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***Macroeconomics Interactive, 1e* (Parkin)**
Chapter 2 The Economic Problem

2.1 What, How, and For Whom?

1) When you make the decision to spend your time attending class, which economic question are you answering?
A) What?
B) How?
C) For whom?
D) Why?
E) Is this in the social interest?
Answer: A
Topic: Economic questions, what
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

2) When Ford decides to increase production of hybrid cars, it directly answers the _____ question.
A) what
B) how
C) for whom
D) where
E) why
Answer: A
Topic: Economic questions, what
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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3) When Delta decides to quit flying to Lithuania, it directly answers the _____ question.
A) what
B) why
C) for whom
D) how
E) when
Answer: A
Topic: Economic questions, what
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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4) The question of "What goods and services get produced?" most closely relates to which of the following issues?
A) the distribution of goods and services in the economy
B) producing goods and services in the least costly manner
C) building a missile defense system, or putting a computer in every elementary school classroom
D) obtaining specialized training to increase one's income
E) taxing high income workers to give payments to poor households
Answer: C
Topic: Economic questions, what
Skill: Level 3: Using models
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

5) When a home builder decides to computerize all of its production schedules, it directly answers the _____ question.
A) for whom
B) what
C) where
D) how
E) why
Answer: D
Topic: Economic questions, how
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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6) When Fresh Express Salads decides to mechanically pick all of its lettuce, it directly answers the _____ question.
A) what
B) how
C) for whom
D) where
E) when
Answer: B
Topic: Economic questions, how
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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7) When the power company decides to use manpower to bury its lines, it directly answers the _____ question.
A) what
B) for whom
C) how
D) why
E) when
Answer: C
Topic: Economic questions, how
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

8) The question of "How are goods and services produced?" most closely addresses which of the following issues?
A) Should Ford build SUVs or luxury cars?
B) Should Ford use expensive industrial robots or inexpensive Mexican autoworkers to produce SUVs?
C) Should contractors build residential housing or shopping malls?
D) Is income distributed fairly in the United States?
E) Why are Christmas trees popular only in December?
Answer: B
Topic: Economic questions, how
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Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

9) Which economic question depends on the incomes that people earn and the prices they pay for goods and services?
A) What?
B) How?
C) For whom?
D) Why?
E) Where?
Answer: C
Topic: Economic questions, for whom
Skill: Level 1: Definition
Section: Checkpoint 1.1
Status: Old
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10) When the federal government decides to pay senators more than it pays soldiers, it answers the _____ question.
A) why
B) how
C) for whom
D) what
E) where
Answer: C
Topic: Economic questions, for whom
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

11) When a third string NFL quarterback earns more than a police officer, society answers the _____ question.
A) for whom
B) what
C) how
D) why
E) social interest vs. self-interest
Answer: A
Topic: Economic questions, for whom
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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12) When unskilled teens earn less than college graduates, society answers the _____ question.
A) how
B) what
C) for whom
D) why
E) social interest versus self-interest
Answer: C
Topic: Economic questions, for whom
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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13) Canada has nationalized health care, so that everyone, regardless of their ability to pay, has some access to health care. Based on this observation, Canada has decided that "everyone, regardless of their ability to pay" is the answer to what microeconomic question?
A) What type of health care will be produced and in what quantity?
B) How will health care be produced?
C) For whom will health care be produced?
D) Why will we offer health care?
E) Must we offer health care?
Answer: C
Topic: Economic questions, for whom
Skill: Level 3: Using models
Section: Checkpoint 1.1
Status: Old
AACSB: Analytic skills

14) The question "Should we produce LCD televisions or computer monitors?" is an example of a _____ question.
A) what
B) how
C) for whom
D) where
E) why
Answer: A
Topic: Economic questions, what
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Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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15) When Ferrari decides to produce 1,200 360 Modenas each year, Ferrari is answering the _____ question.
A) for whom
B) how
C) what
D) why
E) scarcity
Answer: C
Topic: Economic questions, what
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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16) Whether a company produces fishing rods mostly by hand or using high-tech machinery is a question of
A) "For whom will goods be produced?"
B) "When will the goods be produced?"
C) "Where will the goods be produced?"
D) "How will the goods be produced?"
E) "Why will the goods be produced?"
Answer: D
Topic: Economic questions, how
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

17) When a landscaping company decides to use drafting software and computers instead of hiring designers to draw design plans by hand, it is answering the _____ question.
A) how
B) what
C) for whom
D) opportunity cost
E) why
Answer: A
Topic: Economic questions, how
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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18) The question "Should we produce houses using bricks or wood?" is an example of a _____ question.
A) what
B) how
C) for whom
D) where
E) why
Answer: B
Topic: Economic questions, how
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

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19) The question "Should economics majors or sociology majors earn more after they graduate?" is an example of a _____ question.
A) what
B) how
C) for whom
D) where
E) why
Answer: C
Topic: Economic questions, for whom
Skill: Level 2: Using definitions
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

20) Items bought by businesses to help produce other goods and services are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exports of goods and services.
E) productive goods.
Answer: B
Topic: Capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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21) What would be an example of capital good?
A) Jeanette buys a new dress.
B) The local driver's license office purchases a new digital camera and printer.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) Apple sells computers to Japan.
E) Rhianna gets a haircut.
Answer: C
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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22) Which of the following is NOT considered one of the factors of production?
A) land
B) labor
C) capital
D) technology
E) entrepreneurship
Answer: D
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

23) Which of the following correctly lists the categories of factors of production?
A) land, labor, capital, and entrepreneurship
B) land, buildings, capital, and entrepreneurship
C) labor, machines, buildings, capital, and entrepreneurship
D) forests, fish, buildings, capital, and entrepreneurship
E) labor, money, stocks, and bonds
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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24) Which of the following is NOT a factor of production?
A) money
B) capital
C) land
D) entrepreneurial ideas
E) labor
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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25) Goods and services are produced by using four factors of production
A) land, labor, capital, and entrepreneurship.
B) land, labor, money, and equipment.
C) natural resources, human resources, financial assets, and entrepreneurial resources.
D) labor, human capital, physical capital, and financial capital.
E) land, labor, capital, and money.
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

26) Factors of production are the
A) goods that are bought by individuals and used to provide personal enjoyment.
B) goods that are bought by businesses to produce productive resources.
C) productive resources used to produce goods and services.
D) productive resources used by government to increase the productivity of consumption.
E) goods and services produced by the economy.
Answer: C
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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27) The productive resource that includes all the "gifts of nature" is called
A) land.
B) labor.
C) capital.
D) entrepreneurship.
E) land if undeveloped and capital if developed.
Answer: A
Topic: Land
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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28) Economists classify energy and water as part of which factor of production?
A) land
B) labor
C) capital
D) entrepreneurship
E) land if undeveloped and capital if developed
Answer: A
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

29) As a factor of production, oil reserves are counted as
A) land.
B) labor.
C) capital.
D) entrepreneurship.
E) financial capital.
Answer: A
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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30) The concept of human capital describes
A) human skills, that is, the quality of labor.
B) human population, that is, the quantity of labor.
C) the number of machines per employed worker.
D) the number of workers per operating machine.
E) the number of machines (capital) that have been produced by people (humans).
Answer: A
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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31) Which factor of production does human capital enhance?
i. land
ii. labor
iii. capital
A) i only
B) ii only
C) iii only
D) i and ii
E) i, ii, and iii
Answer: B
Topic: Labor, human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

32) Human capital can be increased through
A) investment in new technology.
B) education, on-the-job training, and work experience.
C) investment in new machinery.
D) decreases in population.
E) increasing the nation's production of consumption goods.
Answer: B
Topic: Human capital
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Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

33) The United States possesses a large amount of human capital. As a result of this fact, in the United States there is a
A) large amount of machinery and equipment.
B) large number of people and a great deal of land.
C) highly skilled and educated labor force.
D) large number of kind and generous humans.
E) large amount of machinery (capital) that is run by people (humans).
Answer: C
Topic: Labor, human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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34) Jan is attending college and studying to be an investment broker. To improve her chances of employment following college, she has interned at a top brokerage firm during the last two summers. Jan's internship has increased her
A) natural labor.
B) human capital.
C) consumption services.
D) natural resources.
E) entrepreneurship capital.
Answer: B
Topic: Labor, human capital
Skill: Level 4: Applying models
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

35) Which of the following is NOT directly related to human capital?
A) a college education
B) a summer internship
C) knowledge of computer programing
D) an MRI machine
E) an understanding of real estate markets
Answer: D
Topic: Human capital
Skill: Level 2: Using definitions
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Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

36) Human capital _____ as you work. As a result, the _____ of goods and services _____.
A) increases; quantity; increases
B) declines; quality; increases
C) improves; quality; does not change
D) does not change; quality; does not change
E) decreases; quantity; decreases
Answer: A
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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37) Capital, as a factor of production, refers to
A) money, stocks, and bonds.
B) the production technology used by firms.
C) the tools and instruments used to produce other goods and services.
D) the production factors imported from abroad.
E) stocks and bonds, but not money.
Answer: C
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

38) Capital is a factor of production. Which of the following is an example of capital?
i. $1,000 in money
ii. 100 shares of Microsoft stock
iii. $10,000 in bonds issued by General Motors
iv. a drill press in your local machine shop
A) i and ii
B) ii only
C) iii only
D) iv only
E) ii and iii
Answer: D
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Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

39) Capital is a factor of production. An example of capital as a factor of production is
A) money.
B) stocks.
C) bonds.
D) machines.
E) education.
Answer: D
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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40) One of the productive resources is capital. Capital includes
A) money borrowed from a bank.
B) a company's stocks and bonds.
C) tools, buildings, and machine tools.
D) toys, t-shirts, CD players, and pencils.
E) money in a savings account at a bank.
Answer: C
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

41) A newspaper printing press is an example of
A) a capital good.
B) a factor of production.
C) something that influences labor productivity.
D) a good that was once an output of the production process.
E) All of the above are correct.
Answer: E
Topic: Capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

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42) Which of the following is NOT considered capital?
A) an assembly line at a General Motors plant
B) a computer used by your instructor for presentations in class
C) stocks and bonds that are sold by Pepsico
D) the furniture in the President's office
E) a nail gun used for building houses
Answer: C
Topic: How do we produce?
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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43) Entrepreneurship, as a factor of production, refers to
A) the technology used by firms.
B) the human capital accumulated by workers.
C) the value of the firm's stock.
D) the human resource that organizes labor, land, and capital.
E) the capital the firm uses.
Answer: D
Topic: Entrepreneurship
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

44) The productive resource that organizes labor, land, and capital is
A) human capital.
B) financial capital.
C) entrepreneurship.
D) government.
E) capital.
Answer: C
Topic: Entrepreneurship
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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45) Payments to the factors of production are
A) rent, mortgage, interest, and bonds.
B) rent, interest, bonds, and profit or loss.
C) rent, wages, interest, and profit or loss.
D) rent, wages, profit or loss, and bonus.
E) land, labor, capital, and entrepreneurship.
Answer: C
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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46) _____ paid for the use of land; _____ paid for the services of labor; and _____ paid for the use of capital.
A) Rent is; wages are; interest is
B) Rent is; interest is; wages are
C) Interest is; wages are; profit is
D) Mortgages are; interest is; wages are
E) Rent is; wages are; profit is
Answer: A
Topic: Resource payments
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

47) The income paid for the use of land is called
A) rent.
B) wages.
C) interest.
D) profit.
E) land capital.
Answer: A
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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48) The income paid to labor is called
A) rent.
B) wages.
C) interest.
D) profit.
E) human capital.
Answer: B
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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49) Which factor of production is paid "interest"?
A) land
B) labor
C) capital
D) entrepreneurship
E) human capital
Answer: C
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

50) The owners of the resource _____ are paid _____.
A) land; wages
B) labor; profit
C) capital; rent
D) capital; interest
E) entrepreneurship; wages
Answer: D
Topic: Resource payments
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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51) Which factor of production is paid "profit"?
A) land
B) labor
C) capital
D) entrepreneurship
E) human capital
Answer: D
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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52) An example of a capital good is
A) a fiber optic cable TV system.
B) an insurance policy.
C) a haircut.
D) an iPod.
E) a slice of pizza.
Answer: A
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

