C
Diff: 1
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64) When an employee at a grocery store scans the price of your items, bags the groceries, and collects your paper, the individual has provided
A) physical capital.
B) entrepreneurship.
C) a service.
D) land.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

65) The most basic concept of economics is
A) self-interest.
B) scarcity.
C) demand.
D) rationality.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

66) Scarcity exists because
A) there is a disruption in the distribution of goods caused by bad weather.
B) there is a shortage of goods caused by war.
C) there are not enough resources available to produce all the goods that people want.
D) there is a shortage of qualified workers throughout the world.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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67) Which of the following is the LEAST scarce?
A) college education
B) medicine
C) housing
D) air
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

68) The fact that our wants are unlimited but our resources are limited implies that
A) we should limit our wants.
B) entrepreneurship has failed as an economic system.
C) we have to make choices.
D) the only way to make someone better off is to make someone else worse off.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

69) Which of the following items would be considered scarce?
A) water
B) diamonds
C) potato chips
D) All of the above are scarce.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

70) The basic problem in economics is
A) unlimited needs.
B) scarcity.
C) demand.
D) limited resources.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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71) Scarcity implies that
A) the satisfaction of one person's want means another person's want can also be satisfied.
B) the satisfaction of one person's want means another person will be more than satisfied.
C) the satisfaction of one person's want means another person's want cannot be satisfied.
D) no person's wants can be satisfied.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

72) Which of the following is NOT a factor of production?
A) land
B) labor
C) a product
D) entrepreneurship
Answer: C
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

73) Which of the following would be categorized as "land"?
A) timber
B) human capital
C) buildings
D) entrepreneurship
Answer: A
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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74) Education and training of workers would best be categorized as
A) land.
B) labor.
C) physical capital.
D) human capital.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

75) Which factor of production includes water?
A) physical capital
B) human capital
C) land
D) entrepreneurship
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

76) Education increases the stock of which factor of production?
A) physical capital
B) human capital
C) land
D) entrepreneurship
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

77) In economics, physical capital includes
A) money.
B) bank accounts.
C) machinery.
D) shares of stock.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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78) Which of the following is NOT considered to be an economic resource?
A) your economics professor
B) the telephone company repair truck
C) the local gas station
D) a view of the stars on a clear night
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

79) Oil found in Alaska is an example of
A) physical capital.
B) land or natural resource.
C) human capital.
D) labor.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

80) An example of an entrepreneur would be
A) the owner of a new Indian food restaurant.
B) the cafeteria employee who won the employee of the month award.
C) a Greyhound bus driver.
D) the cashier at your local supermarket.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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81) Economic goods are items that
A) are used only by economists.
B) provide satisfaction to users.
C) cannot be sold at any price in the market.
D) individuals would pay to get rid off.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

82) The term "labor" for an economist includes
A) all skilled workers, but not the unskilled workers.
B) all productive contributions of humankind.
C) only the value of the work done by scientists.
D) all employees who have high school diplomas.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

83) Scarcity is
A) a situation of shortage after a hurricane.
B) a permanent human condition relative to the nearly limitless nature of human desires.
C) represented by long lines at stores.
D) the same thing as poverty.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

84) The accumulated training and education that you have is
A) physical capital.
B) entrepreneurship.
C) economic goods.
D) human capital.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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85) The tasks performed by the chef at your favorite restaurant could be categorized as
A) a good.
B) an economic good.
C) a service or intangible good.
D) All of the above are correct.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

86) Economic bads are items
A) for which the produced quantity is less than the amount desired at a positive price.
B) for which the desired quantity is less than what nature provides at a zero price.
C) that individuals desire but which receive social disapproval.
D) that receive social approval but which governments dislike.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

87) Activities designed to convert resources into goods and services is known as
A) supply.
B) consumption.
C) production.
D) scarcity.
Answer: C
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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88) All of the following are resources EXCEPT
A) doctors because they perform services.
B) the land the Statue of Liberty sits on.
C) the computer in the student computer lab.
D) money.
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

89) A factory can be thought of as
A) a land and labor combination.
B) a trade-off with land.
C) physical capital.
D) a type of entrepreneurship.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

90) From the economist's point of view
A) wants and needs are exactly the same.
B) a want is a lifesaving necessity.
C) needs are objectively undefinable.
D) we all have wants but only very poor people have needs.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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91) A friend says, "I really, really need a new car." As an economist, you're thinking
A) Right! Everyone needs a new car.
B) This is an example of how objectively undefinable needs are. Many would argue that this friend could get along just fine with a reliable used car.
C) If this friend says she needs a new car, then we must all agree that a new car is a need and not just a want.
D) that a new car can only be considered a need if at least 51% of the public agrees.
Answer: B
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Application of knowledge

92) Why is it that all of our wants cannot be satisfied?
A) because of shortages
B) because we cannot seem to decide what we really want
C) because other people try to change your mind about what you want
D) because limited resources mean all the goods we want cannot be obtained
Answer: D
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

93) Wants
A) is another term for needs.
B) refer to services while needs refer to goods.
C) is the term used by economists instead of needs because needs are not objectively definable.
D) are used by economists and refer to the same thing as needs when used by psychologists.
Answer: C
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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94) Human beings
A) have unlimited wants.
B) think they have unlimited wants, but really have limited needs.
C) have limited wants, but unlimited needs.
D) know what their needs are, but do not know what their wants are.
Answer: A
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

95) Economists are concerned with an individual's
A) needs because needs represent the most important goods to an individual.
B) needs because economists define needs to be the goods people need to survive.
C) wants because, unlike needs, wants lead to shortages in the economy.
D) wants because the existence of wants leads to scarcity.
Answer: D
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

96) To an economist, the term "needs"
A) means the purchase of necessary goods.
B) is objectively undefinable.
C) identifies the purchases of basic goods and services.
D) refers to the purchase of goods by the poor.
Answer: B
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

97) "Wants" as an economic concept includes
A) both material and nonmaterial desires.
B) only the purchase of necessary basic goods.
C) only the desire for luxury goods.
D) only those goods that can be purchased with one's paycheck.
Answer: A
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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98) What is production? What economic factors are involved in production?
Answer: Production involves any activity that converts resources into goods and services that can be consumed. Production requires the use of all kinds of resources—natural resources, capital, and human resources, so the owners of all these resources are involved with production.
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

99) Briefly explain the difference between the concepts of scarcity and shortage.
Answer: Scarcity is not a shortage. Scarcity occurs when we cannot obtain all that we want at a zero price. We can eliminate a shortage but we cannot eliminate scarcity because it always exists as a result of limited resources relative to our unlimited wants.
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

100) Briefly explain the factors of production and give an example of each.
Answer: The resources, which are the inputs used in the production of the things that we want,used in production are called factors of production. There are five factors of production. **Land** encompasses all the nonhuman gifts of nature, including timber,water, fish, minerals, and the original fertility of land. It is often called the *natural resource*. **Labor** is the *human resource*, which includes productive contributions made by individuals who work, such as Web page designers, ballet dancers, and professional football players. **Physical capital** consists of the factories and equipment used in production. It also includes improvements to natural resources, such as irrigation ditches. **Human capital** is the economic characterization of the education and training of workers. An example is a worker's skills. **Entrepreneurship** is the component of human resources that performs the functions of organizing, managing, and assembling the other factors of production to create and operate business ventures.
Diff: 3
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
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101) Explain why even the most affluent people, businesses and counties never solve the problem of scarcity.
Answer: Scarcity is a problem that is never completely solved. Scarcity means that we do not ever have enough of everything, including time, to satisfy our *every* desire. Thus even the most affluent have limited resources and unlimited wants even though they may have solved more of their wants with their larger amount of resources.
Diff: 3
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

102) Labor, human capital, and entrepreneurship are resources related to human beings. Distinguish among the three resources.
Answer: Labor is the work done by human beings. Human capital refers to the worker education and training that makes human beings more productive. Whenever a worker's skills increase, there has been an improvement of human capital. Entrepreneurship refers to the use of human beings in organizing, managing, and assembling the other factors of production to make business ventures.
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

103) Distinguish between scarcity and shortages.
Answer: Scarcity exists because the wants of human beings are unlimited while resources are limited. The meaning of a shortage is not the same as scarcity. A shortage exists when people have to wait in line for things, especially on a temporary basis. Scarcity relates to the poor but also to the rich; scarcity is a fact of life that affects everyone. A shortage occurs when the quantity of a good desired exceeds the quantity available at a positive price.
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

104) Are all goods economic goods? Are all economic goods also goods? Explain.
Answer: Not all goods are economic goods. Economic goods are a subset of all goods, and are produced from scarce resources. Sunlight is an example of a good that is not an economic good. Hence, the answer to the second question is "yes."
Diff: 1
Topic: 2.1 Scarcity
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105) "Economics is the study of how people eliminate scarcity." Do you agree or disagree? Why?
Answer: Disagree. Economics is the study of how people make choices because of scarcity. Scarcity cannot be eliminated because people do not ever have enough of everything to satisfy their every desire. Scarcity is a fact of life for both rich and poor.
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

106) What does scarcity have to do with the fact that people must make choices?
Answer: Scarcity implies that people cannot have everything they want. This implies that ways must be found to determine which of the many goods that people want will actually be produced. Further, since any person cannot have everything he or she wants, the person must decide which specific things to acquire. That is, the person must make choices.
Diff: 2
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

107) "Economics deals with human needs." Do you agree or disagree? Why?
Answer: Disagree. The concept of needs is difficult to define objectively for each person, so that economists consider people's unlimited wants instead of their needs.
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

108) Explain the difference between human needs and wants.
Answer: Needs are objectively undefinable. Needs are the essentials of life: food, clothing, water and shelter. They are basics of life you can't live without. Needs are things you have to have, items you can't do without. Wants are things you desire to increase your level of happiness. They are not absolutely necessary. Humans have unlimited wants, and so they cannot have all of them given limited resources.
Diff: 1
Topic: 2.1 Scarcity
Learning Outcome: Micro-1: Identify the basic principles of economics and explain how to think like an economist
AACSB: Analytical thinking

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2.2 Opportunity Cost, Trade-Offs, and Choices

1) The opportunity cost of attending college might best be described as
A) the money that must be paid in order to attend college.
B) the lowest-valued alternative use of the student's time.
C) the highest-valued alternative use of the student's time.
D) the value that the student attaches to not working.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

2) The value of the best alternative sacrificed to obtain something you want is referred to as
A) explicit cost.
B) opportunity cost.
C) marginal cost.
D) sunk cost.
Answer: B
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

3) Opportunity cost
A) can only be measured as a paid cost.
B) is always the value of the next best forgone opportunity.
C) does not exist since there are no receipts.
D) is always the lowest valued alternative.
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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4) Opportunity cost is defined as
A) the value of the next-best alternative that must be sacrificed to attain a want.
B) the least-costly means to produce output.
C) the value of the output currently received by an individual or a corporation.
D) the return from a given unit of labor.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

5) One opportunity cost associated with going to college is
A) purchasing text books.
B) paying tuition.
C) giving up employment possibilities while in college.
D) paying for room, board, and other living expenses.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

6) Bill Bonecrusher graduates from college with a choice of playing professional football at $2 million a year or coaching for $50,000 a year. He decides to play football, but eight years later he quits football to make movies for $3 million a year. His opportunity cost at graduation was _____ and eight years later was _____.
A) $50,000; $2 million
B) $2 million; $2 million
C) $2 million; $3 million
D) $50,000; $50,000
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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7) Fred and Ann both decide to see the same movie when they are given free movie tickets. We know that
A) both bear an opportunity cost since they could have done other things instead of see the movie.
B) both bear the same opportunity cost since they are doing the same thing.
C) the cost of going to the movie is greater for the one who had more choices to do other things.
D) neither bears an opportunity cost because the tickets were free.
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

8) Opportunity cost is
A) the intrinsic value of an economic good.
B) the total value of all the alternatives given up when a choice is made.
C) the value of the opportunity selected when a need is satisfied.
D) the value of the next highest ranked alternative that must be sacrificed to obtain a want.
Answer: D
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

9) Suppose you have four choices—go to a movie, read a book, watch television, or go to a concert. You choose to go to a movie. The opportunity cost of the movie is
A) the value of the book not read.
B) the value of the television program not watched.
C) the value of the concert that you didn't attend.
D) the value of the activity that you would have selected if you hadn't gone to the movie.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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10) For every choice a person makes it can be assumed that
A) the chooser has full knowledge of the situation.
B) some opportunity cost was involved.
C) there is a fifty-fifty chance the choice was the wrong one.
D) a good is involved and satisfaction is gained.
Answer: B
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

11) The opportunity cost of going to college for a student receiving a scholarship
A) is the income that she would have earned if she did not go to college.
B) is the risk of dropping out.
C) is the food and living expenses that she has to purchase while in college.
D) is zero because she does not have to pay tuition.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

12) The concept of opportunity cost exists because
A) of scarcity.
B) goods have different prices.
C) of shortages.
D) the value of services is hard to determine.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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13) Opportunity cost is
A) the cost of producing all goods and services in the United States.
B) the value of the next-best alternative that must be sacrificed to satisfy a want.
C) the fixed cost of production.
D) the value of the most useful alternative that must be sacrificed to obtain something or satisfy a want.
Answer: B
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

14) Which of the following statements is FALSE about opportunity cost?
A) Cost is always foregone opportunity.
B) Opportunity cost is the next best alternative.
C) John wants a burger and fries. The concept of opportunity cost applies even though he has enough funds to buy both.
D) Opportunity cost exists only for goods with monetary values.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

15) Opportunity cost is
A) the combined value of all the alternatives not selected.
B) the same thing as the money price of a good.
C) the value of the next best alternative which was given up.
D) based on the intrinsic value of the good itself.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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16) Steve and Karen decide to attend the same concert when they are each given free tickets to it. We know that
A) both bear the same opportunity cost because they are seeing the same thing.
B) both bear the same opportunity cost because the tickets have the same face value.
C) both bear an opportunity cost that depends on what each person is giving up to attend the concert.
D) neither bears an opportunity cost since the tickets were given free to them.
Answer: C
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