53) Which of the following correctly lists the categories of factors of production?
A) machines, buildings, land, and money
B) hardware, software, land, and money
C) capital, money, and labor
D) owners, workers, and consumers
E) land, labor, capital, and entrepreneurship
Answer: E
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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54) In economics, the factor of production "land" includes all of the following EXCEPT
A) energy.
B) plastics.
C) wild plants.
D) animals, birds, and fish.
E) oil.
Answer: B
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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55) Human capital is
A) solely the innate ability we are born with.
B) the money humans have saved.
C) the knowledge humans accumulate through education and experience.
D) machinery that needs human supervision.
E) any type of machinery.
Answer: C
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

56) When Ethan continues his education beyond high school, he is increasing his
A) capital.
B) wage rate.
C) human capital.
D) quantity of labor.
E) rent.
Answer: C
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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57) _____ is the human resource that organizes labor, land, and capital.
A) Human capital
B) Human skill
C) A gift of nature
D) Entrepreneurship
E) Profit
Answer: D
Topic: Entrepreneurship
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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58) Wages are paid to _____ and interest is paid to _____.
A) entrepreneurs; capital
B) labor; capital
C) labor; land
D) entrepreneurs; land
E) labor; entrepreneurs
Answer: B
Topic: Payments for the factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

59) The income earned by entrepreneurs is
A) interest.
B) wages.
C) profit or loss.
D) rent, wages, and interest.
E) a mixture of rent, wages, interest, and profit.
Answer: C
Topic: Profit
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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60) Why does scarcity lead to the what, how, and for whom questions?
Answer: Human wants exceed the resources available to satisfy them, thereby creating the problem of scarcity of goods and services. Everyone wants more than he or she can have, be it a student dreaming of a faster computer or an extraordinarily rich business leader wishing for more vacation time. Because not all wants can be satisfied, people must make choices about which wants to satisfy. The choices resulting from scarcity mean that people must decide what gets produced, how are the products produced, and for whom are the products produced.
Topic: Scarcity and economic questions
Skill: Level 1: Definition
Section: Checkpoint 1.1
Status: Old
AACSB: Written and oral communication

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61) List and explain the three fundamental economic questions that must be answered by all economic systems.
Answer: First, all economic systems must answer the question of "what goods and services get produced and in what quantities?" In other words, among the near infinite types of goods and services, society must decide what will be produced and how much of each good and service will be produced. Next, every economic system must decide, "how are goods and services produced?" This question needs to be answered because there are always many ways to produce a particular good or service (for instance, using a lot of workers and only a little machinery, or a lot of machinery and fewer workers), so the method that will be used must be decided. Finally, once the goods and services are produced the society must decide "for whom are the various goods and services produced?" In other words, societies must decide whether the goods and services are distributed so that everyone gets about the same amount or whether they are distributed so that some people get more than others.
Topic: Economic questions
Skill: Level 1: Definition
Section: Checkpoint 1.1
Status: Old
AACSB: Written and oral communication

62) Pumpkins are grown in New Mexico with the aid of fertilizer. Hence, fertilizer is a partial answer to which of the three economic question?
Answer: Fertilizer is used to help produce the pumpkins, so it is a partial answer to the "How are goods and services produced?" question.
Topic: Economic questions, how
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Skill: Level 3: Using models
Section: Checkpoint 1.1
Status: Old
AACSB: Reflective thinking

63) Different nations answer the what, how, and for whom questions differently. China, for instance, builds dams using many workers and only a little capital equipment. The United States builds dams using a few workers and a lot of capital equipment. Which economic question are these two nations answering and why do the answers differ?
Answer: The nations are answering the "how" question because they are determining how to produce a dam. In the main part, the answers differ because the nations have different amounts of capital equipment and labor. China has more people and less capital equipment. Hence it makes sense for China to build dams using many workers and only a little capital equipment. The U.S. has more capital equipment and less labor. Thus it makes sense for the United States to build dams using a lot of capital equipment and only a few workers.
Topic: Economic questions, how
Skill: Level 4: Applying models
Section: Checkpoint 1.1
Status: Old
AACSB: Written and oral communication

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64) The question "Will doctors or lawyers have higher annual incomes?" represents which of the three basic economic questions?
Answer: The amount of goods and services a person can purchase depends on the person's income. Hence the question of who should be paid more, lawyers or doctors, essentially asks whether lawyers or doctors will be able to buy more goods and services. Thus the question is a microeconomic "For whom?" question.
Topic: Economic questions, for whom
Skill: Level 3: Using models
Section: Checkpoint 1.1
Status: Old
AACSB: Written and oral communication

2.2 Efficient Production

1) Which of the following is an assumption used when drawing a production possibilities frontier?
i. Human wants and desires are limited to what is available.
ii. Only two goods are considered.
iii. The level of technology is fixed and unchanging.
A) i only
B) ii only
C) i and iii
D) ii and iii
E) i, ii, and iii
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Answer: D
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

2) In the production possibilities model, the vertical axis measures _____ and the horizontal axis measures _____.
A) the quantity of a good or service; the quantity of another good or service
B) the price of a good or service; the quantity of the good or service
C) the price of a good or service; the price of another good or service
D) the quantity of a good or service; time
E) people's wants; the quantity of a good or service
Answer: A
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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3) The production possibilities frontier illustrates the
A) maximum combinations of goods and services that can be produced.
B) resources the economy possess, but not its level of technology.
C) goods and services that people want.
D) limits to people's wants.
E) amount of each good that people want to buy.
Answer: A
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

4) When drawing a production possibilities frontier, which of the following is held constant?
A) the amount of money in the economy
B) the available factors of production and the state of technology
C) the prices of goods and services
D) the quantity of the goods and services that are produced
E) None of the above because nothing is held constant when drawing the production possibilities frontier.
Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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5) A production possibilities frontier shows
A) the various combinations of output a nation can produce a certain time, given its available resources and technology.
B) the limits to future growth of a nation.
C) how money can be allocated among two kinds of goods.
D) that if price of one good decreases, the price of the other has to increase.
E) that it is impossible to produce inefficiently.
Answer: A
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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6) The production possibilities frontier is the
A) maximum output that can be produced at an opportunity cost of zero.
B) minimum output that can be produced when resources are used inefficiently.
C) boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced, given the available factors of production and the state of technology.
D) boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced when technology is changing.
E) maximum opportunity cost combinations of goods and services.
Answer: C
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

7) The production possibilities frontier is the boundary between the
A) goods and services that the economy can produce.
B) attainable and unattainable combinations of goods and services.
C) wanted and unwanted combinations of goods and services.
D) rational and irrational choices facing a society.
E) affordable and unaffordable combinations of production.
Answer: B
Topic: Production possibilities frontier TBEXAM.COM
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

8) Consider a production possibility frontier with jeans on the vertical axis and shoes on the horizontal axis. As the country moves along the frontier closer to the horizontal axis
A) more jeans are produced.
B) the country eventually chooses an unattainable point.
C) free lunches occur.
D) more tradeoffs occur.
E) more shoes are produced.
Answer: E
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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9) While *moving along* a production possibilities frontier, the amount of labor _____, the amount of capital _____, and the level of technology _____.
A) is fixed; is fixed; varies
B) varies; is fixed; varies
C) varies; is fixed; is fixed
D) is fixed; is fixed; is fixed
E) varies; varies; varies
Answer: D
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

Possibility	Airplanes (number)	Cruise ships (number)
A	100	0
B	80	20
C	50	40
D	0	60

10) The table above gives four production possibilities for airplanes and cruise ships. In possibility A, how many resources are devoted to the production of airplanes?
A) 0
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B) few
C) most
D) all
E) It is impossible to tell without more information about the prices of airplanes and cruise ships.
Answer: D
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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11) The table above gives four production possibilities for airplanes and cruise ships. In possibility A, how many resources are devoted to the production of cruise ships?
A) 0
B) few
C) most
D) all
E) It is impossible to tell without more information about the prices of airplanes and cruise ships.
Answer: A
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

12) Moving from one point to another on a production possibilities frontier implies
A) increasing the production of both goods.
B) decreasing the production of both goods.
C) increasing the production of one good and decreasing the production of another.
D) holding the production levels of both goods constant.
E) changing the amount of factors of production that are employed.
Answer: C
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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13) Assume that an association of young workers has lobbied Congress to require that all workers retire once they reach the age of fifty. What impact would this law have on the nation's production possibilities frontier?
A) no impact at all
B) The level of unemployment would decrease so the production possibilities frontier would shift outward.
C) The nation would move to a new position on its production possibilities frontier but the frontier itself would not shift.
D) The production possibilities frontier would shift inward.
E) The number of young workers would increase so the production possibilities frontier would shift outward.
Answer: D
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
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14) A major earthquake occurs in the central part of the United States. What impact would this have on the nation's production possibilities frontier and why?
A) It would shift outward because unemployment would be reduced.
B) Nothing would happen because the nation would still have the same capabilities.
C) A tradeoff would occur to replace the resources and goods destroyed.
D) It would shift inward because some of the nation's resources, such as capital and labor, would be destroyed.
E) It would not shift because people would get to work to replace any capital that was destroyed.
Answer: D
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

15) When all of the available factors of production are being efficiently employed, the
A) economy is producing at a point within its *PPF*.
B) economy is producing at a point on its *PPF*.
C) economy is producing at a point beyond its *PPF*.
D) *PPF* disappears.
E) opportunity cost of changing production is infinite.
Answer: B
Topic: Attainable points
Skill: Level 2: Using definitions
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Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

16) In a production possibilities frontier diagram, the attainable production points are shown as
A) only the points on the production possibilities frontier.
B) only the points beyond the production possibilities frontier.
C) only the points inside the production possibilities frontier.
D) the points inside and the points on the production possibilities frontier.
E) ANY of the production points.
Answer: D
Topic: Attainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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17) In the production possibilities frontier model, an unattainable point lies
A) only on the production possibilities frontier itself.
B) only inside the production possibilities frontier.
C) only outside the production possibilities frontier.
D) both on and outside the production possibilities frontier.
E) There are no unattainable points in the production possibilities model.
Answer: C
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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18) Production efficiency is represented by _____ a production possibilities frontier.
A) all points on
B) all points inside
C) all points outside
D) a movement along
E) only one point on
Answer: A
Topic: Production efficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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19) If an economy cannot produce more of one good without producing less of another good, this implies that which of the following has been achieved?
A) allocative efficiency
B) minimum marginal cost
C) *PPF* efficiency
D) production efficiency
E) maximum marginal benefit
Answer: D
Topic: Production efficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
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20) Production efficiency occurs
A) anywhere inside or on the production possibilities frontier.
B) when the total cost of production is minimized.
C) at all points on the production possibilities frontier.
D) at only one point on the production possibilities frontier.
E) at all points inside the production possibilities frontier.
Answer: C
Topic: Production efficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

21) When production efficiency does NOT occur,
i. an economy is producing at a point within its *PPF*.
ii. there are unemployed resources.
iii. allocative efficiency cannot occur.
A) i only
B) i and ii
C) iii only
D) i and iii
E) i, ii, and iii
Answer: E
Topic: Production efficiency
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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22) If there is unemployment in an economy, then the
A) production possibilities frontier will shift inwards.
B) economy is operating at an unattainable point.
C) production possibilities frontier will shift outwards.
D) economy is producing at a point inside the production possibilities frontier.
E) production possibilities frontier must be bowed inward.
Answer: D
Topic: Attainable points, unemployment
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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23) If a society moves from a period of time with significant unemployment to a time with full employment, its production possibilities frontier will
A) shift leftward.
B) shift rightward.
C) not shift because the society moves from one point on the frontier to a point inside the frontier.
D) not shift because the society moves from a point inside the frontier to a point on the frontier.
E) not shift because the society moves from one point on the frontier to a point outside the frontier.
Answer: D
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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24) Suppose that an economy is currently producing at a point that lies inside of its production possibilities set. Which of the following would best explain this circumstance?
A) The economy does not have enough resources to produce at a point closer to the frontier of the production possibilities set.
B) The prevailing level of technology prevents the economy from producing at a point closer to the frontier of the production possibilities set.
C) The economy is experiencing a high level of unemployment.
D) Any of the above statements could explain this situation.
E) None of the above statements could explain this situation.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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25) Which of the following statements is correct?
A) An increase in productivity moves the economy from inside the production possibilities frontier to the frontier itself.
B) An increase in productivity shifts the economy from producing at a point on the production possibilities frontier to a point outside the production possibilities frontier.
C) An increase in unemployment shifts the economy further inside its production possibilities frontier.
D) An increase in unemployment shifts the economy from a point outside the production possibilities frontier back to the production possibilities frontier.
E) A reduction in unemployment shifts the entire production possibilities frontier outward.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