17) Samia has decided that with the two hours in between classes she can do one of 3 things. She has ranked her choices, from highest to lowest as, (1) chat with her friends, (2) study economics or (3) take a nap. The opportunity cost of chatting with her friends is
A) the combined value of studying economics and taking a nap.
B) the value of studying economics, the next best use of time.
C) the value of chatting with her friends.
D) zero since she does not pay her friends to talk to her.
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

18) Stephanie has decided to eat lunch between classes. She has ranked her choices, from highest to lowest as, (1) turkey sandwich, (2) tuna sandwich, (3) slice of cheese pizza, (4) cheeseburger. The opportunity cost of the eating turkey sandwich is
A) the combined value of the tuna sandwich, slice of cheese pizza and cheeseburger.
B) the value of tuna sandwich, the next best choice.
C) the value of the cheeseburger.
D) zero since she has satisfied a want.
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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19) Which of the following is a TRUE statement?
A) Cost is always measured in the nation's currency.
B) Opportunity cost is an objective measure since the cost of an activity is the same for everyone.
C) The less alternatives there are the greater the cost.
D) Opportunity cost is always a foregone opportunity.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

20) Opportunity cost exists because
A) of scarcity.
B) prices must adjust to eliminate shortages.
C) production could not occur without the opportunity cost of using resources.
D) the value of economic goods is positive while the value of goods is zero.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

21) The opportunity cost of a decision is the
A) value of the best alternative not chosen.
B) value of all the alternatives not chosen.
C) cost of making the wrong choice.
D) cost incurred by others who are unhappy with your decision.
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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22) The saying that "You cannot have your cake and eat it too" illustrates the economic concept of
A) a positive statement.
B) a normative statement.
C) physical capital.
D) opportunity cost.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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23) On an afternoon that a class meets, you could alternatively study for an exam that will take place in another class the next morning, go to a movie with a friend, or, most desirable to you at present, take a nap. The opportunity cost of attending the afternoon class is
A) forgoing the nap.
B) missing seeing the movie with your friend.
C) giving up the time to study for the next morning's exam.
D) being unable to engage in all three of the above activities.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

24) Opportunity cost is best defined as
A) the sum of the dollar values of all alternatives given up when choices are made.
B) the cost of producing the purchased goods.
C) the next highest valued alternative when a choice is made.
D) the dollar price of the purchased item.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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25) You have the option of consuming one cup of coffee or two donuts or three oranges. You picked the cup of coffee. Therefore the opportunity cost of this cup of coffee is
A) the price of the cup of coffee.
B) the difference in the prices of these three products.
C) the price of the donuts as they are usually consumed with coffee.
D) either the donuts or the oranges, whichever you like more.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

26) The opportunity cost of going to college full time away from home includes
A) the income you could have earned from a full-time job.
B) the funds you would have saved if you had not paid the tuition.
C) the time you could have spent with friends back home.
D) All of the above are correct.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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27) A student has a job that pays a wage rate of $10 per hour. The night before an economics exam, the student has set aside four hours to study for the exam, estimating that for each hour spent studying, her grade will rise by 5 points. That night, she gets a call from her employer to come to work for a wage rate of $15 per hour for that night. She decides to work for three hours and earn an extra $45.00. The next day she takes the test and gets a grade of 75. The opportunity cost for her work is
A) the $45.00 she earned.
B) the 15 extra points she estimates that she could have earned on the exam if she had studied the extra three hours.
C) the three hours she did not study.
D) the entire four hours she set aside for studying.
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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28) Opportunity cost can best be defined as
A) the interest cost of financing a business loan at the bank.
B) the value of all of the alternatives sacrificed.
C) the value of the next-highest-ranked alternative.
D) There is no real definition for opportunity cost.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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29) If Joey goes surfing for four hours instead of earning $10 per hour for those four hours, his opportunity cost is
A) the good time spent surfing.
B) the cost of gasoline used to get to the beach.
C) the travel time to the beach.
D) $40.
Answer: D
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

30) Opportunity cost exists because of
A) poverty.
B) scarcity.
C) greed.
D) self-interest.
Answer: B
Diff: 1
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31) You like to sleep until 11:00 am during the semester. What is the opportunity cost of attending an 8:00 am class?
A) nothing, since you can go back to bed later
B) sleep
C) obtaining the notes from the 8:00 am class
D) the money you spend on coffee to stay awake
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

32) Opportunity costs arise from
A) choices.
B) taxes.
C) mistakes.
D) regrets.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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33) Even though mass transit systems such as buses are available in most cities in the United States, many residents decide to drive to work in their own vehicles because
A) the opportunity cost of riding a bus is too high for them.
B) there is no opportunity cost of them to drive.
C) they are not aware of the opportunity cost of driving.
D) they do not behave according to the economic way of thinking.
Answer: A
Diff: 2
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34) Which of the following sets of terms describes the problem of scarcity in economics?
A) goods, land, and needs
B) labor, needs, and opportunity costs
C) choices, opportunity costs, and trade-offs
D) production, consumption, and wants
Answer: C
Diff: 3
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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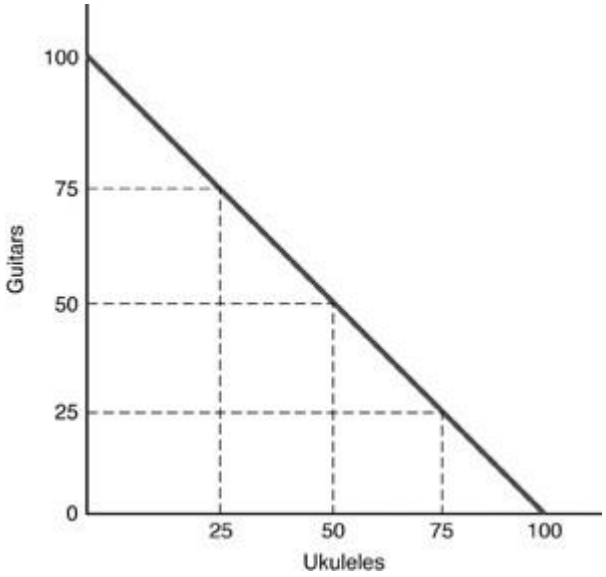

35) In the above figure, the opportunity cost of moving from producing 75 guitars and 25 ukuleles to producing 50 guitars and 50 ukuleles is
A) 25 ukuleles.
B) 50 guitars.
C) 100 guitars.
D) 25 guitars.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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36) In the above figure, the opportunity cost of moving from producing 50 guitars and 50 ukuleles to producing 25 guitars and 75 ukuleles is
A) 25 guitars.
B) 75 ukuleles.
C) 25 ukuleles.
D) 50 guitars.
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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37) In the above figure, as more ukuleles are produced, the opportunity cost in terms of guitars is
A) decreasing.
B) increasing.
C) constant.
D) zero.
Answer: C
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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38) In the above figure, moving from producing 50 guitars and 50 ukuleles to producing 25 guitars and 75 ukuleles, the opportunity cost of **one** ukulele is
A) 25 guitars.
B) 75 ukuleles.
C) 25 ukuleles.
D) 1 guitar.
Answer: D
Diff: 2
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39) In the above figure, the opportunity cost of moving from producing 75 guitars and 25 ukuleles to producing 25 guitars and 75 ukuleles is
A) 25 guitars.
B) 75 ukuleles.
C) 25 ukuleles.
D) 50 guitars.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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40) Opportunity cost is illustrated on the production possibilities curve by a
A) bowed-out shape of the curve.
B) shift to the right of the curve.
C) shift to the left of the curve.
D) movement along the curve.
Answer: D
Diff: 3
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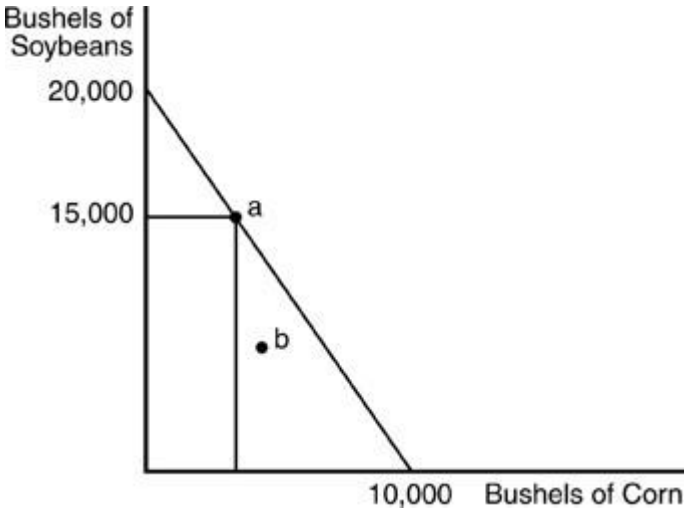

41) A farmer has 100 acres of land on which he can grow soybeans or corn. An acre of land yields 200 bushels of soybeans or 100 bushels of corn. The above figure refers to the farmer's
A) production possibilities curve.
B) substitution options curve.
C) demand curve.
D) opportunity cost curve.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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42) In the above figure, how many bushels of corn are produced at point "a"?
A) 10,000
B) 2,500
C) 1,000
D) 0
Answer: B
Diff: 2
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43) In the above figure, what is the opportunity cost of one bushel of soybeans?
A) 1 bushel of corn
B) 0.5 bushels of corn
C) 2 bushels of corn
D) unable to determine
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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44) In the above figure, what is the opportunity cost of one bushel of corn?
A) 1 bushel of soybeans
B) 0.5 bushel of soybeans
C) 2 bushels of soybeans
D) unable to determine
Answer: C
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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45) If opportunity costs are constant, then
A) the production possibilities curve does not exist.
B) the production possibilities curve bows outward.
C) the production possibilities curve is a negatively sloped straight line.
D) factors of production must not be fully employed.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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46) The production possibilities curve represents the maximum feasible production combinations resulting from
A) the mix of current resources that utilizes all available inputs using current technology.
B) a fixed amount of demand by consumers.
C) the lack of trade-offs in production.
D) the lack of technology used in production.
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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47) The production possibilities curve represents
A) the maximum amount of labor and capital available to society.
B) the combinations of goods and services among which consumers are indifferent.
C) the maximum combination of goods and services that can be produced with fixed resources and technology, given efficient use of the resources.
D) the maximum rate of growth of capital and labor in a country.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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48) If all resources were perfectly adaptable for alternative uses, the production possibilities curve would
A) be bowed out.
B) be bowed in.
C) be a straight line.
D) not exist.
Answer: C
Diff: 2
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49) A straight-line production possibilities curve takes this shape because
A) the opportunity cost of producing a good is constant.
B) the opportunity cost of producing more of a good is decreasing.
C) resources are better suited for producing one output than another.
D) resources are fixed.
Answer: A
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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	A	B	C	D	E
Pizza (Pies)	0	30	60	90	120
Bread (Loaves)	300	240	180	120	60

The above table shows the daily production possibilities for a bakery.
Currently the bakery bakes 60 pizzas and 180 loaves of bread, that is at alternative C.

50) Using the above table, what is the opportunity cost of moving from alternative C to alternative D?
A) 60 loaves of bread
B) 2 loaves of bread
C) 30 loaves of bread
D) 1/2 loaf of bread
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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51) Using the above table, what is the opportunity cost of moving from alternative C to alternative B?
A) 1/2 a pizza pie
B) 60 pizza pies
C) 90 pizza pies
D) 30 pizza pies
Answer: D
Diff: 2
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52) Using the above table, moving from alternative C to alternative B, what is the opportunity cost of **one** loaf of bread?
A) 1 pizza pie
B) 30 pizza pies
C) 2 pizza pies
D) 0.5 pizza pie
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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53) Using the above table but now the bakery bakes 30 pizzas and 240 loaves of bread (alternative B), moving from alternative B to alternative D, what is the opportunity cost of **one** pizza pie?
A) 2.5 loaves of bread
B) 2 loaves of bread
C) 0.5 loaf of bread
D) 150 loaves of bread
Answer: B
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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54) People always face trade-offs because
A) they always have more than one use for their time and money.
B) they buy goods with money.
C) trading takes place in a market economy.
D) they can make themselves better off through trade.
Answer: A
Diff: 2
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55) Which of the following statements indicates the idea of trade-offs?
A) "I chose the road less traveled."
B) "The devil made me do it."
C) "You've got me under your spell."
D) "Always give it the best that you can."
Answer: A
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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56) The production possibilities curve represents
A) the total amount of stocks and bonds that exist in the economy.
B) the trade-off between human capital and physical capital that exists.
C) all possible combinations of total output that can be produced.
D) society's needs.
Answer: C
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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57) The curve that represents all possible combinations of goods that can be produced is called
A) the production possibilities curve.
B) the resource allocation curve.
C) the efficiency curve.
D) the supply curve.
Answer: A
Diff: 1
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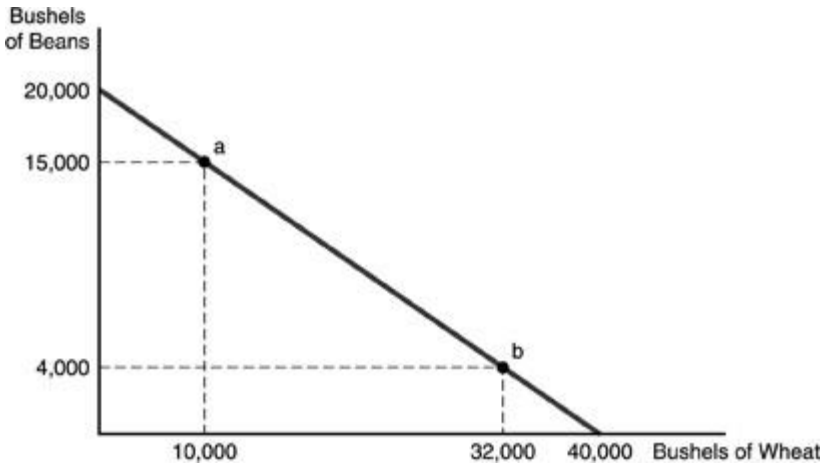

58) Refer to the above figure. A farmer has 50 acres of land on which to grow wheat or beans. An acre of land yields 400 bushels of beans or 800 bushels of wheat. Which of the following is a possible combination of beans and wheat that can be grown, assuming the land is farmed efficiently?
A) 30,000 bushels of each
B) 20,000 bushels of beans and 40,000 bushels of wheat
C) 5,000 bushels of beans and 5,000 bushels of wheat
D) 16,000 bushels of beans and 8,000 bushels of wheat
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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59) Refer to the above figure. A farmer has 50 acres of land on which to grow wheat or beans. An acre of land yields 400 bushels of beans or 800 bushels of wheat. Which of the following is a possible combination of beans and wheat that can be grown, assuming the land is farmed efficiently?
A) 30,000 bushels of each
B) 15,000 bushels of beans and 10,000 bushels of wheat
C) 25,000 bushels of beans and 25,000 bushels of wheat
D) 20,000 bushels of beans and 40,000 bushels of wheat
Answer: B
Diff: 2
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60) In the above figure, the farmer faces a trade-off between beans and wheat equal to
A) one-to-one.
B) three-to-one.
C) one-to-two.
D) one-to-four.
Answer: C
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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61) The above figure is referred to as a(n)
A) trade-off curve.
B) opportunity curve.
C) production possibilities curve.
D) scarcity-shortage curve.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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62) Refer to the above figure. If the farmer has 50 acres of land, the farmer is producing at point a, and an acre of land yields 400 bushels of beans or 800 bushels of wheat, how much land is devoted to the production of wheat?
A) 8.5 acres
B) 10 acres
C) 12.5 acres
D) 15 acres
Answer: C
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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63) The production possibilities curve demonstrate which of the following concepts?
A) scarcity
B) choice
C) trade-offs
D) all of the above
Answer: D
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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64) The production possibilities curve shows all possible combinations of
A) two goods that are desired by society.
B) two goods that can be efficiently produced with a given set of resources.
C) two goods that can be purchased given the prices of the goods.
D) two goods that two countries can trade with each other.
Answer: B
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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65) A straight-line production possibilities curve has
A) an increasing opportunity cost between the two goods.
B) a decreasing opportunity cost between the two goods.
C) a constant opportunity cost between the two goods.
D) no opportunity cost between the two goods.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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66) Which of the following would result in a movement along the production possibilities curve?
A) a fall in the unemployment rate
B) growth in the capital stock
C) population growth
D) a change in the outputs of two goods that a society chooses to produce
Answer: D
Diff: 1
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67) A movement along the production possibilities curve would imply that
A) the labor force has grown.
B) productivity has increased.
C) society has chosen a different set of outputs.
D) productivity has declined because workers are demanding more leisure.
Answer: C
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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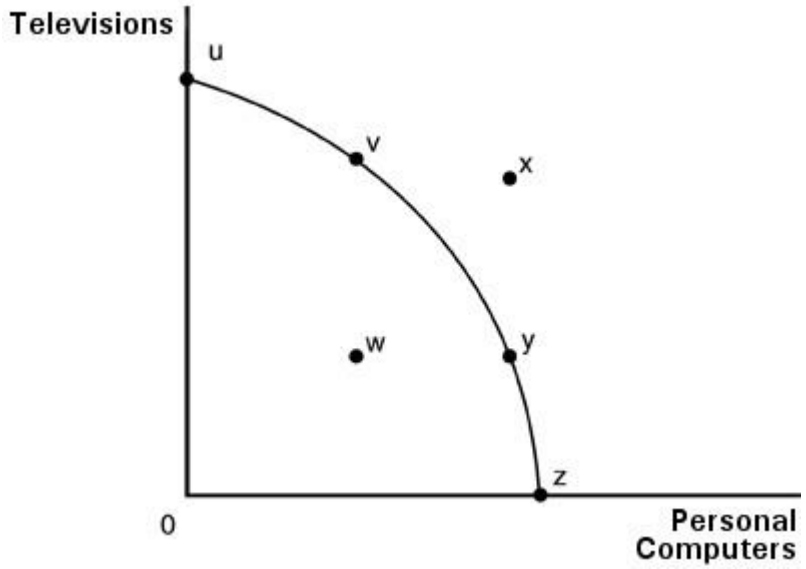

68) Which of the following statements about a movement along the production possibilities curve in the above figure is FALSE?
A) An additional computer can be produced only if fewer televisions are produced.
B) The trade-off between computers and televisions is not constant.
C) Society cannot have more of both goods at the same time.
D) There are no opportunity costs involved in choosing one point on the curve over all other points.
Answer: D
Diff: 1
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69) If the production possibilities curve is a downward sloping straight line, then
A) resources are highly specialized, making it difficult to use them for alternative uses.
B) technological change has increased.
C) production is efficient only when producing at the mid-point.
D) all resources must be perfectly adaptable for alternative uses.
Answer: D
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

70) A graphical representation which shows the trade-off that occurs when more of one output is obtained at the sacrifice of another is called
A) a Laffer Curve.
B) a production possibilities curve.
C) a bell curve.
D) a supply curve.
Answer: B
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

71) Suppose an acre of land yields 100 bushels of corn and that one bushel of corn provides enough seed for one-quarter of an acre of land. The opportunity cost of consuming another 100 bushels of corn today is
A) 100 bushels of corn next year.
B) 25 bushels of corn next year.
C) 10 bushels of corn next year.
D) 2.5 bushels of corn next year.
Answer: B
Diff: 3
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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72) Briefly explain why people make choices.
Answer: People make choices because of scarcity. Scarcity exists because resources are insufficient to satisfy people's every desire.
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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73) Briefly explain the concept of opportunity cost. What is the opportunity cost of attending college?
Answer: The opportunity cost of an action is the value of the next best alternative that a person has to give up when making a choice. The opportunity cost of attending college is what the college student would give up by going to school, such as the income she could have earned if she did not go to school.
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

74) How are scarcity, choice, and opportunity cost related?
Answer: Since resources are scarce, we cannot have everything we want. This implies that we must make choices. We can't have everything we want, but we can have some of the things we want, and must choose. But when we choose one thing, we're prevented from choosing one or more other things. The highest-valued alternative good that we don't choose is the opportunity cost of the good we did select.
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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75) Suppose that nuclear power plants are banned. What are examples of the opportunity costs of this decision?
Answer: Electricity must be produced by some method, so if there are fewer nuclear plants, there will be more plants that use fossil fuels. There will be an increase in coal mining and petroleum production. Coal mining is hazardous and will increase the number of injuries and deaths, and the increased use of oil may generate more oil spills.
Diff: 3
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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76) Suppose you order a slice of pepperoni pizza and a soda at a shopping mall food court. What are examples of the opportunity costs of this decision?
Answer: The opportunity cost of an action is the value of the next best alternative that a person has to give up when making a choice. The opportunity cost of the pizza and soda is what you would give up by consuming these things, such an alternative food choice like a hamburger and a bottle of water could have consumed if you did not consume the pizza and soda.
Diff: 3
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

77) It is not uncommon for people to say something like, "If we can put someone on the moon we should be able to . . . ," followed by the person's favorite project. What response can an economist make to this person?
Answer: Society must make choices, and when it chooses one thing, it must give up something else. Resources were used to get people to the moon, and these resources are not available to do other useful things. The fact that we put someone on the moon means that there are some other things we cannot do.
Diff: 3
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

78) Both an NBA basketball player and a fast-food cook are going to graduate school. Who has a higher opportunity cost? Explain.
Answer: The opportunity cost is the income lost while going to graduate school. An NBA basketball player typically earns much more than does a fast-food cook so that the opportunity cost of going to graduate school is likely to be higher for the NBA basketball player than for the fast-food cook.
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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79) What does the slope of the production possibilities curve represent? Explain.
Answer: It represents the trade-off between two goods from two points on the PPC. Specifically, as we move from one point to another, in order to produce more of one good, we must trade-off or give up the other good. If the trade-off is constant, then the slope is constant along the PPC and the PPC is a straight line. If the trade-off increases, then the slope is increasing along the PPC and the PPC is bowed outward.
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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80) What does a production possibilities curve show?
Answer: A production possibilities curve shows the combinations of maximum outputs that can be
produced with a fixed amount of resources that are fully employed, and fixed technology.
Diff: 1
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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81) How can the concepts of opportunity costs, scarcity and choice be illustrated by the production possibilities curve?
Answer: The concept of opportunity cost is illustrated by movements along the production possibilities curve, meaning that producing more of one good necessarily means less production of another good. Scarcity represents a point on the PPC, but being unable to reach points beyond the PPC due to limited resources. Choice is represented by the actual point chosen on the PPC from all the possible production points on the PPC.
Diff: 2
Topic: 2.2 Opportunity Cost, Trade-Offs, and Choices
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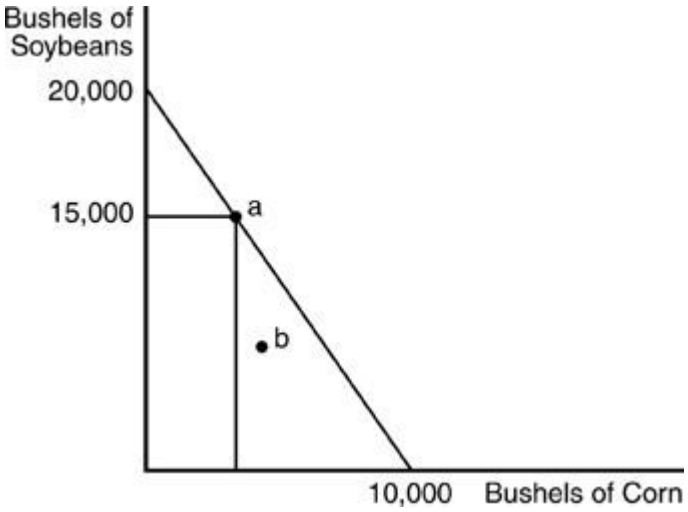
2.3 The Economic Choices a Nation's People Face



1) If the farmer is producing 5000 bushels of soybeans at point "b" in the above figure, we know that
A) the farmer is not using his resources efficiently.
B) the farmer is using his land to produce a crop other than soybeans or corn.
C) the farmer must be using more land than was used in constructing the production possibilities curve.
D) the farmer is using his resources efficiently.
Answer: A
Diff: 2
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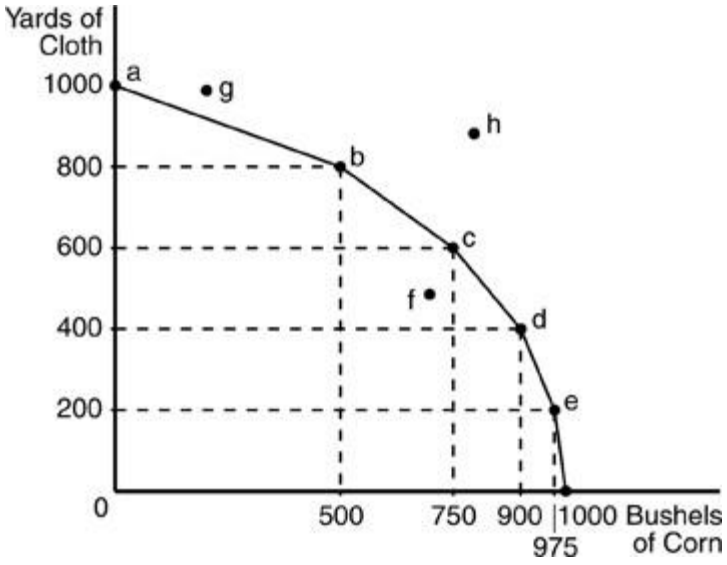

2) In the above figure, which of the following points indicates the efficient use of resources?
A) a
B) f
C) g
D) h
Answer: A
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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3) Which of the following would NOT allow society to move to point "h" in the above figure?
A) an improvement in technology
B) more efficient use of current resources
C) an increase in quantity of labor
D) an increase in quantity of capital
Answer: B
Diff: 2
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4) The shape of the production possibilities curve in the above figure indicates that
A) production of corn is characterized by increasing costs while the production of cloth is characterized by decreasing costs.
B) production of both corn and cloth is characterized by increasing costs.
C) production of both corn and cloth is characterized by constant costs.
D) production of corn is characterized by constant costs and the production of cloth is characterized by increasing costs.
Answer: B
Diff: 2
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5) Between points "b" and "c" in the above figure, the opportunity cost of 250 more bushels of corn is
A) 200 yards of cloth.
B) 250 yards of cloth.
C) 600 yards of cloth.
D) 800 yards of cloth.
Answer: A
Diff: 2
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6) If an economy is operating at a point inside the production possibilities curve, then
A) society's resources are being inefficiently utilized.
B) the curve will move to the left.
C) society's resources are being used to produce too many consumer goods.
D) economic policy must implemented to slow growth of the economy further.
Answer: A
Diff: 1
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7) A country operates inside its production possibilities curve; this may be caused by
A) unemployed resources.
B) total efficiency in industry.
C) a new resource being discovered.
D) a lack of modern products being produced.
Answer: A
Diff: 2
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8) The production possibilities curve bows out because
A) production is efficient.
B) of the law of increasing additional cost.
C) production is inefficient.
D) resources are not being fully utilized.
Answer: B
Diff: 2
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9) When deriving the production possibilities curve, it is assumed that
A) the amount of each good that is to be produced is fixed.
B) the prices of resources are fixed along the curve.
C) most resources can be used to produce only one good.
D) resources are efficiently used.
Answer: D
Diff: 2
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10) All points inside the production possibilities curve indicate
A) a lack of sufficient supply.
B) inefficiency in production.
C) the law of increasing relative cost.
D) the law of decreasing relative cost.
Answer: B
Diff: 2
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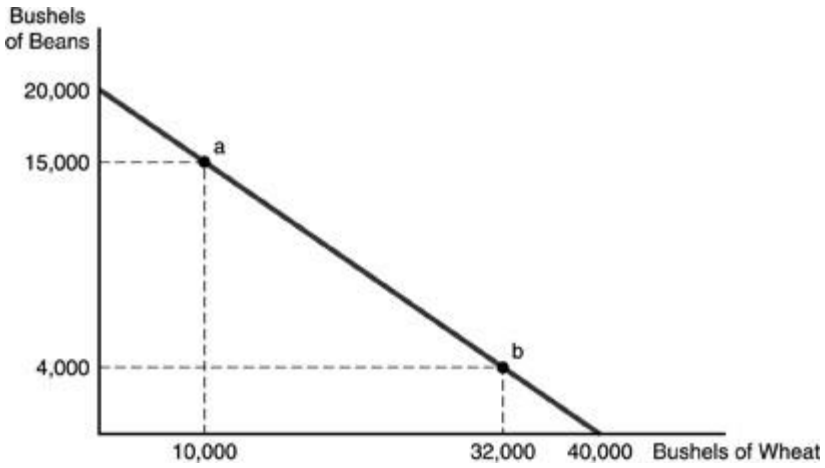