26) A point on the production possibilities frontier reflects an
A) attainable point with full employment of all resources.
B) attainable point without full employment of all resources.
C) unattainable point with full employment of all resources.
D) unattainable point without full employment of all resources.
E) None of the above answers is correct.
Answer: A
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Topic: Attainable points, full employment
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

27) Suppose a country operates on its production possibility frontier when it produces 1,000 books and 1,000 tables. The combination of _____ reflects _____.
A) 500 books and 1,000 tables; an inefficient but attainable point
B) 1,000 books and 500 tables; an efficient point
C) 1,000 books and 1,000 tables; a free lunch
D) 500 books and 500 tables; an attainable and efficient point
E) 1,000 books and 1,500 tables; a free lunch
Answer: A
Topic: Attainable points, inefficiency
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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28) Consider a production possibility frontier with books and tables. A combination of 1,000 books and 500 tables is on the frontier. Which of the following are necessarily TRUE?
i. Production of 700 books and 400 tables is attainable but inefficient.
ii. Production of 1,000 books and 600 tables is unattainable.
iii. Production of 500 books and 1,000 tables is inside the frontier.
A) i and ii
B) i, ii and iii
C) i and iii
D) ii and iii
E) i only
Answer: A
Topic: Attainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

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29) The table above shows a production possibilities frontier for an economy. Which of the following combinations is unattainable?
A) 0 loaves of bread and 800 books
B) 100 loaves of bread and 800 books
C) 200 loaves of bread and 800 books
D) 300 loaves of bread and 200 books
E) 0 loaves of bread and 0 books
Answer: C
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
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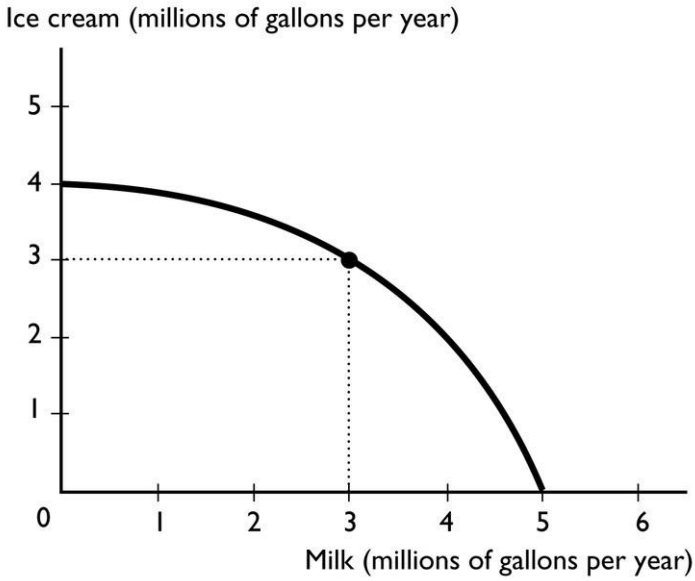
30) The table above shows a production possibilities frontier for an economy. If the economy tried to produce a combination of 250 loaves of bread and 800 books
A) there is some unemployment.
B) there is full employment.
C) the tradeoff between bread and books is inefficient.
D) it cannot produce this combination because it lacks enough resources or technology.
E) it is enjoying a free lunch.
Answer: D
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills



31) The given figure shows the production possibilities frontier for a country. A combination of 4 million gallons of milk and 4 million gallons of ice cream is
A) unattainable.
B) attainable and production efficient.
C) attainable and production inefficient.
D) unattainable and production efficient.
E) More information is needed to determine if the point is attainable or not.
Answer: A
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
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32) The given figure shows the production possibilities frontier for a country. A combination of 3 million gallons of milk and 3 million gallons of ice cream is
A) unattainable.
B) attainable and production efficient.
C) attainable and production inefficient.
D) unattainable and production efficient.
E) More information is needed to determine if the point is attainable or not.
Answer: B
Topic: Attainable points, full employment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

33) The given figure shows the production possibilities frontier for a country. A combination of 2 million gallons of milk and 2 million gallons of ice cream is
A) unattainable.
B) attainable and production efficient.
C) attainable and production inefficient.
D) attainable but more than production efficient.
E) More information is needed to determine if the point is attainable or not.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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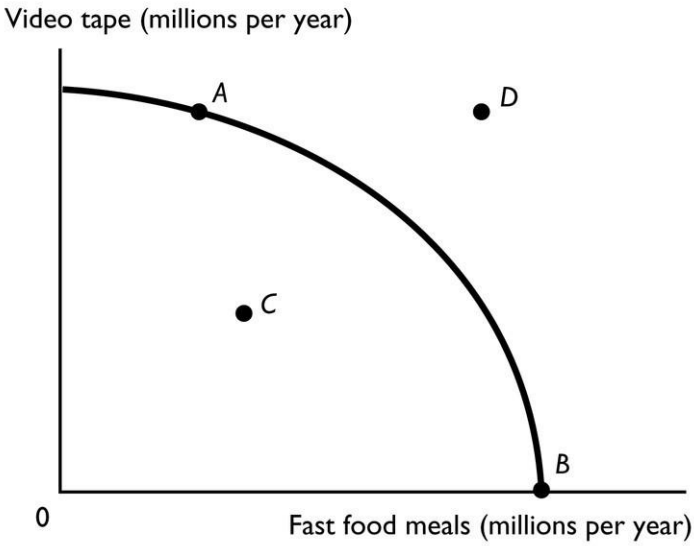

34) Point *D* in the above *PPF* figure is
A) an attainable production combination with unemployed resources.
B) a tradeoff.
C) an unattainable production combination.
D) a production combination that can be attained once resources are fully employed.
E) More information is needed to determine which of the above answers is correct.
Answer: C
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Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

35) Which point in the given figure is an attainable combination that would have unemployed resources?
A) point *A*
B) point *B*
C) point *C*
D) point *D*
E) point *A* and point *B*
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
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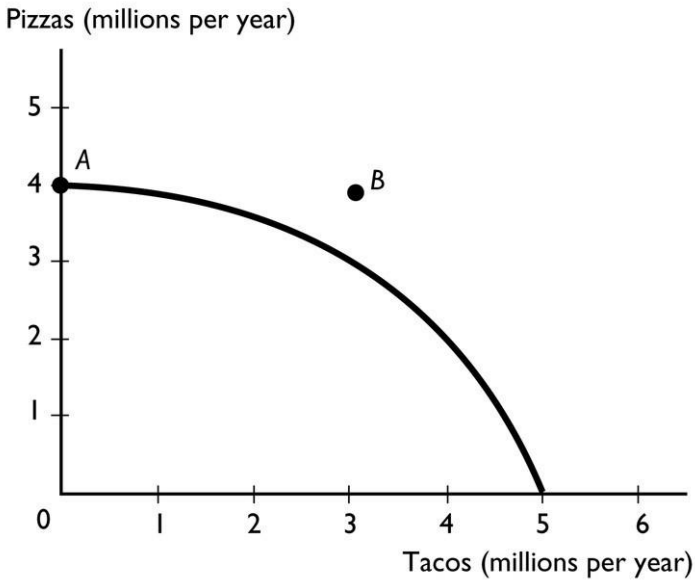

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36) The given figure shows a nation's production possibilities frontier. In the figure, point *A* shows
A) the maximum quantity of pizza that can be produced.
B) the minimum quantity of pizza that the society must produce.
C) an unattainable point.
D) an attainable point with unemployed resources.
E) More information is needed to determine which of the above answers is correct.
Answer: A
Topic: Attainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

37) The given figure shows a nation's production possibilities frontier. In the figure, point *B* shows
A) an unattainable point.
B) an attainable point.
C) a point with a free lunch.
D) a point with no tradeoff.
E) a point at which there are unemployed resources.
Answer: A
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
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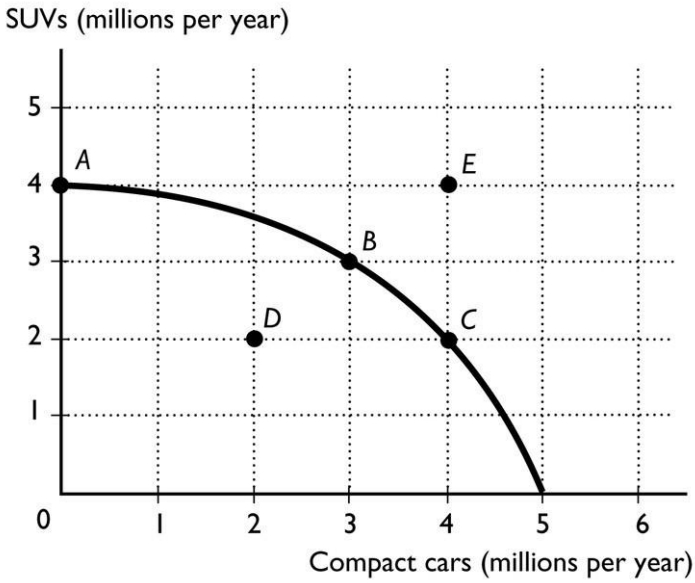

38) The given figure shows the production possibilities frontier for a country. In order for it to produce at point *E*, the
A) country would need to acquire more resources and/or more advanced technology.
B) production of compact cars would need to decrease.
C) production of SUVs would need to decrease.
D) country would need to use its resources more efficiently.
E) country would need to determine that compact cars and SUVs are equally important to it.
Answer: A
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

39) The given figure shows the production possibilities frontier for a country. If the country is producing at point *D*, then the
A) resources are being used efficiently.
B) technology associated with producing SUVs and compact cars is advancing.
C) resources are not being used efficiently and/or are unemployed.
D) production of SUVs and compact cars is maximized.
E) None of the above answers is correct because it is not possible to produce at point *D*.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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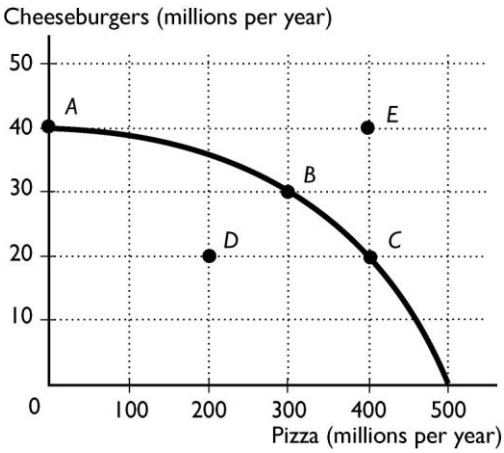

40) The given figure shows the production possibility frontier for an economy. The point or points that are attainable and production efficient are
A) points *B* and *C*.
B) points *A*, *B*, and *C*.
C) point *E*.
D) points *A*, *B*, *C*, and *D*.
E) points *A* and *D*.
Answer: B
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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41) The given figure shows the production possibility frontier for an economy. The point or points that are attainable are
A) points *B* and *C*.
B) points *A*, *B*, and *C*.
C) point *E*.
D) points *A*, *B*, *C*, and *D*.
E) points *A* and *D*.
Answer: D
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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42) The given figure shows the production possibility frontier for an economy. The point or points that are NOT attainable are
A) points *B* and *C*.
B) points *A*, *B*, and *C*.
C) point *E*.
D) points *A*, *B*, *C*, and *D*.
E) points *A* and *D*.
Answer: C
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