11) Refer to the above figure. If the farmer is growing 8,000 bushels of beans and 8,000 bushels of wheat, then we know that
A) the farmer is not using resources efficiently.
B) the farmer is using more land for wheat than for beans.
C) the farmer should increase the amount of wheat grown and reduce the amount of beans.
D) the farmer cannot be using the amount of land that was used to construct the curve.
Answer: A
Diff: 3
Topic: 2.3 The Economic Choices a Nation's People Face
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12) Refer to the above figure. If the farmer is producing 4,000 bushels of beans and 38,000 bushels of wheat, then we know the farmer
A) is using resources efficiently.
B) is producing too much wheat.
C) is inefficient because point a is the most efficient point on the curve.
D) must be using more resources than were assumed available in constructing the graph.
Answer: D
Diff: 3
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13) How does an economy represented by a straight-line production possibilities curve differ from one represented by a traditional production possibilities curve with a bowed shape?
A) In the economy represented by a straight-line production possibilities curve, there is no opportunity cost.
B) In the economy represented by a straight-line production possibilities curve, neither good is scarce.
C) In the economy represented by a straight-line production possibilities curve, the law of increasing relative cost does not apply.
D) In the economy represented by a straight-line production possibilities curve, changing the amount of resources devoted to the production of each good will not alter the amount of each good actually produced.
Answer: C
Diff: 2
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14) Look at the following production possibilities table for smartphones and tablets. The table shows the maximum combination of smartphones and tablets of corn that can be produced, when all resources are fully employed.

Production Possibilities

Good	A	B	C	D	E
Smartphones	10	20	30	40	50
Tablets	150	140	120	90	50

Based on the above information
A) there is no trade-off between smartphones and tablets.
B) the opportunity cost of producing 30 instead of 20 smartphones is 120 tablets.
C) the opportunity cost of producing 40 instead of 30 smartphones is 30 tablets.
D) the opportunity cost of producing 90 instead of 50 tablets is 50 smartphones.
Answer: C
Diff: 1
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15) A bowed Production Possibilities Curve (PPC) indicates
A) inefficient production.
B) that the trade-off between the 2 goods is not constant.
C) changing technology.
D) only 1 good is always being produced.
Answer: B
Diff: 1
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16) A production point that lies outside the Production Possibilities Curve (PPC)
A) denotes inefficiency.
B) indicates unemployment.
C) is currently not attainable.
D) can never be reached, even in future periods.
Answer: C
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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17) Which of the following will most likely happen when better technology is used in production?
A) an upward movement along the production possibilities curve
B) an outward shift of the production possibilities curve
C) an inward shift of the production possibilities curve
D) a downward movement along the production possibilities curve
Answer: B
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
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18) One of the assumptions underlying the production possibilities curve is that
A) at least one of the factors of production is a free good.
B) the quantity of the resources available for the production of economic goods is fixed over a given time period.
C) there is at least one factor of production that is employed inefficiently.
D) some of the factors of production are not being used.
Answer: B
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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19) Which of the following statements is NOT an assumption underlying the production possibilities curve?
A) Resources are fully and efficiently employed.
B) Technology is fixed.
C) Production occurs over some specified time period.
D) The amount of resources available for production can be changed quickly.
Answer: D
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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20) A production possibilities curve with quantities of clothing and food on the axes shows which of the following?
I. A society cannot have an unlimited amount of each good.
II. For an efficient society, an increase in clothing production will necessitate a decrease in food production.
III. A society will always produce the maximum amount of both clothing and food.
A) I only
B) II only
C) III only
D) Both I and II
Answer: D
Diff: 1
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21) It is correct to state that a society which is on its production possibilities curve is
A) underutilizing is resources.
B) technologically inefficient.
C) consuming too much output.
D) fully utilizing its productive resources.
Answer: D
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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22) Technology is best defined as
A) society's pool of applied knowledge concerning the production of goods and services.
B) the maximum output that can be obtained from a stock of physical capital.
C) output inside the production possibilities curve.
D) the utilization of more resources for the same amount of production.
Answer: A
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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23) A technological improvement can cause the production possibilities curve to shift outward because
A) it increases costs and contributes to lower production rates.
B) maximum feasible outputs of both goods increase.
C) production will fall, but jobs will be saved.
D) it causes increases in unemployment.
Answer: B
Diff: 2
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24) Suppose the current unemployment rate is 15 percent. If it rises to 20 percent
A) the economy will move up along the production possibilities curve.
B) the economy will move closer to the production possibilities curve.
C) the production possibilities curve will shift inward.
D) the economy will operate farther inside the production possibilities curve.
Answer: D
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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25) Which of the following would cause an economy to produce at a point inside its production possibilities curve?
A) the efficient allocation of all factors of production
B) population growth
C) unemployment and an inefficient use of available resources
D) capital accumulation
Answer: C
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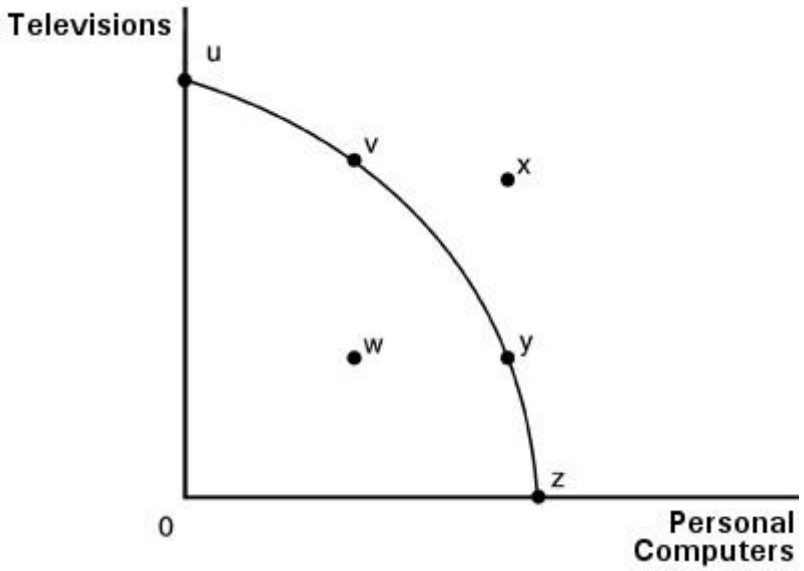

26) In the above figure, the combination of computers and televisions shown by point x
A) is not attainable at the point in time for which the graph is drawn.
B) can be attained only if some of society's resources are unemployed.
C) suggests that the law of increasing relative costs does not hold.
D) results only because society allocates its resources inefficiently.
Answer: A
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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27) In the above figure, the combination of personal computers and televisions shown by point w
A) is an efficient use of society's resources because it is below the production possibilities curve.
B) is more desirable than point x because producing at point w does not put a strain on society's resources.
C) is attainable but involves the inefficient use of some of society's resources.
D) is beyond the capacity of society to produce.
Answer: C
Diff: 1
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28) In the above figure, points u, v, y, and z show
A) an inefficient allocation of society's scarce resources.
B) possible combinations of televisions and personal computers.
C) a constant trade-off between televisions and personal computers.
D) that society prefers more televisions than computers.
Answer: B
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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29) The president of the United States promises that the nation's economy will simultaneously produce more defense goods without any decreases in the production of other goods. Under which of the following conditions could such a promise be valid?
A) if the United States were producing at a point on its production possibilities curve
B) if the United States were producing inside its production possibilities curve
C) if the United States were producing to the right of its production possibilities curve
D) None of the above; the production possibilities curve must shift to the right.
Answer: B
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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30) A point outside a society's production possibilities curve is one that is
A) unattainable given the resources of the society.
B) technologically inefficient.
C) undesirable given the implied underemployment of resources.
D) desirable since it satisfies the desires of the population.
Answer: A
Diff: 1
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31) A point inside a society's production possibilities curve represents
A) an unattainable combination of outputs.
B) an output combination that satisfies the needs of the population.
C) an underutilization of productive resources.
D) a technically superior output combination.
Answer: C
Diff: 1
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32) A point outside a production possibilities curve indicates
A) that resources are not being used efficiently.
B) an output combination that society cannot attain given its current level of resources and technology.
C) that resources are being used very efficiently.
D) that both goods are characterized by increasing costs.
Answer: B
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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33) Efficiency can correctly be defined as
A) producing outside the production possibilities boundary.
B) minimizing opportunity cost.
C) producing the maximum output with given technology and resources.
D) providing for the immediate needs of the greatest proportion of the population.
Answer: C
Diff: 1
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34) When an economy is operating efficiently, which is TRUE?
A) All resources are fully employed.
B) It would be possible to increase the output of 1 good without decreasing the output of the other.
C) Resources are not fully employed or current technology is not being fully utilized.
D) This economy is operating to the right of its production possibilities curve (PPC).
Answer: A
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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35) Typically, the greater the specialization of resources
A) the less production that takes place.
B) the greater the bow of the production possibilities curve.
C) the poorer the country becomes.
D) the greater the unemployment in the country.
Answer: B
Diff: 2
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36) The production possibilities curve bows outward because
A) opportunity costs are decreasing as the production of a good increases.
B) opportunity costs are increasing as the production of a good increases.
C) opportunity costs are fixed as the production of a good increases.
D) resources are of uniform quality.
Answer: B
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	A	B	C	D	E
Televisions	100	90	75	55	0
Computers	0	25	50	75	100

The above table shows the daily production possibilities for a nation.
37) When the economy moves from point A to B in the above table, the opportunity cost of a computer in terms of televisions is
A) 10.
B) 2.5.
C) 2.
D) 0.5.
Answer: B
Diff: 1
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38) According to the above table, the opportunity cost of each additional computer in terms of televisions
A) remains constant.
B) falls as more computers are produced.
C) increases as more computers are produced.
D) is meaningless because the cost of computers cannot be expressed in terms of televisions.
Answer: C
Diff: 1
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39) Given the production possibilities schedule in the above table, a combination of 60 televisions and 40 personal computers
A) is attainable but involves an inefficient use of society's resources.
B) would be attainable only if a new technology of producing televisions or computers were introduced.
C) is not attainable because it is not listed in the schedule.
D) is not attainable because society does not have enough resources to produce this combination.
Answer: A
Diff: 1
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40) Given the production possibilities schedule in the above table, a combination of 75 televisions and 60 personal computers
A) is attainable but involves the unemployment of some of society's resources.
B) clearly illustrates the trade-off between televisions and computers.
C) cannot be produced by society, given its current level of resources and production technology.
D) can be produced only if society is willing to have some of its resources used inefficiently.
Answer: C
Diff: 1
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41) A bowed production possibilities curve is consistent with
A) an unchanged opportunity cost.
B) a technologically inefficient society.
C) the underutilization of productive resources.
D) highly specialized resources.
Answer: D
Diff: 1
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42) A bowed outward production possibilities curve occurs when
A) opportunity costs are constant.
B) resources are not scarce.
C) additional units of output of one good necessitate greater reductions in the other good.
D) there are shortages in the goods being produced.
Answer: C
Diff: 1
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43) The law of increasing additional costs is due to
A) taxes.
B) scarcity.
C) the fact that it is more difficult to use resources efficiently the more society produces.
D) the fact that resources are not perfectly adaptable for alternative uses.
Answer: D
Diff: 2
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44) The law of increasing opportunity cost implies that
A) producing additional units of one good results in proportionately smaller reductions in output of the other good.
B) producing additional units of one good results in increasing amounts of lost output of the other good.
C) the production possibilities curve will be a straight line.
D) the society will be producing on its production possibilities curve.
Answer: B
Diff: 1
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45) Which of the following is NOT an assumption used in deriving a production possibilities curve?
A) The labor force is growing at a constant rate.
B) Resources are fully employed.
C) Technology is constant.
D) The quantity of resources is constant.
Answer: A
Diff: 2
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46) When determining the production possibilities curve
A) the trade-off between the goods in the economy remains constant.
B) the amount of productive resources remains constant.
C) the prices of the goods are used.
D) the prices of resources are used.
Answer: B
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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47) Which of the following is an assumption used in deriving a production possibilities curve?
A) Poverty always exists in society.
B) The wages in an industry increase constantly.
C) Prices will continue to increase.
D) The amount of resources is fixed.
Answer: D
Diff: 2
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48) All of society's applied knowledge on how to produce goods and services is
A) held by university professors.
B) called technology.
C) opportunity cost.
D) efficiency.
Answer: B
Diff: 1
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49) Economists define technology as
A) machines such as computers.
B) entrepreneurship.
C) absolute advantage.
D) society's knowledge concerning the production of goods.
Answer: D
Diff: 1
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50) A point outside a production possibilities curve indicates
A) that resources are not being used efficiently.
B) that resources are being used very efficiently.
C) opportunity costs are constant.
D) an output combination that is unobtainable with the current resource and technology levels.
Answer: D
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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51) A point inside a production possibilities curve indicates
A) resources are not being used efficiently.
B) resources are being used very efficiently.
C) opportunity costs are constant.
D) an output combination that is unobtainable with the current resource and technology levels
Answer: A
Diff: 2
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52) A point on a production possibilities curve indicates
A) resources are not being used efficiently.
B) resources are being used efficiently.
C) opportunity costs are constant.
D) an output combination that can be attained only if society gets more resources or there is technological change.
Answer: B
Diff: 2
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53) An efficient point of production is
A) a point on the production possibilities curve.
B) a point inside the production possibilities curve.
C) the point where scarcity no longer exists.
D) the point where we are currently producing.
Answer: A
Diff: 2
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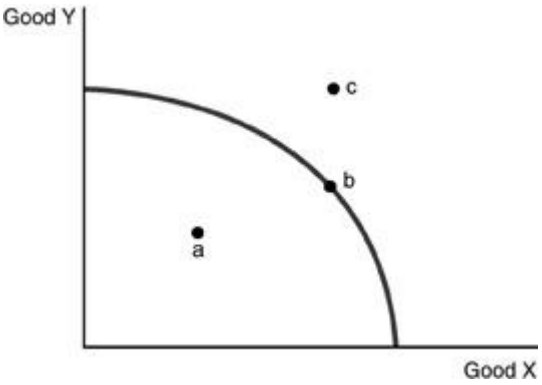

54) Refer to the above figure. Which of the following statements is TRUE?
A) Point a is efficient, Point b is efficient, point c is inefficient.
B) Point a is unobtainable, point b is efficient and point c is inefficient.
C) Point a is inefficient, point b is efficient and point c is unobtainable.
D) All of the points are efficient.
Answer: C
Diff: 1
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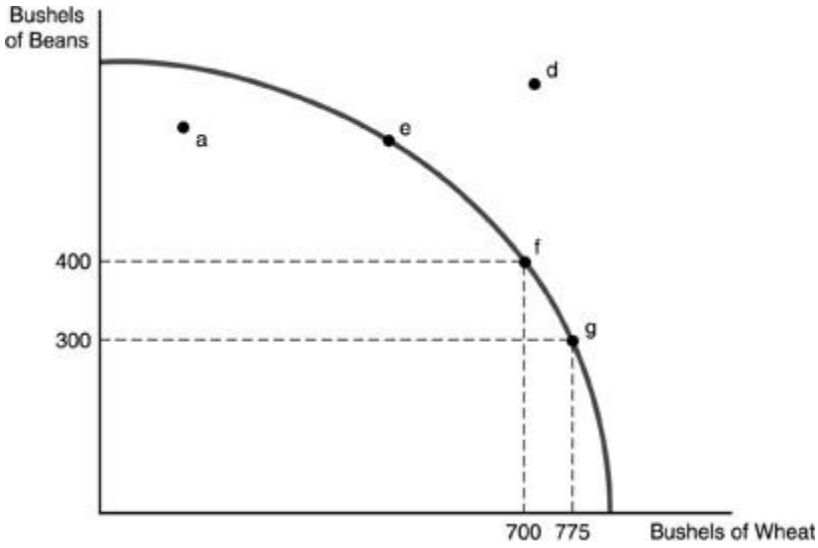

55) Refer to the above figure. Which of the following points indicates an efficient use of resources?
A) a
B) d
C) e
D) More information is needed to answer the question.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
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56) Refer to the above figure. Which of the following points indicates an inefficient use of resources?
A) a
B) d
C) e
D) More information is needed to answer the question.
Answer: A
Diff: 2
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57) Refer to the above figure. Which of the following points indicates an unobtainable point of production?
A) a
B) d
C) e
D) More information is needed to answer the question.
Answer: B
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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58) Refer to the above figure. The shape of the production possibility curve indicates that production of
A) wheat is characterized by increasing costs while the production of beans is characterized by decreasing costs.
B) wheat is characterized by decreasing costs while the production of beans is characterized by increasing costs.
C) both goods are characterized by increasing costs.
D) both goods are characterized by decreasing costs.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
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59) Refer to the above figure. Between points f and g, the opportunity cost of producing 75 more bushels of wheat is
A) 1 bushel of beans.
B) 4 bushels of beans.
C) 25 bushels of beans.
D) 100 bushels of beans.
Answer: D
Diff: 2
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60) Production is efficient when
A) it generates a point beyond the production possibility curve.
B) the maximum output possible is being produced given current levels of resources and technology.
C) technological change occurs.
D) the maximum amounts of the most important good are produced.
Answer: B
Diff: 1
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61) Whenever the economy is producing the maximum amount of goods given the level of technology and the amount of resources
A) the number of resources used should be decreased since society must protect its scarce resources.
B) the concept of opportunity costs does not exist.
C) more goods will be available than customers want to buy.
D) the economy is producing efficiently.
Answer: D
Diff: 1
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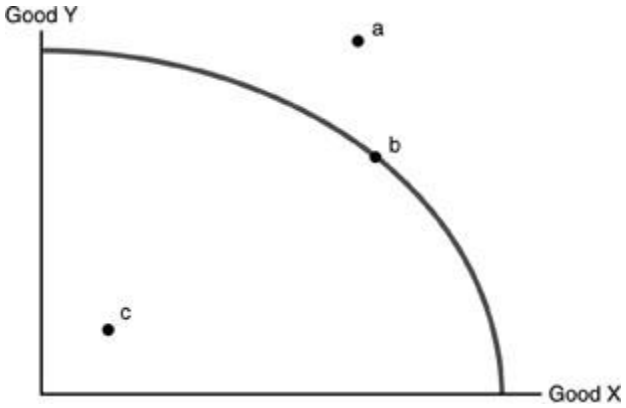

62) Refer to the above figure. Assume that only two goods can be produced in the economy. Which of the following statements is TRUE?
A) Points a, b, and c are all obtainable points of production.
B) Points a and b are obtainable points of production.
C) Points b and c are obtainable points of production.
D) Only point b is an obtainable and efficient point of production.
Answer: C
Diff: 2
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Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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63) Refer to the above figure. Given our current level of technology and resources, the unobtainable point(s) of production would be
A) points a and c.
B) point a.
C) point b.
D) point c.
Answer: B
Diff: 2
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64) Refer to the above figure. We are currently producing at point c. Which of the following statements is TRUE?
A) Resources are not being efficiently utilized.
B) Resources are being efficiently utilized.
C) The only way to produce more of Goods X or Y is to have an increase in the amount of resources.
D) The Law of Increasing Additional Cost does not hold.
Answer: A
Diff: 2
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65) All mutually beneficial trades have taken place. This implies that
A) the production possibilities curve is bowed out.
B) society is inside the production possibilities curve.
C) economic efficiency prevails in the society.
D) society is on the constant cost portion of its production possibilities curve.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
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66) Technology is
A) society's pool of knowledge of how to produce goods and services.
B) a resource like land or physical capital.
C) computers and lasers.
D) not obtainable by engaging in activities that increase human capital.
Answer: A
Diff: 1
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67) The law of increasing additional cost is due to
A) scarcity.
B) inefficient use of technology.
C) the fact that resources are not perfectly adaptable for alternative uses.
D) the fact that there are always alternatives and it is costly to figure out which alternative is best.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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68) The reason the production possibilities curve is bowed outward (concave) is
A) the law of increasing additional cost.
B) that technology is constantly changing.
C) that the number of resources is increasing.
D) that the economy has more capital goods than entrepreneurial effort.
Answer: A
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
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69) Some resources are better suited to produce certain goods than other resources. This fact leads to
A) a linear production possibilities curve.
B) inefficiency in the economy.
C) the law of increasing additional cost.
D) increases in technology.
Answer: C
Diff: 1
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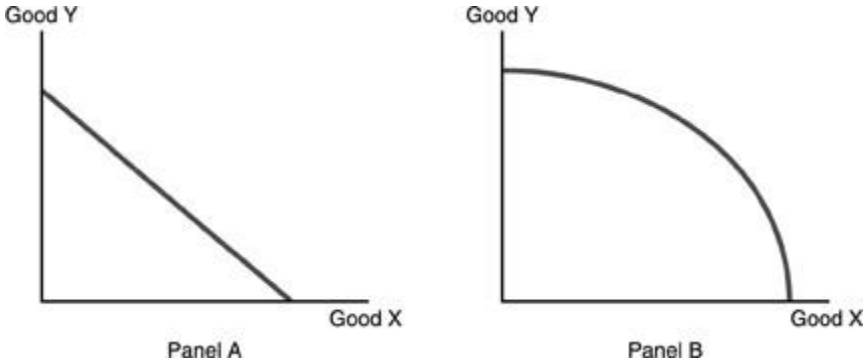

70) Refer to the above figure. The Law of Increasing Additional Costs applies in
A) Panel A only.
B) Panel B only.
C) Panels A and B.
D) neither Panel A nor B.
Answer: B
Diff: 1
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71) Refer to the above figure. Which of the following statements is TRUE?
A) Panel A does not represent an economy that is producing efficiently while Panel B does.
B) Panel A represents an economy that has a lower level of technology than Panel B.
C) Opportunity costs do not apply to Panel A but apply to Panel B.
D) In Panel A, equal amounts of Y must be given up to obtain equal increments of X while in Panel B increasingly greater amounts of Y must be given up to obtain equal increments of X.
Answer: D
Diff: 3
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Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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72) The bowed shape of the traditional production possibilities curve reflects the
A) negative side effects of economic growth.
B) fact that not all resources are equally well-suited to producing all goods.
C) costs of unemployment.
D) problems of inequality.
Answer: B
Diff: 3
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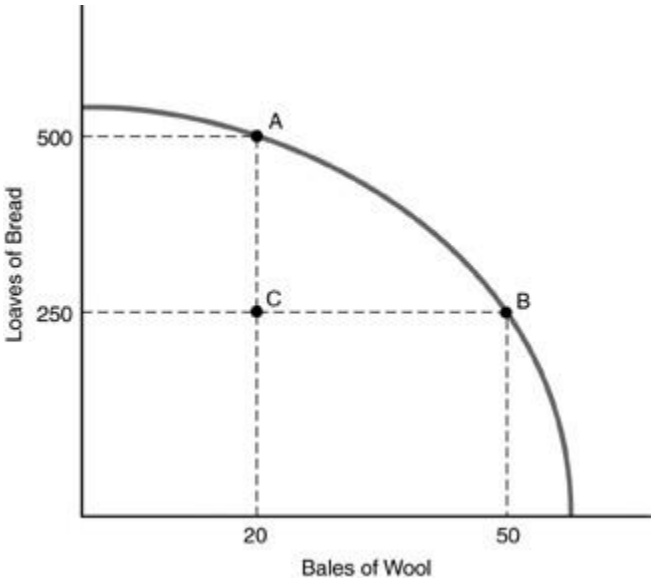

73) Refer to the above figure. Which one of the following statements is TRUE with regard to the economy depicted in the graph?
A) Point C cannot be produced.
B) The best production point is 500 loaves of bread and 50 bales of wool.
C) The total amount of resources it takes to produce 20 bales of wool and 500 loaves of bread is more than the amount of resources needed to produce 50 bales of wool and 250 loaves of bread.
D) The total amount of resources it takes to produce 20 bales of wool and 500 loaves of bread is the same as the amount of resources needed to produce 50 bales of wool and 250 loaves of bread.
Answer: D
Diff: 3
Topic: 2.3 The Economic Choices a Nation's People Face
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74) Refer to the above figure. Which one of the following statements is TRUE with regard to the economy depicted in the graph?
A) Starting from point A, this economy does not incur any opportunity cost in producing more bread.
B) Starting from point A, this economy does not incur any opportunity cost in producing more wool.
C) In moving from point A to point B, the economy produces 30 additional bales of wool at an opportunity cost of 250 loaves of bread.
D) In moving from point A to point B, the economy is experiencing economic growth.
Answer: C
Diff: 3
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75) Refer to the above figure. How do you describe what is happening as the economy moves from point C to point B?
A) Previously unemployed resources are now being devoted to the production of wool.
B) Previously unemployed resources are now being devoted to the production of bread.
C) The economy has increased its wool production by 30 bales at an opportunity cost of 250 loaves of bread.
D) The economy has acquired new resources for making bread.
Answer: A
Diff: 3
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76) Refer to the above figure. How do you describe what is happening as the economy moves from point A to point B?
A) The economy has acquired new resources that are well suited for producing wool.
B) Land that was once used to grow wheat is now being used to graze sheep.
C) The economy is producing more bread by choosing to produce less wool.
D) The technology for growing wheat has improved.
Answer: B
Diff: 3
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Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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77) Refer to the above figure. How do you describe what is happening as the economy moves from point A to point C?
A) The economy has acquired new resources that are well suited for producing bread.
B) Land that was once used to graze sheep is now being used to grow wheat.
C) Resources are becoming unemployed.
D) The technology for growing wheat has improved.
Answer: C
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78) During periods of unemployment
A) the economy operates at a point inside the production possibilities curve.
B) the economy operates at a point outside the production possibilities curve.
C) the production possibilities curve shifts inward.
D) the production possibilities curve shifts outward.
Answer: A
Diff: 2
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Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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79) As an economy moves from point to point along its production possibilities curve, which one of the following variables changes?
A) the total amount of resources employed
B) the level of technology
C) the time frame under consideration
D) the amount of each good or service produced
Answer: D
Diff: 2
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80) Technology
A) is constantly changing at every point along a production possibilities curve.
B) is the recipe for combining land, labor, physical capital, and entrepreneurship to produce a good.
C) does not have an effect on the amount of a good a society can produce with its given resources.
D) only changes if resources change.
Answer: B
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81) Which of the following is assumed when constructing a production possibilities curve?
A) a fixed amount of resources
B) the efficient use of resources
C) resources of a given quality
D) All of the above are correct.
Answer: D
Diff: 1
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82) Which of the following is held constant when constructing a production possibilities curve?
A) the price level
B) the income level
C) combination of goods produced
D) the amount of total resources used
Answer: D
Diff: 2
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83) In constructing a production possibilities curve, all of the following are assumed EXCEPT
A) resources are fully employed.
B) the quantity and quality of resources being used is fixed.
C) the state of technology is improving.
D) the time period involved is fixed.
Answer: C
Diff: 1
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84) Inefficient use of resources is shown on the production possibilities curve
A) by an inward shifting of the curve.
B) by a point inside the curve.
C) by a point near the top of the curve.
D) by a point outside the curve.
Answer: B
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85) A bowed-outward production possibilities curve demonstrates the concept of
A) constant opportunity costs as production shifts from the production of one good to the production of the other good.
B) decreasing opportunity costs as production shifts from the production of one good to the production of the other good.
C) increasing opportunity costs as production shifts from the production of one good to the production of the other good.
D) increasing opportunity costs at first but the opportunity costs steadily decrease as you move down along the curve.
Answer: C
Diff: 2
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86) The production possibilities curve for two products is bowed out because
A) as the production of a good increases, opportunity cost increases.
B) as the production of a good increases, opportunity cost is unchanged.
C) the qualities of the resources are not identical.
D) there are unemployed resources.
Answer: A
Diff: 3
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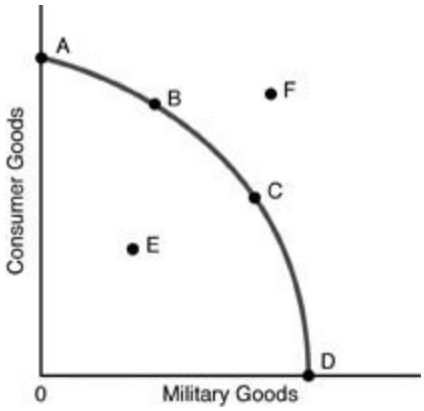