43) In order for Ireland to grow more potatoes, wool production must decrease. This situation is an example of
A) producing at a point that lies beyond the *PPF*.
B) zero opportunity cost.
C) opportunity benefit.
D) a free lunch.
E) a tradeoff.
Answer: E
Topic: Tradeoffs
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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44) As we move along the production possibilities frontier
A) the production of one good increases as the production of the other good decreases.
B) the possibilities of tradeoffs diminish.
C) a tradeoff is not possible because nations need all goods.
D) more of both goods can be produced.
E) less of both goods can be produced.
Answer: A
Topic: Tradeoffs
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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45) Which of the following statements is correct?
A) If capital is idle, the economy is producing at its full potential.
B) The production possibilities frontier shows that there are no limits to production.
C) A tradeoff is a limit that forces an exchange or a substitution of one thing for something else.
D) Any point on or within the *PPF* is production efficient.
E) None of the above answers is correct.
Answer: C
Topic: Tradeoffs
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

46) When a nation is producing on its production possibilities frontier, if more resources are used to produce one good, then the production of other goods
A) MUST increase.
B) MUST decrease.
C) MUST remain the same.
D) MUST change, but they might increase or decrease.
E) MIGHT increase if the nation can produce more efficiently.
Answer: B
Topic: Tradeoffs
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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47) The negative slope of the production possibilities frontier represents the idea
A) that free lunches are possible.
B) of tradeoffs, that in order to produce more of one good, the nation must produce less of another.
C) of unemployment.
D) of inefficient production.
E) that prices rise as less is produced.
Answer: B
Topic: Tradeoffs
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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48) A movement from one point on a production possibilities frontier to another represents
A) a tradeoff.
B) a free lunch.
C) full employment of labor but not capital.
D) unemployment.
E) an advance in technology.
Answer: A
Topic: Tradeoffs
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

49) The saying "There's no such thing as a free lunch," applies
A) when there is some unemployment.
B) on the production possibilities frontier.
C) to unattainable combinations of goods and services.
D) when more of one good can be produced without decreasing production of another.
E) at all points inside the *PPF*.
Answer: B
Topic: Tradeoffs
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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50) A free lunch (the absence of a tradeoff) when the production of a good is increased is possible for the entire economy only if
A) less of some product is produced.
B) prices are decreased.
C) prices are increased.
D) resources are used inefficiently.
E) there is a movement along the *PPF*.
Answer: D
Topic: Free lunches
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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51) A movement from a point inside the production possibilities frontier to a point on the production possibilities frontier represents
A) a tradeoff.
B) a free lunch.
C) full employment of labor but not capital.
D) unemployment of labor but not capital.
E) an infinite opportunity cost.
Answer: B
Topic: Free lunches
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

52) A reason the production possibilities frontier exists is
A) unlimited resources and technology.
B) scarcity of resources.
C) scarcity of resources and unlimited technology.
D) unemployment.
E) that people's wants are unlimited.
Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
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53) The production possibilities frontier is a graph showing the
A) exact point of greatest efficiency for producing goods and services.
B) tradeoff between free lunches.
C) maximum combinations of goods and services that can be produced.
D) minimum combinations of goods and services that can be produced.
E) resources available for the economy's production use.
Answer: C
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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54) The production possibilities frontier is a boundary that separates
A) the combinations of goods that can be produced from the combinations of services.
B) attainable combinations of goods and services that can be produced from unattainable ones.
C) equitable combinations of goods and services that can be produced from inequitable ones.
D) fair combinations of goods and services that can be consumed from unfair ones.
E) affordable production points from unaffordable points.
Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

55) Points inside the *PPF* are all
A) unattainable and have fully employed resources.
B) attainable and have fully employed resources.
C) unattainable and have some unemployed resources.
D) attainable and have some unemployed resources.
E) unaffordable.
Answer: D
Topic: Attainable points, inefficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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56) During a time of high unemployment, a country can increase the production of one good or service
A) without decreasing the production of something else.
B) but must decrease the production of something else.
C) and must increase the production of something else.
D) by using resources in the production process twice.
E) but the opportunity cost is infinite.
Answer: A
Topic: Free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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57) Moving along the production possibilities frontier itself illustrates
A) the existence of tradeoffs.
B) the existence of unemployment of some factors of production.
C) the benefits of free lunches.
D) how free lunches can be exploited through trade.
E) how tradeoffs need not occur if the economy is efficient.
Answer: A
Topic: Tradeoffs
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

58) The production possibilities frontier illustrates which of the following economic ideas?
A) efficiency
B) tradeoffs
C) opportunity cost
D) all of the above
E) none of the above
Answer: D
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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59) Points on the *PPF* are all
A) unattainable and have fully employed resources.
B) free lunches.
C) inefficient.
D) attainable and have some unemployed resources.
E) production efficient.
Answer: E
Topic: Production efficiency
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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60) In a production possibilities frontier graph, the cost of producing more units of a good is measured by the
A) dollar value of the resources used to produce the good.
B) amount of the other good or service that must be forgone.
C) dollar value of the additional output.
D) area in the arc between the *PPF* and a straight line drawn between the starting point and the ending point.
E) None of the above answers is correct.
Answer: B
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

61) The opportunity cost of producing one more unit of a good is calculated by dividing the
A) increase in the quantity of that good by the decrease in the quantity of other good.
B) total quantity of that good by the total quantity of other good.
C) decrease in the quantity of the other good by the increase in the quantity of the good whose opportunity cost we're calculating.
D) total quantity of the other good by the total quantity of the good whose opportunity cost we're calculating.
E) price of the good whose opportunity cost we are calculating by the number of units of the other good that are forgone.
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Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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62) To find the opportunity cost of producing one more unit of any product while on the production possibilities frontier requires
A) setting the amounts of the two products equal to each other.
B) setting the change in one product equal to the change in the other product.
C) dividing the amount of the product forgone by the amount of the product gained.
D) subtracting the change in the product whose production increased from the change in the product whose production decreased.
E) None of these describes how to find opportunity cost.
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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63) To calculate the opportunity cost per unit, you divide the decrease in the quantity of the forgone item by the
A) decrease in the quantity of the other item.
B) increase in the quantity of the other item obtained.
C) price of the item obtained.
D) price of the item forgone.
E) price of the item obtained and then multiply by the price of the item forgone.
Answer: B
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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64) On a production possibilities frontier, 500 pounds of apples and 1,200 pounds of bananas can be produced while at another point on the same frontier, 300 pounds of apples and 1,300 pounds of bananas can be produced. Between these points, what is the opportunity cost of producing a pound of bananas?
A) 2 pounds of bananas
B) 200 pounds of apples
C) 2 pounds of apples
D) 0.5 a pound of apples
E) 12/5 = 2.4 pounds of apples
Answer: C
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Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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65) On a production possibilities frontier, 500 pounds of apples and 1,200 pounds of bananas can be produced while at another point on the same frontier, 300 pounds of apples and 1,300 pounds of bananas can be produced. Between these points, what is the opportunity cost of producing a pound of apples?
A) 2 pounds of bananas
B) 100 pounds of bananas
C) 2 pounds of apples
D) 0.5 of a pound of bananas
E) 5/12 of a pound of bananas
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
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66) A country produces only apples and bananas. Moving from point *A* to point *B* along its production possibilities frontier, 5 apples are forgone and 4 bananas are gained. What is the opportunity cost of a banana?
A) 4 apples
B) 5/4 of an apple
C) 4/5 of an apple
D) 1 banana
E) None of the above answers is correct.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

67) A country produces only apples and bananas. Moving from point *A* to point *B* along its production possibilities frontier, 5 apples are gained and 4 bananas are forgone. What is the opportunity cost of an apple?
A) 4 bananas
B) 5/4 of a bananas
C) 4/5 of a banana
D) 1 apple
E) None of the above answers is correct.
Answer: C
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Topic: Opportunity cost
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Possibility	Fish (pounds)	Fruit (pounds)
A	37	56
B	31	78
C	20	90
D	9	99

68) Robinson Crusoe divides his time between catching fish and gathering fruit. Part of his production possibilities frontier is given in the above table. If Mr. Crusoe is on his *PPF* and he increases the amount of fruit he gathers from 56 to 90 pounds, the opportunity cost is
A) 37 pounds of fish.
B) 31 pounds of fish.
C) 17 pounds of fish.
D) 34 pounds of fruit.
E) 90 pounds of fruit.
Answer: C
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
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69) Robinson Crusoe divides his time between catching fish and gathering fruit. Part of his production possibilities frontier is given in the above table. Mr. Crusoe, while lonesome, is efficient and always stays on his *PPF*. Mr. Crusoe is consuming 20 pounds of fish. Then he decides to slowly become a vegetarian and decrease his consumption of fish to 9 pounds. This decision means that Mr. Crusoe will
A) incur an opportunity cost of 9 pounds of fruit.
B) incur an opportunity cost of 20 pounds of fish.
C) be able to enjoy a gain of 9 pounds of fruit.
D) incur an opportunity cost of 99 pounds of fruit.
E) incur an opportunity cost of 9 pounds of fish.
Answer: C
Topic: Opportunity cost
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Possibility	Robots	Pizza
A	0	40
B	1	39
C	2	37
D	3	34
E	4	30
F	5	20
G	6	0

70) The table above shows a nation's production possibilities frontier. If the nation wants to produce 4 robots and 34 pizzas
A) it will shift the production possibilities frontier.
B) the opportunity cost is 9 pizzas.
C) the nation will be producing inefficiently.
D) it will be unable to do so because the production point is unattainable.
E) the nation will then be producing at a production efficient point.
Answer: D
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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71) The table above shows a nation's production possibilities frontier. If the nation chooses to increase the production of robots from 2 to 3 and it is on its *PPF*, it will have to forgo _____ pizzas.
A) 37
B) 34
C) 3
D) 35.5
E) None of the above answers is correct.
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
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72) The table above shows a nation's production possibilities frontier. The opportunity cost of a robot between combination *D* and *E* is
A) 4 pizzas.
B) 34 pizzas.
C) 30 pizzas.
D) 1/4 of a pizza.
E) undefined because neither point is production efficient.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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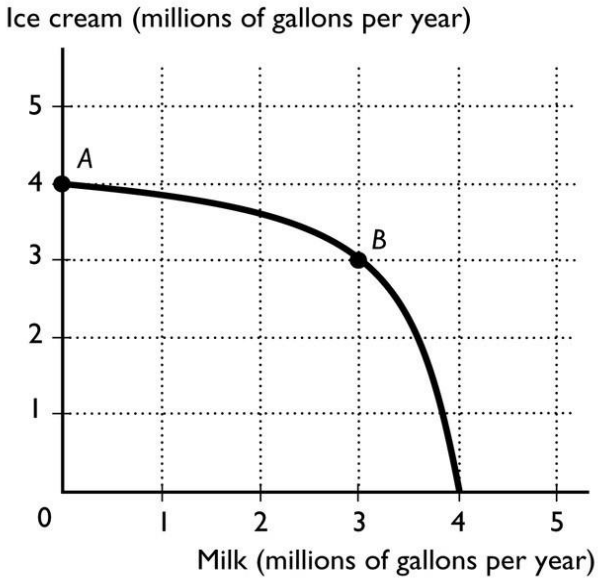

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73) The given figure shows the production possibilities frontier for a country. The opportunity cost of a gallon of milk between combination point *A* and *B* is
A) 4 gallons of ice cream for a gallon of milk.
B) 3 gallons of ice cream for a gallon of milk.
C) 1 gallon of ice cream for a gallon of milk.
D) 1/3 of a gallon of ice cream for a gallon of milk.
E) zero because at point *A*, zero milk is being produced.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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74) The given figure shows the production possibilities frontier for a country. If the economy is operating at point *B*, then the opportunity cost of another million gallons of milk is
A) 4 gallons of ice cream for a gallon of milk.
B) 3 gallons of ice cream for a gallon of milk.
C) 1 gallon of ice cream for a gallon of milk.
D) 1/3 of a gallon of ice cream for a gallon of milk.
E) zero because after producing another million gallons of milk, then zero gallons of ice cream are produced.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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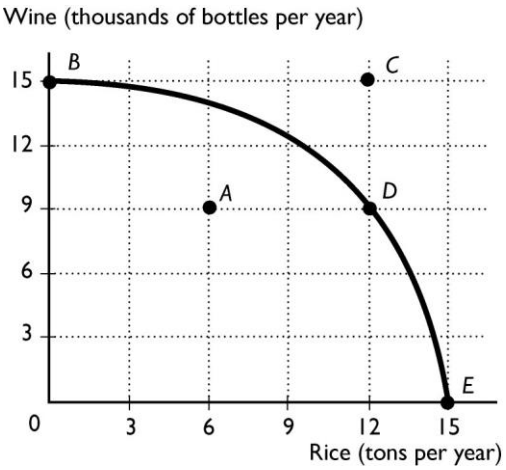