87) Refer to the above figure. Production at Point F
A) is not attainable given the underlying assumptions of the production possibilities curve (PPC).
B) would not be desirable.
C) can only be attained by giving up Point E.
D) can be attained only if a society desired more goods and services.
Answer: A
Diff: 2
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88) Refer to the above figure. Production at Point E
A) would indicate that this economy is producing beyond its capabilities.
B) would indicate production at a level below that which is attainable.
C) is not attainable with given resources and technology.
D) would demonstrate a total lack of technical expertise.
Answer: B
Diff: 2
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89) When a society takes increasing amounts of resources and applies them to the production of a specific good, resulting in increasing opportunity costs for each additional unit produced, which of the following applies?
A) the law of demand
B) the law of supply
C) the law of scarcity
D) the law of increasing additional costs
Answer: D
Diff: 2
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90) Efficiency is achieved
A) when output is being produced at a point inside a production possibilities curve.
B) when producers are getting the maximum possible output from the available resources.
C) when consumers are able to buy everything that they want.
D) when prices of all goods and services go to zero.
Answer: B
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

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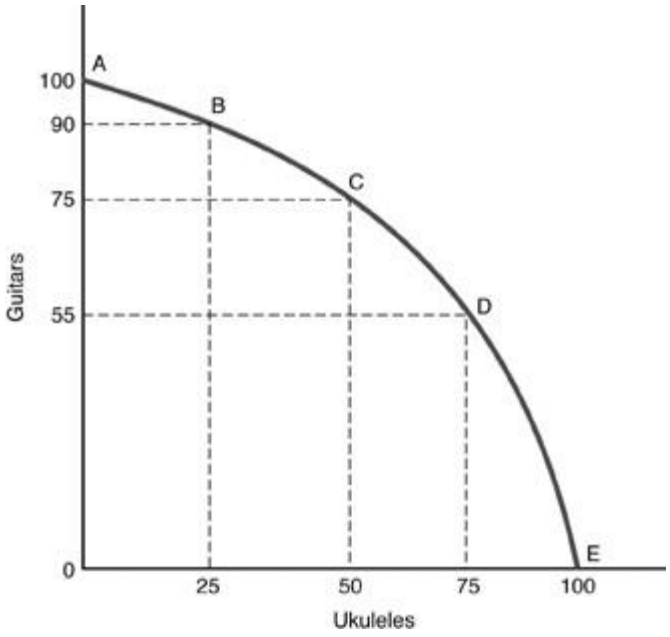

91) In the above figure, the opportunity cost of moving from point D to point C is
A) 20 guitars.
B) 50 ukuleles.
C) 55 guitars.
D) 25 ukuleles.
Answer: D
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

92) In the above figure, the opportunity cost of moving from point D to point E is
A) 75 guitars.
B) 55 guitars.
C) 100 ukuleles.
D) 100 guitars.
Answer: B
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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93) In the above figure, the opportunity cost of moving from point A to point C is
A) 50 guitars.
B) 0 guitars.
C) 25 guitars.
D) 50 ukuleles.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

94) In the above figure, the production of 75 ukuleles and 75 guitars is
A) efficient production.
B) inefficient production.
C) impossible production.
D) full employment production.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

95) In the above figure, the production of 25 guitars and 25 ukuleles is
A) efficient production.
B) inefficient production.
C) impossible production.
D) not possible since production always occurs along the PPC.
Answer: B
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

96) In the above figure, as more ukuleles are produced, the opportunity cost in terms of guitars is
A) decreasing.
B) increasing.
C) constant.
D) zero.
Answer: B
Diff: 3
Topic: 2.3 The Economic Choices a Nation's People Face
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97) An outward bowed production possibilities curve illustrates
A) inefficient production.
B) the law of increasing additional cost.
C) a lack of scarcity.
D) zero opportunity cost of moving from inefficient production to currently unobtainable production.
Answer: B
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

98) All of the following are assumptions of the production possibilities curve EXCEPT
A) resources are fully employed.
B) there is a fixed time period.
C) there is a fixed level of technology.
D) there is a fixed demand for the products.
Answer: D
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

99) Why is efficiency desirable?
A) It results in an equal distribution of income.
B) It results in zero unemployment.
C) It makes best use of the finite resources we have.
D) It is the most politically popular solution.
Answer: C
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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100) The law of increasing additional cost exists because
A) resources are not perfectly adaptable to both production processes.
B) the demand for the product increases.
C) the cost of resources of the products increase.
D) the cost of resources of the products decrease.
Answer: A
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

101) Efficiency is defined as
A) the maximum consumption of goods.
B) the production of goods and services.
C) production of output at minimum cost.
D) arriving at one's destination quickly.
Answer: C
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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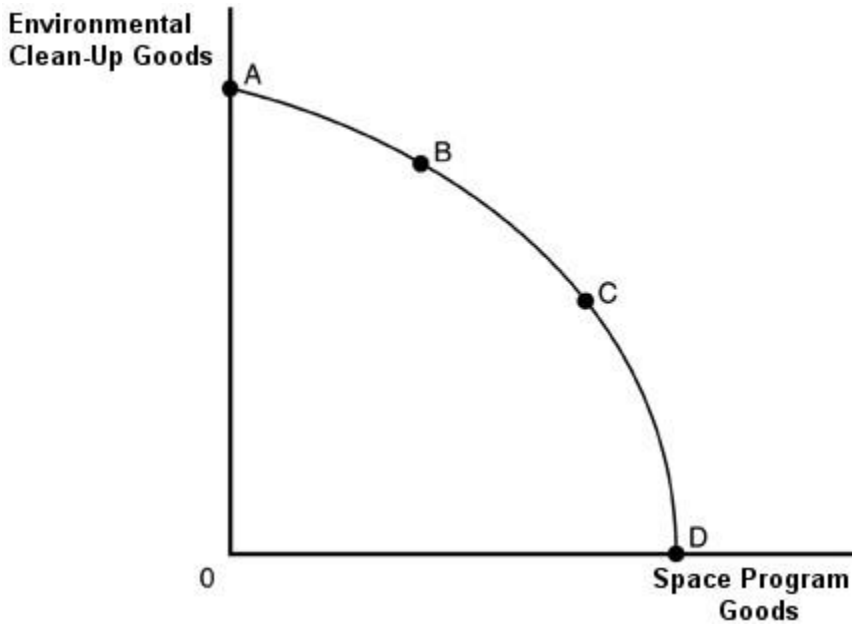
102) For a country that produces two goods: Environmental clean-up goods and space program goods. What economic information is contained in its production possibility curve?
Answer:



The above figure illustrates the production possibility curve, which divides the area into two parts. The area beyond the PPC is unattainable, illustrating the concept of scarcity. The curve slopes down, indicating the fact that the only way to apply more resources to producing space program goods is to devote fewer resources to producing environmental clean-up goods. It is bowed out, illustrating increasing opportunity cost. Efficiency is illustrated when society is on the PPC rather than inside it.
Diff: 3
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

103) What causes the production possibility curve to be bowed out?
Answer: A bowed production possibility curve indicates increasing opportunity costs. To produce more of one good, resources must be taken away from producing another good. These resources often are specialized. This implies that the resources cannot move easily from producing one good to another. The more of a good that is produced, the more it must use resources that are better suited for the other good, and the extra costs of producing another unit of the good increase.
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
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104) Explain: "The law of increasing additional cost is an inevitable phenomenon in economics."
Answer: Economic resources are seldom suitable for all types of production. Hence, when society demands more of a particular good or service, an increase in the demand for the resources most adaptable to its production will rise; as more of the good is produced, eventually less efficient inputs will be pressed into production. It is the utilization of these less efficient inputs that gives rise to higher societal cost of production.
Diff: 2
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

105) Explain the concept of the law of increasing additional cost.
Answer: The law of increasing relative cost is the fact that the opportunity cost of additional units of a good increases as society tries to produce more of that good. This accounts for the bowed-out shape of the production possibilities curve.
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

106) Explain what is meant by economic efficiency. Does efficiency imply that the fastest production processes or the most powerful equipment must always be used? Explain.
Answer: Efficiency involves a situation in which a given output is produced at lowest cost. Consequently, the fastest-operating or most powerful equipment may not always be efficient.
Diff: 3
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

107) Why is a point below the production possibilities curve less efficient than a point on that curve?
Answer: A point on the production possibilities curve is efficient because it means the economy is producing the maximum outputs of goods and services with given resources and technology. By contrast, a point below the production possibility curve means that the use of the given resources is not generating the maximum possible outputs of goods and services. Thus, this point represents an inefficient combination of outputs produced with available resources and technology.
Diff: 1
Topic: 2.3 The Economic Choices a Nation's People Face
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future

1) In order for an economy to increase its production possibilities, the economy must
A) be very efficient.
B) increase inputs.
C) increase its wants.
D) reduce output.
Answer: B
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

2) The discovery of new natural resources will cause
A) the economy to move closer to the production possibilities curve.
B) the production possibilities curve to shift up and to the right.
C) an upward movement along the curve.
D) the curve to shift back and to the left.
Answer: B
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

3) The production possibilities curve can shift inward when
A) production increases.
B) employment increases.
C) the stock of productive capital rises.
D) a country experiences a natural disaster.
Answer: D
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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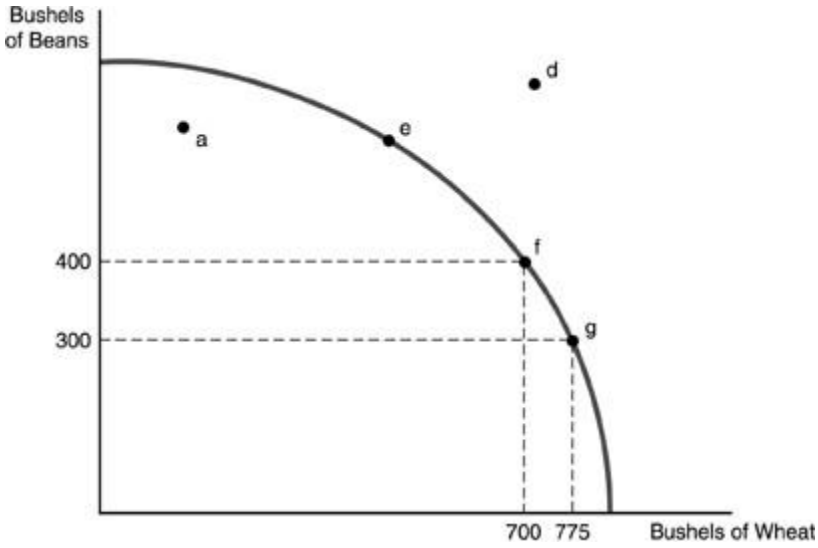

4) Refer to the above figure. Which of the following would allow society to move to point d?
A) producing efficiently
B) concentrating production in wheat
C) increasing the quantity of labor
D) using the best land to produce wheat and the lower quality land to produce beans
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

5) Economic growth can be pictured in a production possibilities curve diagram by
A) making the production possibilities curve more bowed out.
B) making the production possibilities curve less bowed out.
C) shifting the production possibilities curve out.
D) shifting the production possibilities curve in.
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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6) All of the following would cause the production possibilities curve to shift outward EXCEPT
A) an improvement in technology.
B) an increase in the amount of labor available.
C) a decline in the unemployment rate.
D) an increase in the level of capital stock.
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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7) How is economic growth shown by the production possibilities curve?
A) by shifting the curve to the right
B) by moving the curve to the left
C) by moving up the existing curve
D) by changing the shape of the curve from a straight line to one that is bowed
Answer: A
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

8) The production possibilities curve shifts outward when
A) the law of increasing additional cost takes hold.
B) the economy is producing efficiently.
C) we produce more consumption goods over productive investment in equipment.
D) there is an increase in resources or technology.
Answer: D
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
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9) Economic growth can be pictured in a production possibilities curve diagram by
A) shifting the production possibilities curve in.
B) shifting the production possibilities curve out.
C) making the production possibilities curve straighter.
D) moving from a point inside the production possibilities curve to a point on the curve.
Answer: B
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

10) The only way that a society can produce outside the production possibilities curve is
A) through economic growth.
B) by producing efficiently.
C) by obeying the Law of Increasing Additional Cost.
D) to use the concept of opportunity cost.
Answer: A
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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11) If a country is currently producing inside its production possibilities curve
A) it can increase the production of both goods by putting unemployed resources to work.
B) it can increase the production of one of the goods only if it reduces the production of the other good.
C) it is experiencing efficient production of one good but not the other.
D) None of the above are correct.
Answer: A
Diff: 3
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
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12) If an economy produces only steel and wheat, a new fertilizer will
A) cause the production of wheat to increase at every point on a production possibilities curve but not affect the production of steel, that is the curve moves outward on the wheat axis only.
B) cause the production of both wheat and steel to increase at every point along the production possibilities curve, that is the curve moves outward on both the wheat axis and the steel axis.
C) not affect the production of either wheat or steel.
D) cause the production of steel to increase at every point along the production possibilities curve but not affect the production of wheat, that is the curve moves outward on the steel axis only.
Answer: A
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

13) In order for a production possibilities curve to shift to the right, which of the following must occur?
A) government involvement
B) increasing consumer wants
C) economic growth
D) reductions in the supply of resources
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

14) An improvement in technology will shift the production possibilities curve
A) to the left.
B) along the curve.
C) inward.
D) to the right.
Answer: D
Diff: 2
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15) The production possibilities curve (PPC) illustrates economic growth by a(n)
A) bowed-out shape of the PPC.
B) outward shift of the PPC.
C) inward shift of the PPC.
D) movement along the PPC.
Answer: B
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

16) Economic growth appears on a production possibilities curve as
A) the curve shifting out away from the origin.
B) the curve shifting in toward the origin.
C) a change in the slope of the curve.
D) the points outside the production possibilities curve.
Answer: A
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

17) A production possibilities curve will shift inward
A) when the unemployment rate increases.
B) when production is inefficient.
C) when resources are expanding.
D) when a war destroys the capital goods of a country.
Answer: D
Diff: 3
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18) Generally, if a nation produces more consumer goods than capital goods
A) more of all goods may be produced in the future.
B) less of all goods may be produced in the future.
C) about the same amount of capital goods may be produced in the future as are being produced today.
D) society will have to forego future consumption of capital goods.
Answer: B
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

19) The use of goods and services for personal satisfaction is known as
A) the law of increasing relative cost.
B) specialization.
C) comparative advantage.
D) consumption.
Answer: D
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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20) A country that must reduce current consumption to increase future consumption possibilities
A) must be allocating resources inefficiently.
B) must be producing along the production possibilities curve.
C) must be producing outside the production possibilities curve.
D) must not have private ownership of property.
Answer: B
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
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21) Whenever a society forgoes current consumption to invest in capital goods,
A) it will have less to consume next year.
B) it will be easier for that society to consume less in the future because people will become accustomed to less.
C) that society can consume more in the future.
D) it will be forced to produce fewer capital goods in the future.
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

22) At a point on a production possibilities curve, opportunity cost of more capital goods today is
A) fewer capital goods in the future.
B) fewer consumer goods in the future.
C) fewer consumer goods today.
D) more unemployed resources in the future.
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

23) When an economy sacrifices production of consumption goods to produce more capital goods, we would expect that the production possibilities curve will
A) shift outward.
B) shift inward.
C) become a straight line.
D) shift about in random fashion.
Answer: A
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
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24) Capital goods
A) are a special type of consumption goods.
B) are consumed because they enhance the enjoyment consumers obtain from other goods and services.
C) are goods used to make consumer goods and services.
D) lead to inward shifts of a production possibilities curve.
Answer: C
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

25) If a country increased the production of its capital goods, then
A) the more consumption of goods we can have today.
B) the less consumption we can have today, but we will have more in the future.
C) the more unemployed resources there will be in the future.
D) the more unemployed resources there are today.
Answer: B
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

26) The opportunity cost of more consumption of goods today is
A) lower consumption of goods in the future.
B) fewer capital goods in the future.
C) more capital goods today.
D) more unemployment both today and in the future.
Answer: A
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
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27) Whenever productive resources are used to make capital goods
A) society is not producing efficiently.
B) society is giving up current consumption.
C) the production possibilities curve becomes flatter.
D) absolute advantage occurs.
Answer: B
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

28) The more society consumes today
A) the more it consumes next year.
B) the harder it will be to consume less in the future because people will find it hard to adjust to less.
C) the less society can consume in the future.
D) the easier it will be to consume less in the future.
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

29) The trade-off between current consumption and the production of capital goods is also a trade-off between
A) the future cost for capital goods and future cost of consumption goods.
B) having fewer needs and more wants in the future.
C) satisfying the needs of the poor and the wants of the wealthy.
D) current consumption and future consumption.
Answer: D
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
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30) To have more consumer goods in the future, we must
A) produce more capital goods today.
B) lower current income.
C) get government involved in the production process.
D) stop producing all goods today.
Answer: A
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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31) The trade-off between the present and future consumption is measured by
A) the money cost of both the present and future consumption.
B) the foregone present consumption.
C) the difference between the money price of future goods and the money cost of producing them.
D) the difference between the money price of present goods and the money cost of producing them.
Answer: B
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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32) Using productive resources to make capital goods requires that we
A) get everyone to agree on the best use of those resources.
B) get government approval of our plan to make capital goods.
C) forgo some level of current consumption.
D) prove that the existence of the capital goods will not cause any environmental damage.
Answer: C
Diff: 1
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33) Trading off capital goods for increasing amounts of consumer goods today will most likely result in
A) increased long-term growth.
B) decreased long-term growth.
C) decreased prices in consumer goods.
D) increases in the quantity of consumer goods.
Answer: B
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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34) A production possibilities curve will shift outward or to the right for all of the following reasons EXCEPT
A) an increase in the unemployment rate.
B) an increase in the quality of the labor force.
C) an improvement in production technology.
D) a discovery of a new source of renewable energy.
Answer: A
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

35) Economic growth is shown by
A) a point near the top of the production possibilities curve.
B) a point outside the production possibilities curve.
C) an inward shift of the production possibilities curve.
D) an outward shift of the production possibilities curve.
Answer: D
Diff: 1
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36) If the production of capital goods is shown along the horizontal axis of a production possibilities curve, and the production of consumer goods is shown along the vertical axis of a production possibilities curve, and the economy desires to have a rapid rate of economic growth, then the economy should produce at a point
A) near the middle of the curve dividing resources equally between the production of consumer and capital goods.
B) at a point near the vertical axis concentrating on the production of consumer goods.
C) at a point near the horizontal axis concentrating on the production of capital goods.
D) at a point inside the curve allowing the economy to adjust rapidly to changes in economic activity.
Answer: C
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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37) If a country wants to promote future growth, it should
A) produce more capital goods today.
B) produce more consumer goods today.
C) produce only economic goods.
D) produce only needed goods.
Answer: A
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

38) "Because resources are scarce, the production of more capital goods means that fewer resources are available to produce consumption goods, so there is less current consumption." Do you agree or disagree? Explain.
Answer: Agree. Capital goods are goods that are used to produce other goods rather than for the sake of current consumption. The resources used to make capital goods are not available to produce current consumption goods, so there is less current consumption.
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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39) Explain briefly what will likely happen to society if it chooses to produce more capital goods and fewer consumption goods.
Answer: Because capital goods enable society to produce larger quantities of consumption goods, giving up some consumption goods in exchange for more capital goods today will result in larger production of consumption goods in the future.
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

40) Explain what will happen to the production possibilities curve over time if society gives up some consumption goods in favor of more capital goods.
Answer: If society chooses to give up some consumption goods in favor of more capital goods, then the production possibilities curve will shift outward over time. This happens when the capital goods can be used to produce more goods in the future.
Diff: 2
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

41) Why does the trade-off between consumption goods and capital goods represent a trade-off between the present and the future?
Answer: This is because consumption goods are for current satisfaction but capital goods are goods that can be used for producing consumption goods in the future. Society that reduces the production of consumption goods in favor of capital goods will result in more consumption goods in the future.
Diff: 1
Topic: 2.4 Economic Growth, Production Possibilities, and the Trade-Off Between Present and Future
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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2.5 Specialization, Comparative Advantage, and Trade

1) Comparative advantage is
A) when a country can produce a good at a lower opportunity cost compared to other countries.
B) when a country can produce all goods more quickly than any other country.
C) when the production possibilities curve shifts outward to the right.
D) only for individuals and not countries.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

2) If a person can make $70,000 as an accountant, $60,000 as a chef, $20,000 as a mechanic, and nothing as an opera singer, he or she has a comparative advantage in
A) accounting.
B) being a chef.
C) being a mechanic.
D) opera singing.
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

3) Carlos is an executive of a major corporation. Boris is a baker. Carlos earns a salary ten times as large as the salary Boris earns, and Carlos has a much larger oven for baking break. Carlos can make a loaf of bread that tastes better than Boris's bread but Boris can bake faster.
A) Carlos has an absolute and comparative advantage over Boris in making bread.
B) Carlos has an absolute but not comparative advantage over Boris in making bread.
C) Carlos had a comparative but not absolute advantage over Boris in making bread.
D) Carlos does not have an absolute or comparative advantage over Boris in making bread.
Answer: B
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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4) Which is the best example of specialization?
A) a high school math teacher who teaches only calculus
B) a firm that produces both luggage and cooking oil
C) a person whose job includes accounting, personnel, and maintenance tasks
D) a high school math teacher who teaches algebra and calculus
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

5) Why specialize?
A) because assigning each worker a variety of tasks makes her more productive
B) It usually increases productivity.
C) to decrease our dependence on each other
D) There is no economic rationale for specialization.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

6) Specialization can occur because
A) governments pass laws that require it.
B) varying skills differentiate workers.
C) absolute advantage creates specialization among laborers.
D) managers and laborers share job tasks.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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7) If a country's production possibilities curve gets more bowed out over time, it is an indication that
A) technological change has taken place.
B) society is learning to use its resources more efficiently.
C) the quantity of labor and capital have increased.
D) resources have become more highly specialized.
Answer: D
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

8) Generally, specialization leads to
A) constant opportunity costs.
B) greater productivity.
C) the production of fewer capital goods.
D) greater self-reliance.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

9) Specialization and the division of labor typically result in
A) cost overruns.
B) increased output.
C) decreased output.
D) a greater reliance upon imports.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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10) Absolute advantage is
A) producing at a lower opportunity cost.
B) producing a good using the fewest inputs.
C) producing a good only when demand is high.
D) producing a good that requires imported components.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

11) A person has a comparative advantage in an activity whenever she
A) has an absolute advantage in the activity.
B) can perform the activity at a lower opportunity cost than another person can.
C) can do the activity in less time than anyone else.
D) can do everything better than anyone else.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

12) Comparative advantage is always a(n) _____ concept.
A) absolute
B) efficiency
C) relative
D) monetary
Answer: C
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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13) Other things being equal, you can make $20,000 a year teaching, $25,000 a year typing, $30,000 a year driving a cab, and $40,000 a year as a chef. You have a comparative advantage in
A) teaching.
B) driving a cab.
C) being a chef.
D) one of them but we need more information to know which.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

14) Comparative advantage implies choosing the activity that
A) has a high opportunity cost.
B) is inside the production possibilities frontier.
C) has the lowest opportunity cost.
D) does not demand any specialization.
Answer: C
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

15) If individual X has comparative advantage in painting and individual Y has comparative advantage in carpentry, then
A) individual X must use fewer hours to paint a fence than individual Y.
B) individual Y will specialize in painting.
C) there is a lower opportunity cost (expressed in units of carpentry) for individual X to paint than for individual Y to paint.
D) specialization will not occur, since each does not have a clear absolute advantage.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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16) The ability to produce a good at a lower opportunity cost than others is known as
A) comparative advantage.
B) absolute advantage.
C) specialization.
D) marginal cost production.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

17) The division of labor refers to
A) workers being assigned specific tasks.
B) workers performing multiple tasks.
C) separating men and women in the workforce.
D) creating jobs that all people can perform at the same level.
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

18) Tiger Woods, a professional golfer, pays a garage mechanic to change the motor oil of his car even though he can do the work himself. Which of the following best explains why Tiger Woods does not change the oil himself?
A) Tiger Woods has an absolute advantage in changing oil.
B) Tiger Woods has a comparative advantage in changing oil.
C) There is no opportunity cost for the garage mechanic to change oil.
D) The opportunity cost of changing oil is higher for Tiger Woods than for the garage mechanic.
Answer: D
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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19) Division of labor refers to
A) dividing tasks up into several subtasks and having one person perform these subtasks in a certain order.
B) the separation of hourly workers from salaried workers.
C) assigning different workers to different tasks.
D) separating union workers from nonunion workers.
Answer: C
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

20) Division of labor increases the output of society by
A) eliminating scarcity.
B) reducing the choices people have to make to a more manageable number.
C) ensuring that people are happier in performing their work.
D) allowing resources to specialize in the tasks for which they have a comparative advantage.
Answer: D
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

21) The division of productive activities among persons and regions so that no one individual or area is totally self-sufficient is known as
A) advantage-taking.
B) comparative value.
C) specialization.
D) outsourcing.
Answer: C
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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22) Suppose that at a bicycle shop, instead of having each worker assemble an entire bicycle themselves, one person welds the frames, another person works on the braking system, another person works on the tires, and another person works on the gears. This best demonstrates the concept of
A) division of labor.
B) microeconomics.
C) comparative advantage.
D) absolute advantage.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

23) With specialization
A) opportunity costs tend to be constant.
B) there are greater gains in material well being.
C) there is more emphasis on self-reliance.
D) society is more productive while individuals are less productive.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

24) Specialization occurs because
A) society trades current consumption for future consumption.
B) the production possibilities curve tends to be linear.
C) people have different skills.
D) society produces made the production possibilities curve.
Answer: C
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
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25) The concept of absolute advantage relies on
A) the idea of comparative advantage.
B) the ability to produce more units of an item with a given amount of resources.
C) the idea of opportunity cost.
D) the concept of economic efficiency as measured on the production possibility curve.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

26) The idea of comparative advantage is related to
A) the idea of opportunity cost.
B) the idea of absolute advantage.
C) using the worker with the most diverse sets of skills.
D) engineering efficiency.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

27) The division of labor refers to
A) the separation of blue-collared workers and white-collared workers.
B) finding the best order of performing tasks.
C) the separation of workers into union workers and non-union workers.
D) the assignment of different workers to different tasks.
Answer: D
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

28) Division of labor
A) increases the amount of capital in the economy.
B) leads to an increase in the amount of output in the economy.
C) makes economic goods possible.
D) is not possible for service goods.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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29) Comparative advantage is the ability to
A) perform an activity at a lower opportunity cost.
B) determine who your best trading partners are.
C) determine the best use of capital goods.
D) convince others of the best choices to make in their own self-interest.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

30) Why do most people choose to specialize in a narrow set of skills for their work, rather than to learn a little bit about several varied fields of endeavor?
A) They feel that doing so will minimize their chances of being unemployed.
B) They don't correctly perceive the costs of being so specialized.
C) It allows them to earn more income by being more productive.
D) They are unaware of how much better off they would be if they diversified their skills.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