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75) The given figure shows the production possibility frontier for a country. Suppose the country is producing at point *A*. What is the opportunity cost of increasing the production of rice to 12 tons?
A) 15 thousand bottles of wine
B) 6 thousand bottles of wine
C) 9 thousand bottles of wine
D) 12 tons of rice
E) Nothing, it is a free lunch.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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76) The given figure shows the production possibility frontier for a country. Suppose the country is producing at point *D*. What is the opportunity cost of increasing the production of rice to 15 tons?
A) 9 thousand bottles of wine
B) 6 thousand bottles of wine
C) 15 thousand bottles of wine
D) 12 tons of rice
E) Nothing, it is a free lunch.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

77) The given figure shows the production possibility frontier for a country. Suppose the country is producing at point *E*. What would be the opportunity cost to increase the production of wine to 9 thousand bottles?
A) 12 tons of rice
B) 15 thousand bottles of wine
C) 9 thousand bottles of wine
D) 3 tons of rice
E) Nothing, it is a free lunch.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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78) The given figure shows the production possibility frontier for a country. Suppose the country is producing at point *D*. What would be the opportunity cost to move to point *C*?
A) 6 thousand bottles of wine
B) 15 thousand bottles of wine
C) 12 tons of rice
D) Nothing, it is a free lunch.
E) This movement is not possible without economic growth.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
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79) The given figure shows the production possibility frontier for a country. Suppose the country is producing at point *A*. What would be the opportunity cost to increase the production of rice to 12 tons?
A) 6 thousand bottles of wine
B) 15 thousand bottles of wine
C) 9 thousand bottles of wine
D) 6 tons of rice
E) Nothing, it is a free lunch.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

80) The given figure shows the production possibility frontier for a country. What is the opportunity cost per ton of rice to move from point *B* to point *D*?
A) 1,000 bottles of wine
B) 500 bottles of wine
C) 2 bottles of wine
D) 1/2 of a bottle of wine
E) None of the above answers is correct.
Answer: B
Topic: Opportunity cost
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Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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81) The given figure shows the production possibility frontier for a country. What is the opportunity cost per ton of rice to move from point *D* to *E*?
A) 3,000 bottles of wine
B) 333 bottles of wine
C) 3 bottles of wine
D) 1/3 of a bottle of wine
E) None of the above answers is correct.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
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82) The given figure shows the production possibility frontier for a country. What is the opportunity cost to move from point *D* to point *E*?
A) 6 thousand bottles of wine
B) 15 thousand bottles of wine
C) 6 tons of rice
D) 9 thousand bottles of wine
E) Nothing, it is a free lunch.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

83) The given figure shows the production possibility frontier for a country. What is the opportunity cost to move from point *D* to point *B*?
A) 12 tons of rice
B) 15 thousand bottles of wine
C) 6 thousand bottles of wine
D) 9 thousand bottles of wine
E) Nothing, it is a free lunch.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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84) Moving from a point inside the production possibilities frontier to a point on the production possibilities frontier, the opportunity cost of producing more of the good on the horizontal axis
A) increases.
B) decreases.
C) is constant.
D) is 0.
E) is infinite.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
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85) Consider a production possibility frontier with jeans on the vertical axis and shoes on the horizontal axis. As a country moves along the frontier closer to the vertical axis
A) the opportunity cost of producing jeans increases.
B) the opportunity cost of producing shoes increases.
C) there are fewer tradeoffs.
D) inefficient production occurs.
E) the opportunity cost of producing jeans decreases.
Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

86) Suppose that in a *PPF* graph, wheat is on the vertical axis and jets are on the horizontal axis. Moving down along the *PPF*, the
A) number of jets increases and the opportunity cost of jets increases.
B) amount of wheat increases and the opportunity cost of wheat increases.
C) number of jets increases and the opportunity cost of jets decreases.
D) amount of wheat increases and opportunity cost of wheat decreases.
E) opportunity cost of jets AND wheat both increase.
Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
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Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

87) Why is a production possibilities frontier bowed out (concave)?
A) The bowed shape reflects constant opportunity cost.
B) The bowed shape reflects decreasing opportunity cost.
C) The bowed shape indicates that opportunity cost at first decreases at a decreasing rate, and then begins to decrease at an increasing rate.
D) The bowed shape indicates that opportunity cost at first increases at a decreasing rate, and then begins to increase at an increasing rate.
E) The bowed shape reflects increasing opportunity cost.
Answer: E
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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88) The bowed out (concave) shape of the production possibilities curve implies that as production of one good
A) increases, society must forgo increasing amounts of another good.
B) increases, society must forgo decreasing amounts of another good.
C) decreases, production of other goods decreases as well.
D) increases, production of other goods increases as well.
E) increases, society can obtain a free lunch.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

89) The idea of increasing opportunity cost is reflected in the
A) bowed out shape of the production possibilities frontier.
B) bowed in shape of the production possibilities frontier.
C) linear shape of the production possibilities frontier.
D) positive slope of the production possibilities frontier.
E) fact that the *PPF* shows there are unattainable production points.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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90) A bowed out production possibilities frontier shows
A) that resources are equally productive in all uses.
B) increasing opportunity cost.
C) that resources are not equally productive in all uses.
D) Both answers B and C are correct.
E) Both answers A and B are correct.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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91) The opportunity cost of a good increases as more of it is produced because
A) there is no such thing as a free lunch.
B) resources are not equally productive in all activities.
C) producing more of a good requires additional resources.
D) the number of forgone alternatives also increases.
E) people want the good less as more is produced.
Answer: B
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

92) As an economy increasingly specializes in producing one good, the opportunity cost of that good increases. The opportunity cost increases because
A) resources are not equally productive in all activities.
B) what must be paid to resources increases.
C) human wants are virtually unlimited.
D) not all goods are equally valuable.
E) as more of a good is produced, the profit from its production must rise.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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93) As an economy produces more of one of the goods on a bowed out production possibilities frontier, what happens to the opportunity cost of producing the good?
A) It remains constant.
B) It decreases.
C) It increases.
D) It might increase, decrease, or remain constant depending on how much people value the additional units of the good.
E) None of these depicts what happens to opportunity cost.
Answer: C
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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94) When a production possibilities frontier is bowed outward, as more of one good is produced, its opportunity cost
A) increases.
B) decreases.
C) remains constant.
D) might increase, decrease, or remain constant depending on how much people value the additional units of the good.
E) cannot be predicted.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

95) A bowed out *PPF* reflects which of the following ideas?
i. Increasing opportunity cost
ii. Resources are not equally productive in all activities.
iii. Prices of goods increase over time.
A) i only
B) i and ii
C) i and iii
D) ii and iii
E) i, ii, and iii
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Answer: B
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

96) If there is increasing opportunity cost, then when moving downward on a production possibilities frontier, the opportunity cost of the good on the horizontal axis _____ as more of the good is produced.
A) increases and the *PPF* gets steeper
B) increases and the *PPF* gets flatter
C) decreases and the *PPF* gets steeper
D) decreases and the *PPF* gets flatter
E) does not change and the *PPF* gets steeper
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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97) A bowed out production possibility frontier shows that the
A) opportunity cost of a good is constant as more of the good is produced.
B) opportunity cost of a good decreases as more of the good is produced.
C) opportunity cost of a good increases as more of the good is produced.
D) opportunity cost relationship is linear.
E) opportunity cost of producing another good is negative.
Answer: C
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

98) Why does a nation experience increasing opportunity cost?
A) As the nation moves from a production point within the *PPF* to one on the *PPF*, opportunity costs increase.
B) As the nation moves from a production point within the *PPF* to another point also within the *PPF*, opportunity costs increase.
C) When the amount of resources increases, the opportunity cost of all goods and services increases.
D) Resources are not equally productive in producing different kinds of goods and services.
E) Because the nation cannot produce at the unattainable production points that lie beyond the *PPF*.
Answer: D
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Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

99) The fact of increasing opportunity cost when moving on the *PPF* means that
A) to increase the production of one product requires larger and larger sacrifices of the other good.
B) to decrease the production of one product requires smaller and smaller sacrifices of the other good.
C) to increase the production of one product requires smaller and smaller sacrifices of the other good.
D) when the government forces a movement from one point on the *PPF* to another point, no production is lost.
E) the *PPF* will be a negatively sloped straight line.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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100) Production possibilities frontiers usually curve out and away from the origin. The implication of this curvature is that
A) as resources are used to produce one good, fewer resources are available to produce another good.
B) the opportunity cost of producing a good goes down as more of that good is produced.
C) technological change is present.
D) the opportunity cost of producing a good stays the same regardless of how much of that good is produced.
E) some resources are better at producing one good while other resources are better at producing alternative goods.
Answer: E
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

101) If the production possibilities frontier between two goods were a straight line, then the opportunity cost of one good in terms of another would be
A) constant.
B) increasing.
C) decreasing.
D) zero.
E) either constant, increasing, or decreasing but more information is needed to determine which.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

102) If the production possibilities frontier between two goods is a straight line, then the
A) opportunity cost is not a ratio.
B) resources are equally productive in both goods.
C) line does not qualify as a production possibilities frontier because the unattainable production points are too close to the inefficient production points.
D) Both answers A and C are correct.
E) Both answers A and B are correct.
Answer: B
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
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103) As an economy moves down along a straight line production possibilities frontier, what happens to the opportunity cost of producing the good on the horizontal axis?
A) It remains constant.
B) It decreases.
C) It increases.
D) Above the midpoint it decreases until it equals 1 at the midpoint, and then it increases.
E) None of these depict what happens to opportunity cost.
Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

104) If the production possibilities frontier between bottled water and water in a jug is a straight line, which of the following statements would be correct?
A) A large amount of unemployment must exist.
B) Resources are equally productive at producing either product.
C) There is no tradeoff between the two goods.
D) There is no decrease in the production of one good when the production of the other is increased.
E) Producing more of one good gives the economy a free lunch.
Answer: B
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
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Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

105) The table above shows the production possibilities for an economy. Drawing a *PPF* with books on the vertical axis and bread on the horizontal axis, a movement from possibility B to possibility C to possibility D shows the opportunity cost of _____ moving down along the *PPF*.
A) books is decreasing
B) bread is decreasing
C) bread is increasing
D) books is constant
E) books and bread are both increasing
Answer: C
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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106) The table above shows the production possibilities for an economy. The opportunity cost of a loaf of bread is _____ when moving from possibility B to possibility C.
A) 1/2 of a book
B) 2 books
C) 200 books
D) 100 loaves of bread
E) 1 loaf of bread
Answer: B
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
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Possibility	Capital goods	Consumption goods
A	0	60
B	2	55
C	4	45
D	6	25
E	8	0

107) The table above presents the production possibilities frontier for a nation. Using the information in the table, moving from possibility *C* to *B* means that
A) 4 units of capital goods are given up to get 55 units of consumption goods.
B) 2 units of capital goods are given up to get 55 additional units of consumption goods.
C) 4 units of capital goods are given up to get 10 additional units of consumption goods.
D) 4 units of capital goods are given up to get 45 units of consumption goods.
E) 2 units of capital goods are given up to get 10 additional units of consumption goods.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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108) The table above presents the production possibilities frontier for a nation. Using the information in the table, when moving from possibility C to D, the cost of 1 unit of a capital good in terms of the consumption goods forgone is _____ consumption goods per capital good.
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A) 25
B) 15
C) 20
D) 10
E) an undefined amount of
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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109) The table above presents the production possibilities frontier for a nation. Using the information in the table, when moving from possibility *A* to *B* to *C* to ultimately *E*, the cost of a unit of capital goods in terms of consumption goods
A) increases.
B) decreases.
C) remains the same.
D) decreases from possibility *A* to *C*, and then increases from possibility *C* to *D*.
E) cannot be calculated.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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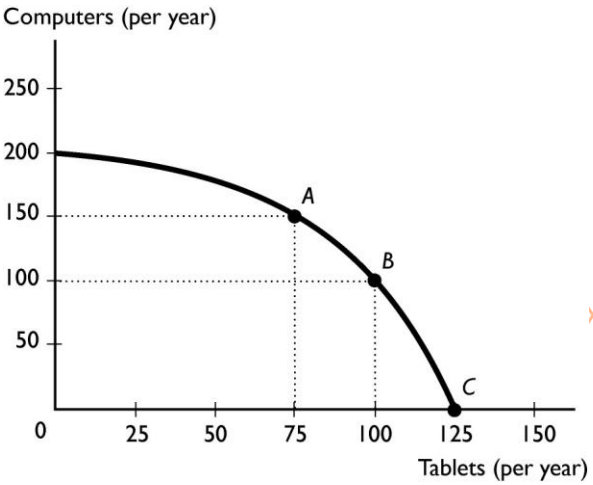