31) John and Mary work at a bakery. John can decorate either 10 ice-cream cakes or 4 wedding cakes; Mary can decorate either 8 ice-cream cakes or 2 wedding cakes. According to this scenario
A) the opportunity cost of decorating a wedding cake for Mary is 4 ice-cream cakes.
B) the opportunity cost of decorating a wedding cake for Mary is 1/4 ice-cream cake.
C) the opportunity cost of decorating a wedding cake for Mary is 2 1/2 ice-cream cakes.
D) the opportunity cost of decorating a wedding cake for Mary is 2/5 ice-cream cake.
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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32) John and Mary work at a bakery. John can decorate either 10 ice-cream cakes or 4 wedding cakes; Mary can decorate either 8 ice-cream cakes or 2 wedding cakes. According to this scenario
A) the opportunity cost of decorating an ice-cream cake for John is 1/4 wedding cake.
B) the opportunity cost of decorating an ice-cream cake for John is 2/5 wedding cake.
C) the opportunity cost of decorating an ice-cream cake for John is 2.5 wedding cakes.
D) the opportunity cost of decorating an ice-cream cake for John is 4 wedding cakes.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

33) John and Mary work eight hours at a bakery. John can decorate either 10 ice-cream cakes or 4 wedding cakes; Mary can decorate either 8 ice-cream cakes or 2 wedding cakes. According to this scenario
A) Mary has the absolute advantage in decorating wedding cakes.
B) John has the absolute advantage in decorating wedding cakes.
C) Mary has the comparative advantage in decorating wedding cakes.
D) John has the comparative advantage in decorating ice-cream cakes.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

34) John and Mary work eight hours at a bakery. John can decorate either 10 ice-cream cakes or 4 wedding cakes; Mary can decorate either 8 ice-cream cakes or 2 wedding cakes. According to this scenario
A) Mary has the absolute advantage in decorating wedding cakes.
B) Mary has the absolute advantage in decorating ice-cream cakes.
C) Mary has the comparative advantage in decorating ice-cream cakes.
D) John has the comparative advantage in decorating ice-cream cakes.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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35) One of the benefits of specialization is
A) greater output.
B) people enjoy doing one repetitive task over and over.
C) specialists cost less to hire.
D) training costs are higher.
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

36) If Irene can make either four chairs or one table in an hour and Greg can make either three chairs or two tables in an hour, then
A) Irene has the absolute advantage in the production of tables.
B) Greg has the absolute advantage in the production of chairs.
C) Irene has the comparative advantage in the production of chairs.
D) Greg has the comparative advantage in the production of chairs.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

37) If Irene can make either four chairs or one table in an hour and Greg can make either three chairs or two tables in an hour then
A) Irene has the absolute advantage in the production of chairs.
B) Irene has the comparative advantage in the production of tables.
C) Greg has the absolute advantage in the production of chairs.
D) Greg has the comparative advantage in the production of chairs.
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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38) When Adam Smith's ten pin workers specialized, they were able to increase output of pins in a day from 200 to 48,000. One reason for the increase in pin output was due to
A) the time saved when workers do not need to shift from one task to another.
B) the boredom the workers suffered when they stopped making a whole pin and only concentrated on one task such as painting the heads white.
C) new machinery.
D) the bonus they received when they produced more pins.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

39) The making and selling of a pencil for ten cents would likely NOT be possible, but for
A) relative advantage.
B) the production possibilities curve.
C) absolute advantage.
D) the division of labor.
Answer: D
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

40) When productive activities are organized according to the principle of the division of labor
A) scarcity is eliminated.
B) we do not devote enough resources for capital investment.
C) total output increases due to the advantages of specialization.
D) an inefficient outcome results.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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41) Division of labor means that
A) the labor market in the United States is geographically segmented.
B) some employees join labor unions and others do not.
C) management and labor are always in conflict.
D) the production process is divided into smaller tasks.
Answer: D
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

42) Two factories make wooden chairs. If the workers in factory A make each chair from start to finish and the workers in factory B divide labor, one would assume
A) the chairs in factory A are of higher quality.
B) the workers in factory B have more job satisfaction.
C) factory B can take advantage of division of labor and produce more efficiently.
D) factory A can take advantage of division of labor and produce more efficiently.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

43) If a CEO can type faster than her secretary, then
A) the CEO has a comparative advantage in typing.
B) the CEO has neither a comparative advantage in typing, nor in management.
C) the CEO should still continue performing CEO duties since the CEO has a comparative advantage in management, and the secretary should continue typing.
D) the CEO should still continue performing CEO duties as well as typing since he has a comparative advantage in both management, and typing.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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44) "My brother is better at cooking, better at cleaning, and better at fixing the car than I am." Relative to me, my brother has
A) an absolute advantage in cooking, cleaning, and car repair.
B) a comparative advantage in cooking, cleaning, and car repair.
C) more intelligence than me.
D) more income than me.
Answer: A
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

45) If Vice President Smith is a better typist than his assistant, he is said to have a(n) _____ advantage in typing over his assistant.
A) absolute
B) unusual
C) relative
D) overwhelming
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Application of knowledge

46) Assuming Vice President Smith has to sacrifice more than his assistant in order to engage in full-time typing, we would say that his assistant has a(n) _____ advantage in typing versus Mr. Smith.
A) absolute
B) comparative
C) pecuniary
D) overwhelming
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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47) Comparative advantage implies that you
A) can produce more units of a good or service than another.
B) can produce a good or service at a lower opportunity cost.
C) can produce goods with more capital resources.
D) can produce goods with more human resources.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

48) Which of the following is TRUE with respect to specialization?
A) Adam Smith in *The Wealth of Nations* referred to specialization and division of labor.
B) With a given set of resources, specialization results in higher output.
C) Individuals and nations specialize in their areas of comparative advantage in order to reap the gains of specialization.
D) All of the above are correct.
Answer: D
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

49) The principle of comparative advantage implies that
A) only wealthy countries ultimately can benefit from international trade.
B) every country can benefit from international trade.
C) we should limit the extent to which people specialize.
D) most people are harmed by trade.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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50) Assume that Economy A and Economy B have the same resources, but that individuals in Economy A have specialized whereas individuals in Economy B have not. Given this information, you can determine that
A) Economy A will have a higher output than Economy B.
B) Economy A will have a lower output than Economy B.
C) Economy A and Economy B will have identical outputs.
D) individuals in Economy A will have lower incomes than individuals in Economy B.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

51) When nations specialize in their areas of comparative advantage and then trade with the rest of the world, the result is that
A) the average standard of living in the world will go down.
B) the average standard of living in the world will go up.
C) the world will move from a point on the production possibilities curve to a point inside the curve.
D) worldwide economic efficiency will decrease.
Answer: B
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

52) When a country specializes and trades with other countries, it is most likely that it specializes in goods for which
A) it has a comparative advantage.
B) it has an absolute advantage.
C) it has no advantage.
D) are very costly to produce.
Answer: A
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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53) When two countries specialize in the production of different goods and trade with each other, it is most likely each country will
A) export the goods in which it has a comparative advantage.
B) export the goods in which it has an absolute advantage.
C) import the goods in which it has a comparative advantage.
D) import the goods in which it has an absolute advantage.
Answer: A
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

54) Which of the following is TRUE about comparative advantage?
A) Comparative advantage explains trade among nations, but not within nations.
B) Comparative advantage explains trade within nations, but not among nations.
C) Comparative advantage explains trade within nations and among nations.
D) Comparative advantage has nothing to do with trade among nations; it only is concerned with specialization within a firm.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

55) When a country or a region of a country specializes in producing the product that has the lower opportunity cost compared to another country or region, it is practicing
A) absolute advantage.
B) cost disadvantage.
C) regional advantage.
D) comparative advantage.
Answer: D
Diff: 2
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Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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56) The reason that most of the coffee that is consumed in the United States comes from Colombia is that
A) Colombia has an absolute advantage in producing coffee relative to the United States.
B) Colombia has a comparative advantage in producing coffee relative to the United States.
C) coffee cannot be grown in the United States.
D) government trade disincentives regarding Colombian coffee make such trade possible.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

57) The text argues that if avocado growers in Mexico can produce avocadoes cheaper than avocado growers in the United States, this will not reduce total jobs available in the United States. The logic underlying this argument is that
A) avocado growers in the United States did not earn much anyway.
B) avocado growers in the United States are welcome to emigrate to Mexico.
C) avocado growers in the United States will switch to specializing in a crop in which they hold the comparative advantage.
D) avocado growers in Mexico need the jobs more than Americans do.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

58) You should specialize in the production of a good if you have
A) an absolute advantage.
B) more capital resources than your trading partner.
C) more human resources than your trading partner.
D) a comparative advantage.
Answer: D
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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59) In economics, international trade is based on the existence of
A) absolute advantage between countries.
B) relative advantage between countries.
C) comparative advantage between countries.
D) output advantage between countries.
Answer: C
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

60) Suppose that Canadian farmers can grow wheat more cheaply than can U.S. farmers. In the interest of efficiency, what is the desirable outcome?
A) Allow the Canadian farmers to sell their wheat for a lower price.
B) Pass a law in Canada mandating a minimum price for wheat equal to what is charged by U.S. farmers.
C) Pass a law in the United States mandating a maximum price for wheat equal to what is charged by Canadian farmers.
D) Have U.S. citizens boycott Canadian wheat.
Answer: A
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

61) Economists argue that unhindered international trade leads to an efficient outcome. What is meant by "an efficient outcome" in this context?
A) an outcome in which wages are roughly equal around the world
B) an outcome in which the standard of living is roughly equal around the world
C) an outcome in which an individual can choose to specialize in a certain line of work and be certain that he or she can make a living at that until retirement
D) an outcome in which resources are devoted to their most efficient use
Answer: D
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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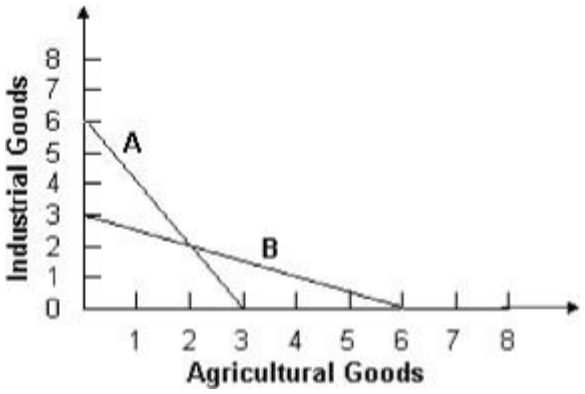

62) Based on the above figure, if countries "A" and "B" faced the production possibilities curves above, both countries would benefit if
A) they did not trade.
B) "A" produced industrial goods, and "B" produced agricultural goods.
C) "B" produced industrial goods, and "A" produced agricultural goods.
D) they both produced both industrial and agricultural goods.
Answer: B
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

63) According to the concept of comparative advantage, a good should be produced in that nation in which
A) domestic opportunity cost is greatest.
B) domestic opportunity cost is the smallest.
C) money is used.
D) terms of trade are maximized.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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64) International trade between two nations increases the standard of living of both nations due to
A) specialization and gains from absolute advantage.
B) specialization and gains from comparative advantage.
C) high tariffs.
D) political intervention.
Answer: B
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

65) Distinguish the concepts of comparative advantage and absolute advantage.
Answer: Comparative advantage is the ability to produce a good or service at a lower opportunity cost compared to other producers, while absolute advantage is the ability to produce more units of a good or service using a given quantity of labor or resource inputs. Comparative advantage is a relative concept and it is the basis for specialization.
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

66) What is the "division of labor"? How is the division of labor related to production?
Answer: The division of labor refers to the segregation of a resource into different specific tasks. The division of labor occurs when resources specialize into specific tasks. Total output is greater when resources are specialized.
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

67) Explain how comparative advantage, specialization and division of labor are related.
Answer: Comparative advantage is the ability to perform an activity at a lower opportunity cost. Specialization involves the organization of economic activity among different individuals and regions. Most individuals do specialize based on their comparative advantage. The division of labor refers to the segregation of a workers into different specific tasks. The division of labor occurs when resources specialize into specific tasks. Total output is greater when resources are specialized.
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
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68) What is the difference between comparative advantage and absolute advantage?
Answer: Absolute advantage refers to the ability to produce a good with fewer total resources. Comparative advantage is the ability to produce at the lower opportunity cost. A comparative advantage exists when one has to give up fewer units of the other good than another person or country.
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

69) Why do most people specialize in their work?
Answer: Most people specialize because specializing in what they have a comparative advantage increases their productivity.
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions
AACSB: Analytical thinking

70) Briefly explain how specialization and trade can benefit nations.
Answer: When nations specialize in what they have a comparative advantage and then trade with other nations, their production possibilities curves move outward, which yields greater production and consumption possibilities.
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
AACSB: Analytical thinking

71) Would a country with an absolute advantage in the production of all goods and services trade with other countries? Explain.
Answer: Yes. Trade is based on comparative advantage, not absolute advantage. While it is possible for a country to have an absolute advantage in all goods, it can only have a comparative advantage in one (based on a two good model). When nations specialize in what they have a comparative advantage and then trade with other nations, their production possibilities curves move outward, which yields greater production and consumption possibilities.
Diff: 3
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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72) Politicians often argue that a country's standard of living is reduced when it allows imports into the country. Offer an economically sound counter-argument.
Answer: Specialization of labor is productive, so output is greater when people produce goods for which they have a comparative advantage—that is, goods for which the opportunity cost of producing is lower than in other nations. They trade for those goods for which they do not have a comparative advantage. International trade based on comparative advantage then increases total output of the two countries and can result in higher standards of living for citizens of both countries.
Diff: 2
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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73) What happens to overall living standards when countries trade with other countries?
Answer: When countries specialize in producing goods for which they have a comparative advantage and then trade with the rest of the world, then their living standards tend to rise as people can have more of different goods than before.
Diff: 1
Topic: 2.5 Specialization, Comparative Advantage and Trade
Learning Outcome: Micro-3: Discuss different types of market systems and the gains that can be made from trade
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