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T B E X A M . C O M

110) The given figure illustrates a small country's production possibilities frontier. Based on the figure, we can tell that the nation's resources are
A) equally productive in all tasks because the slope is negative.
B) equally productive in all tasks because the production possibilities frontier is bowed out.
C) not equally productive in all tasks because the slope is negative.
D) not equally productive in all tasks because the production possibilities frontier is bowed out.
E) unlimited because the slope is negative and the *PPF* is bowed out.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
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111) The given figure illustrates a small country's production possibilities frontier. Moving from point *A* to point *B*, the per unit opportunity cost of a tablet is _____ per tablet.
A) 2 computers
B) 4/3 of a computer
C) 100 computers
D) 1/2 of a computer
E) 1 tablet
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

112) The given figure illustrates a small country's production possibilities frontier. Moving from point *C* to point *B*, the per unit opportunity cost of computers is _____ per computer.
A) 4 tablets
B) 5/4 of a tablet
C) 4/5 of a tablet
D) 1/4 of a tablet
E) 1 computer
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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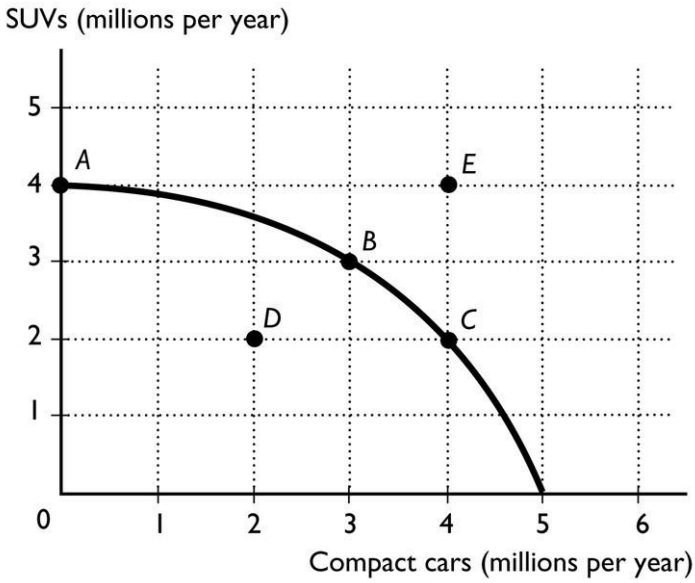

113) The given figure shows the production possibilities frontier for a country. In order for it to move from producing at point *A* to producing at point *B*, the country would need to
A) decrease SUV production by 1 million.
B) decrease SUV production by 3 million.
C) decrease SUV production by 4 million.
D) decrease compact car production by 3 million.
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E) acquire more resources and/or more advanced technology.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

114) The given figure shows the production possibilities frontier for a country. In order for it to move from producing at point *A* to producing at point *B*, the country would need to incur an opportunity cost of
A) 1 million SUVs.
B) 3 million SUVs.
C) 4 million SUVs.
D) 3 million compact cars.
E) 0 because the gain in compact cars exceeds the loss in SUVs.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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115) The given figure shows the production possibilities frontier for a country. How does the opportunity cost of compact cars forgone per SUV gained moving from point *C* to point *B* compare with the movement from point *B* to point *A*?
A) The opportunity cost of moving from point *C* to point *B* is greater than the movement from point *B* to point *A*.
B) The opportunity cost of moving from point *C* to point *B* is the same as the movement from point *B* to point *A*.
C) The opportunity cost of moving from point *C* to point *B* is less than the movement from point *B* to point *A*.
D) The opportunity costs cannot be compared because the units of moving from point *C* to point *B* differ from the units of moving from point *B* to point *A*.
E) More information is needed to determine how the two opportunity costs compare.
Answer: C
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

116) Once you find the opportunity cost of producing one unit of a good, to find the opportunity cost of producing the other good, you must
A) take the inverse.
B) multiply by the total amount produced of the second good.
C) divide by the total amount produced of the second good.
D) do nothing because the opportunity cost for the first good is the same as the opportunity cost for the second good.
E) None of the answers is correct.
Answer: A
Topic: Opportunity cost is a ratio
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

117) While moving on the production possibilities frontier, if the opportunity cost of producing one good is 1/2, the opportunity cost of producing the other good (in the same range) is
A) 1/2.
B) 1/4.
C) 2.
D) 4.
E) an amount that cannot be calculated without more information.
Answer: C
Topic: Opportunity cost is a ratio
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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118) The opportunity cost of producing more of one good on a production possibilities frontier is
A) a dollar amount.
B) a ratio of quantities.
C) a ratio of prices.
D) equal to the area inside the production possibilities frontier.
E) a theoretical concept which cannot be measured.
Answer: B
Topic: Opportunity cost is a ratio
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

119) The opportunity cost of one more slice of pizza in terms of sodas is the
A) number of pizza slices we have to give up in order to get one extra soda.
B) number of sodas we have to give up in order to get one extra pizza slice.
C) total number of sodas that we have divided by the total number of pizza slices that we have.
D) total number of pizza slices that we have divided by the total number of sodas that we have.
E) price of a pizza slice minus the price of a soda.
Answer: B
Topic: Opportunity cost
Skill: Level 1: Definition
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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120) Moving between two points on a *PPF*, a country gains 6 automobiles and forgoes 3 trucks. The opportunity cost of 1 automobile is
A) 3 trucks.
B) 6 automobiles - 3 trucks.
C) 2 trucks.
D) 1/2 of a truck.
E) 1 automobile.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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121) Moving between two points on a *PPF*, a country gains 8 desktop computers and forgoes 4 laptop computers. The opportunity cost of 1 desktop computer is
A) 4 laptops.
B) 8 desktops.
C) 1 desktop.
D) 2 laptops.
E) 1/2 of a laptop.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

122) A country produces only cans of soup and ink pens. If the country produces on its bowed outward *PPF* and increases the production of cans of soup, the opportunity cost of additional
A) cans of soup is increasing.
B) cans of soup is decreasing.
C) cans of soup remains unchanged.
D) ink pens is increasing.
E) More information is needed to determine what happens to the opportunity cost.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
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Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

123) Moving along a country's *PPF*, a reason opportunity costs increase is that
A) unemployment decreases as a country produces more and more of one good.
B) unemployment increases as a country produces more and more of one good.
C) technology declines as a country produces more and more of one good.
D) some resources are better suited for producing one good rather than the other.
E) technology must advance in order to produce more and more of one good.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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124) Increasing opportunity cost exists
A) in the real world.
B) as long as there is high unemployment.
C) only in theory but not in real life.
D) for a country but not for an individual.
E) inside the *PPF* but not on the *PPF*.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 1: Definition
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

125) Which of the following is the best definition of economic growth?
A) the investment in capital and consumption goods by an economy
B) the opportunity cost of capital
C) the opportunity cost of consumption
D) increased development of land and entrepreneurship
E) the sustained expansion of production possibilities
Answer: E
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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126) The sustained expansion of production possibilities is called
A) economic investment.
B) production expansion.
C) opportunity cost of growth.
D) economic growth.
E) production possibilities.
Answer: D
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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127) Which of the following would most likely cause a country's production possibilities set to shift outward at every point along the frontier?
A) a decrease in idle capital
B) a decrease in unemployment
C) a technological advance in only one sector of the economy
D) a general technological advance that affects all sectors of the economy
E) none of the above
Answer: D
Topic: Economic growth and the PPF
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

128) Consider a *PPF* with consumption goods on the horizontal axis and capital goods on the vertical axis. If the country operates on its *PPF* near its _____ axis, this country _____.
A) vertical; will experience greater economic growth
B) vertical; will not face opportunity costs
C) horizontal; will have a larger chance at economic growth
D) horizontal; faces larger tradeoffs
E) vertical; is operating at an inefficient point
Answer: A
Topic: Economic growth and the PPF
Skill: Level 3: Using models
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Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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129) Economic growth depends upon which of the following?
i. Increasing the quantity of labor
ii. Lowering the prices of goods and services
iii. Advancing technology
A) i only
B) ii only
C) iii only
D) i and iii
E) i, ii, and iii
Answer: D
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
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130) Economic growth depends upon which of the following?
i. Improving the quality of labor
ii. Technological advancement
iii. Increasing the amount of capital
A) i only
B) ii only
C) iii only
D) i and iii
E) i, ii, and iii
Answer: E
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

131) As an economy grows
A) its *PPF* shifts outward.
B) it can eliminate scarcity.
C) the opportunity cost of production will approach 0.
D) the opportunity cost of production will increase.
E) its *PPF* does not shift; instead, the production point moves from inside the *PPF* to be closer to the *PPF*.
Answer: A
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Topic: Economic growth and the PPF
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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132) The opportunity cost of economic growth is
A) 0, because it means an expansion of production possibilities.
B) the decrease in the current production of productive factors.
C) a slower accumulation of human capital.
D) the decrease in the current production of consumption goods.
E) the increase in the nation's capital stock and/or its technology.
Answer: D
Topic: Economic growth, opportunity cost
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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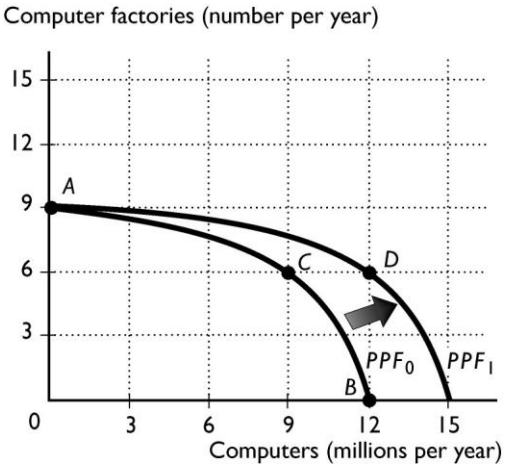
133) What is the opportunity cost of economic growth?
A) current period consumption goods
B) current period capital goods
C) land
D) both current period consumption and capital goods
E) both current period capital goods and land
Answer: A
Topic: Economic growth, opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking



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134) The given figure shows the *PPF* for a country that produces computers and computer factories. Which of the following would most likely shift the *PPF* from PPF_0 in one year to PPF_1 in the next?
A) Nothing, because the *PPF* does not shift.
B) Increase the production of computers from 9 million (at point *C*) to 11 million (at point *B*).
C) Decrease the production of computers from 11 million (at point *B*) to 9 million (at point *C*) and build 9 new computer factories.
D) Increase consumption of both computers and computer factories.
E) Decrease production of both computers and computer factories by moving into the interior of the *PPF*.
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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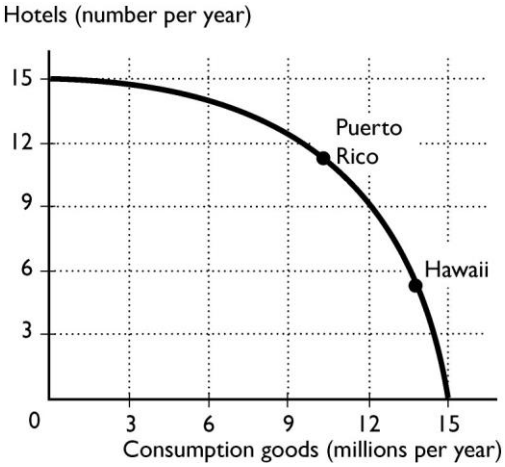
135) The given figure shows the *PPF* for a country that produces computers and computer factories. The nation's production possibilities frontier is PPF_0. At which of the following production points would the economy grow most rapidly?
A) Point *A*
B) Point *B*
C) Point *C*
D) It makes no difference among the three points because they are all production efficient.
E) More information is needed to answer the question.
Answer: A
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills



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136) Suppose Puerto Rico and Hawaii currently have the same production possibilities so that the given figure is the *PPF* for hotels and consumption goods in the two areas. Hotels are a capital good that,once built, will help produce still more consumption goods. If Puerto Rico produces more hotels than Hawaii
A) Hawaii's *PPF* will shift outward further than Puerto Rico's *PPF*.
B) Hawaii's *PPF* will shift inward.
C) Puerto Rico's *PPF* will not shift.
D) Puerto Rico's and Hawaii's *PPF* will shift outward by the same amount.
E) Puerto Rico's *PPF* will shift outward further than Hawaii's *PPF*.
Answer: E
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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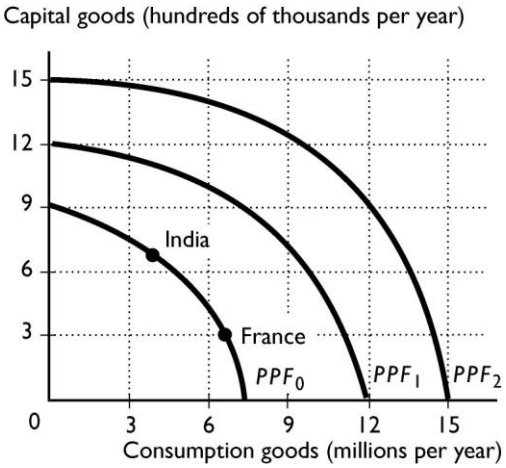
137) Suppose Puerto Rico and Hawaii currently have the same production possibilities so that the given figure is the *PPF* for hotels and consumption goods in the two areas. Hotels are a capital good that,once built, will help produce still more consumption goods. According to the figure, which island will have more rapid economic growth?
A) Hawaii
B) Both Hawaii and Puerto Rico will grow at the same speed.
C) Puerto Rico
D) Neither Hawaii nor Puerto Rico will grow.
E) More than one of the above answers is correct.
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills



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138) Suppose India and France have the same *PPF*, shown in the given figure. Based on their current production points, which is India's most likely future *PPF*?
A) PPF_2
B) PPF_1
C) PPF_0
D) either PPF_0 or PPF_1
E) None of the above because economic growth will not happen in India.
Answer: A
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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139) Suppose India and France have the same *PPF*, shown in the given figure. Based on their current production points, which is France's most likely future *PPF*?
A) PPF_2
B) PPF_1
C) PPF_0
D) either PPF_0 or PPF_1
E) None of the above because economic growth will not happen in India.
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

140) Suppose India and France have the same *PPF*, shown in the given figure. Based on their current production points, India's most likely future *PPF* is _____, and France's most likely future *PPF* is _____.
A) PPF_1; PPF_1
B) PPF_2; PPF_2
C) PPF_0; PPF_0
D) PPF_2; PPF_1
E) PPF_1; PPF_2
Answer: D
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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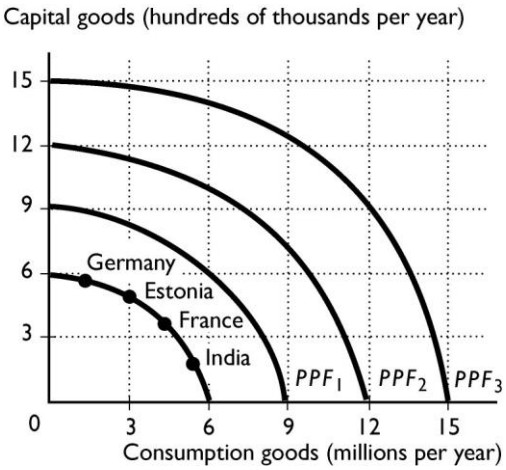

141) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the given figure. Based on the production points in the figure, which country is most likely to expand its *PPF* to PPF_3?
A) India
B) Germany
C) Estonia
D) France and Germany equally
E) France
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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142) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the given figure. Based on the production points in the figure, which country is most likely to expand its *PPF* to PPF_1?
A) France and Germany equally
B) India
C) Estonia
D) France
E) Germany
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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143) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the given figure. Based on the production points in the figure, India is most likely to expand its *PPF* to
A) PPF_3 or PPF_2.
B) PPF_3.
C) PPF_1.
D) PPF_1. or PPF_2.
E) PPF_2.
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

144) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the given figure. Based on the production points in the figure, Germany is most likely to expand its *PPF* to
A) PPF_3 or PPF_2.
B) PPF_3.
C) PPF_1.
D) PPF_1 or PPF_2.
E) PPF_2.
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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145) To increase its economic growth, a nation should
A) limit the number of people in college because they produce nothing.
B) encourage spending on goods and services.
C) encourage education because that increases the quality of labor.
D) increase current consumption.
E) eliminate expenditure on capital goods.
Answer: C
Topic: Economic growth
Skill: Level 2: Using definitions
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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146) Other things equal, if Mexico devotes more resources to train its population than Spain
A) Mexico will be able to eliminate opportunity cost faster than Spain.
B) Mexico will be able to eliminate scarcity faster than Spain.
C) Spain will grow faster than Mexico.
D) Mexico will have more current consumption than Spain.
E) Mexico will grow faster than Spain.
Answer: E
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

147) If a nation devotes a larger share of its current production to consumption goods, then
A) its economic growth will slow down.
B) its *PPF* will shift outward.
C) its *PPF* will shift inward.
D) some productive factors will become unemployed.
E) it must produce at a point within its *PPF*.
Answer: A
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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148) Which of the following statements is correct?
i. As the economy grows, the opportunity costs of economic growth decrease.
ii. Economic growth has no opportunity cost.
iii. The opportunity cost of economic growth is current consumption forgone.
A) i only
B) ii only
C) iii only
D) i and iii
E) i and ii
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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149) When a country's production possibilities frontier shifts outward over time, the country is experiencing
A) no opportunity cost.
B) economic growth.
C) higher unemployment of resources.
D) a decrease in unemployment of resources.
E) an end to opportunity cost.
Answer: B
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

150) The opportunity cost of economic growth is _____ and the benefit of economic growth is _____.
A) increased current consumption; increased future consumption
B) increased current consumption; decreased future consumption
C) decreased current consumption; increased future consumption
D) decreased current consumption; decreased future consumption
E) nothing; increased future consumption
Answer: C
Topic: Economic growth
Skill: Level 1: Definition
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Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

151) What does the vertical intercept of a production possibilities frontier represent?
Answer: The vertical intercept is the maximum amount that can be produced if all available resources are dedicated to the production of the good or service measured on the vertical axis.
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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152) What economic concepts are represented in the production possibilities model?
Answer: There are a large number of economic concepts illustrated by the production possibilities frontier:
· Scarcity of resources: The production possibilities frontier is a frontier between attainable and unattainable combinations.
· Opportunity cost: The negative slope of the production possibilities frontier indicates that in order to get more of one good, you must produce less of the other (tradeoff).
· Increasing opportunity cost: The bowed out production possibilities frontier represents the changing opportunity costs when resources are specialized.
· Production efficiency: Points on the production possibilities frontier efficiently use all resources while points below the production possibilities frontier represent unemployed or misallocated resources and the possibility of a free lunch.
Topic: Production possibilities frontier
Skill: Level 5: Critical thinking
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

153) How can a combination of goods be unattainable?
Answer: A combination of goods can be unattainable if producing that combination requires more resources and technology than are available.
Topic: Unattainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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154) What does a production point beyond the production possibilities frontier represent?
Answer: A production point beyond the production possibilities frontier is an unattainable combination of products.
Topic: Unattainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

155) Are all points inside the production possibilities frontier unattainable?
Answer: No, all points within the production possibilities frontier are attainable, though there are unemployed resources at these points.
Topic: Attainable points, unemployment
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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156) In the movie *Cast Away*, Tom Hanks plays a FedEx efficiency expert stranded on a deserted island. While on the island, he divides his time between catching fish, gathering coconuts, painting, and building a raft. Suppose that these were Mr. Hanks' only activities. Did he face an opportunity cost from pursuing any of these activities? Why or why not?
Answer: Yes, Mr. Hanks faces an opportunity cost from all of these endeavors. If he decides to use his time catching fish, he couldn't gather coconuts, paint, or build a raft. Whatever he would have been doing, not opting to catch fish is his opportunity cost of catching fish. Similarly, time spent on building his raft means less time painting, or fewer coconuts for breakfast, or fewer fish for dinner. Tradeoffs such as these are a feature of any economy that is operating on its production possibilities frontier and cannot be avoided.
Topic: Tradeoffs
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

157) What does it mean when a "free lunch" is available? Relate your answer to the production possibilities frontier.
Answer: A free lunch means that there is no tradeoff, that is, the production of one good or service can be increased without decreasing the production of another good or service and thereby giving up some of the other good. A free lunch occurs when the economy is producing at a point within the production possibilities frontier because at these points some resource is unemployed. By utilizing the unemployed resource, more goods or services can be produced without giving up any other goods or services.
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Topic: Free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

158) Describe the differences between tradeoffs and free lunches in terms of a *PPF*.
Answer: A tradeoff is a constraint or limit that forces giving up one thing in exchange for something else. When resources are fully employed, a country operates on its *PPF*. Any movement from one point to another point along the *PPF* requires the country to make a tradeoff between the two goods because one good is given up to get some other good. A free lunch occurs when some resources are not being used or not being used in their most productive way. When a country operates inside its *PPF* and moves toward its *PPF* choosing a different combination of goods, the country enjoys a free lunch. It does not face a tradeoff.
Topic: Tradeoffs and free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

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159) On a production possibilities frontier diagram, where are production points that have tradeoffs? Where are production points with a free lunch?
Answer: A tradeoff is a situation in which a limit forces one thing to be given up in exchange for something else. Any point on the production possibilities frontier itself is a production point with a tradeoff. Why? Moving along the production possibilities frontier means that more of one good can be obtained only at the (opportunity) cost of giving up some other good, which means that there is a tradeoff. A free lunch is the absence of a tradeoff, that is, when the production of a good or service can be increased without decreasing the production of another good or service. A free lunch occurs at any point within the production possibilities frontier. At these points, resources are being used inefficiently. By utilizing the resource efficiently, more goods or services can be produced without giving up any other goods or services.
Topic: Tradeoffs and free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

160) Explain why a movement from a point inside a production possibilities frontier to the production possibilities frontier is described as a free lunch and a movement along a production possibilities frontier is described as a tradeoff.
Answer: The key point to answer this question is the fact that producing more of a good requires more resources. Hence, if all resources are employed efficiently, as is the case when producing on the production possibilities frontier, producing more of one good means reallocating resources away from the production of another good; there is a tradeoff between the two goods. In other words, to produce more of one good, the production of another must be given up. If, however, resources are used inefficiently, as is the case when producing inside the production possibilities frontier, then the production of a good can be increased by using the resources efficiently; hence no tradeoff is required and the additional goods are a free lunch.
Topic: Tradeoffs and free lunches
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

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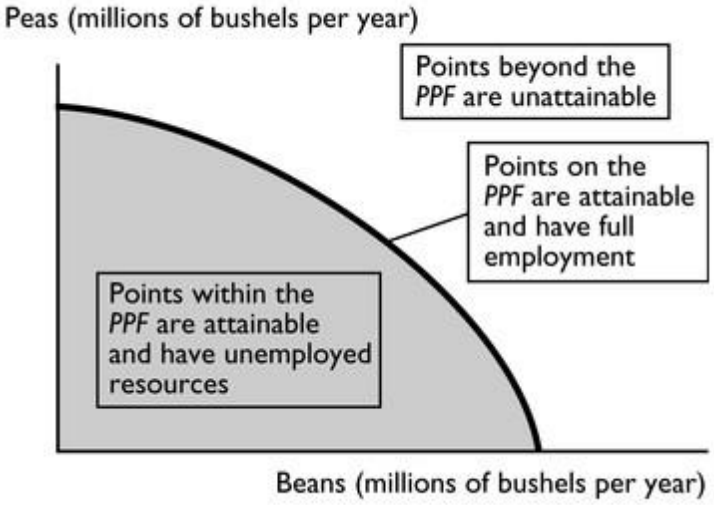
161) Draw a production possibilities frontier between beans and peas. Label the unattainable points, the attainable points with fully employed resources, and the attainable points with unemployed resources.
Answer:



The production possibilities frontier, with the points labeled, is above. Any point beyond the production possibilities frontier is unattainable. Any point on the production possibilities frontier is attainable and resources are fully employed. Finally, any point within the production possibilities frontier is attainable and has unemployed resources.
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Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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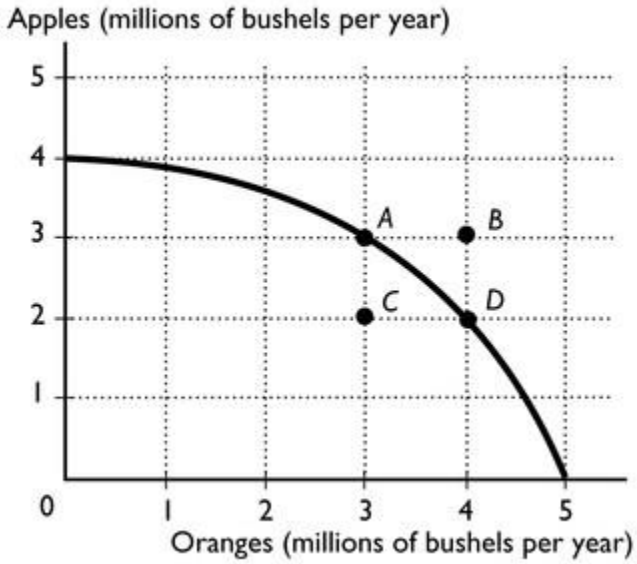

162) The given figure shows a nation's production possibilities frontier for apples and oranges.
a. What combination of goods is represented by point *A*?
b. What combination of goods is represented by point *B*?
c. Which point represents an unattainable combination of goods?
d. The movement from point *C* to point *D* results in a free lunch. What is the free lunch?
Answer:
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a. 3 million bushels of apples and 3 million bushels of oranges
b. 3 million bushels of apples and 4 million bushels of oranges
c. Point B is an unattainable point.
d. The movement from point *C* to point *D* results in an increase of 1 million bushels of oranges with no decrease in apples. Therefore the 1 million bushels of oranges are a free lunch.
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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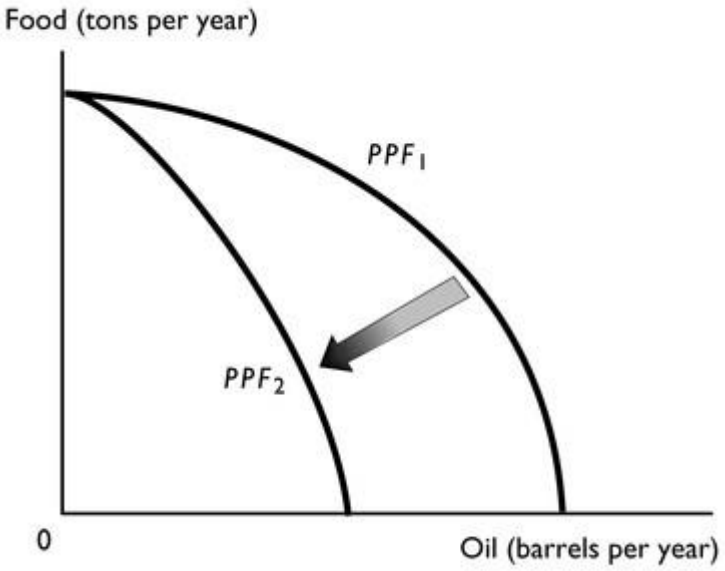
163) Before the first Gulf War, Kuwait had the capacity to produce a certain amount of oil from its oil wells. After the war, it found that capacity greatly diminished because the oil wells were on fire. Draw Kuwait's *PPF* before and after the war, assuming that the only two goods produced are oil and food. Further assume that setting the oil wells on fire did not affect Kuwait's ability to produce food. Explain why the *PPF* before the war is different from the *PPF* after the war.
Answer:



When a *PPF* is drawn, we draw it for a fixed amount of natural resources, along with fixed amounts of the other factors of production such as labor, capital, etc. Fire reduced Kuwait's natural resources temporarily, so the *PPF* after the war shifted inwards. However, because setting the oil wells on fire did not affect Kuwait's ability to produce food, the maximum amount of food production, the point where the *PPF* intersects the vertical axis, did not change.
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

164) Moving on a bowed out *PPF*, what happens to the opportunity cost of its production as a nation specializes more in one product?
Answer: The bowed out *PPF* indicates that as the amount of the good produced increases, the good's opportunity cost increases.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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165) Why is the production possibilities frontier bowed out?
Answer: The production possibilities frontier is bowed out because resources are not equally productive in all uses. The resources used to produce robots are different from the resources used to produce pizzas. Thus, as more of one good is produced, say robots, less productive resources must be used to increase the number of robots produced. Hence the opportunity cost of the additional robots increases, which gives the production possibilities frontier a bowed out shape.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Written and oral communication

166) Why does the production possibilities frontier have a bowed out shape rather than being a straight line?
Answer: The fact that as the production of one good or service increases, its opportunity cost increases means that the production possibilities frontier will be bowed out. Only if the opportunity cost remained constant as the production of a good increases would the production possibilities frontier be a straight line.
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Written and oral communication

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167) When economists state that the opportunity cost of a product increases as more of it is produced, what do they mean? For instance, what is the opportunity cost? And, where in a *PPF* diagram does this statement apply and where does it not apply?
Answer: In general, the opportunity cost of increasing the production of one good or service is the forgone production of another good or service. The statement that the opportunity cost of a product increases as more of it is produced applies to production points on the production possibilities frontier. On the production possibilities frontier, resources are fully employed. Hence to increase the production of one good or service, resources must be switched away from the production of another good or service and hence the production of that good or service decreases. And, as more of the first good or service is produced, the opportunity cost of an additional unit becomes larger, so that the opportunity cost increases. However, the assertion that the opportunity cost of a product increases as more of it is produced does not apply to production points within the production possibilities frontier. Production points within the production possibilities frontier are points at which there are resources being used inefficiently. From a production point with inefficiently used resources, to increase the production of a good, some of the resources can be used efficiently and so there is no opportunity cost in terms of forgone other products. Therefore from a point within the production possibilities frontier, the opportunity cost of increasing the production of a good is zero.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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168) What is the relationship between the bowed out shape of the production possibilities frontier and the increasing opportunity cost of a good as more of it is produced?
Answer: The production possibilities frontier is bowed out because the opportunity cost of a good increases as more of it is produced. As the first unit of the good measured along the horizontal axis is produced, resources that are extremely well suited for its production can be used. Because of the suitability, not many resources need to be devoted to its production, so the opportunity cost-the decrease in the production of the good measured along the vertical axis-is not large. Hence at this location along the production possibilities frontier, the slope of the production possibilities frontier is shallow. But, as more of the product is produced, resources that are not as well suited must be devoted to its production. Consider one of the last units of this good, just before the production possibilities frontier intersects the horizontal axis. By the time the nation produces this much of the product, to produce one more unit means that resources that are extremely poorly suited in its manufacture must be used. Because these resources are not well suited, a lot of them must be used and, because a lot of them must be used, the opportunity cost in terms of the forgone other good is large. With the large decrease in the production of the good along the vertical axis, the slope of the production possibilities frontier at this location is steep. So, the production possibilities frontier goes from having a shallow slope to a steep one, that is, the production possibilities frontier is bowed outward.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Written and oral communication

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Production point	Pages typed		Web pages created
A	0	and	4
B	40	and	3
C	70	and	2
D	90	and	1
E	100	and	0

169) Jean can either type her term paper or create Web pages during the limited time she has available. The table above shows her *PPF*.
a. Can Jean type 90 pages and create 2 Web pages?
b. Use the above numbers to calculate the opportunity cost of a typed page as she increases her time typing and decreases time creating a Web page.
Answer:
a. Jean cannot type 90 pages and create 2 Web pages because, as row *D* shows, that combination is beyond her *PPF*.
b. The opportunity cost is the ratio of the decrease in the number of Web pages divided by the increase in the number of typed pages. The following table gives the opportunity cost for typed pages.

Movement from	Increase in typed pages	Decrease in Web pages	Opportunity cost
A to *B*	40	1	1/40
B to *C*	30	1	1/30
C to *D*	20	1	1/20
D to *E*	10	1	1/10

Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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Production point	Wheat (bushels)		Soybeans (bushels)
A	1,500	and	0
B	1,000	and	2,250
C	500	and	3,500
D	0	and	4,000

170) The table above gives the production possibilities frontier for a nation that produces wheat and soybeans. Use the information in that table to complete the table below, which has in it the opportunity costs of moving from one production point to another. Do not forget to note the units of the opportunity costs.

Movement from	Opportunity cost	Movement from	Opportunity cost
A to *B*		*D* to *C*	
B to *C*		*C* to *B*	
C to *D*		*B* to *A*	

Answer:

Movement from	Opportunity cost (bushels of soybeans per bushel of wheat)	Movement from	Opportunity cost (bushels of wheat per bushel of soybeans)
A to *B*	0.22	*D* to *C*	1.00
B to *C*	0.40	*C* to *B*	2.50
C to *D*	1.00	*B* to *A*	4.50

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The table above gives the opportunity costs. The units of the opportunity costs are in the column headings.
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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Production point	Beef (pounds)		Wheat (bushels)
A	0	and	9
B	2	and	7
C	4	and	4
D	6	and	0

171) The table above presents the production possibilities of Farmer Brown. Use these data to calculate Farmer Brown's opportunity cost of additional beef as Farmer Brown moves from point *A* to *B* to *C* to *D*. Also use the data to calculate Farmer Brown's opportunity cost of additional wheat as Farmer Brown moves from point *D* to *C* to *B* to *A*. Based on these costs, does Farmer Brown use resources that are more productive in one activity than the other or are they equally productive in both uses? Explain your answer.
Answer: The opportunity cost of a pound of beef is 1 bushel of wheat between points *A* and *B*, 1 1/2 bushels of wheat between points *B* and *C*, and 2 bushels of wheat between points *C* and *D*. The opportunity cost of a bushel of wheat is 1/2 pound of beef between points *D* and *C*, 2/3 pound of beef between points *C* and *B*, and 1 pound of beef between points *B* and *A*. Farmer Brown does use resources that are more productive in one activity than the other because the opportunity costs of producing beef and wheat increase as more beef and wheat are produced. If the resources were equally productive in both activities, the opportunity costs would be constant.
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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172) How is economic growth shown in a production possibilities frontier graph?
Answer: Economic growth is illustrated as an outward shift of the *PPF*.
Topic: Economic growth
Skill: Level 2: Using definitions
Section: Checkpoint 3.3
Status: Old
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2.3 The Gains from Trade

1) If Wendy can produce more of all goods than Tommy in an hour, then
A) Wendy has an absolute advantage in all goods.
B) Wendy does not need to trade with Tommy in order to achieve the gains from trade.
C) Wendy has a comparative advantage in all goods.
D) Tommy has an absolute advantage in all goods.
E) Only Tommy, but not Wendy, can benefit from trade between the two of them.
Answer: A
Topic: Absolute advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

2) Mac can bake more cookies than Monica per hour. It must be TRUE that
A) Monica has an absolute advantage in cookie baking.
B) Mac has an absolute advantage in baking cookies.
C) Mac has a comparative advantage in baking cookies.
D) Monica has a comparative advantage in baking cookies.
E) Mac cannot benefit by trade between the two of them.
Answer: B
Topic: Absolute advantage
Skill: Level 3: Using models
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Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

3) When Mik has an absolute advantage in the production of two goods over Tommy, Mik
A) is less productive than Tommy.
B) is better off if he does not engage in specialization and trade with Tommy.
C) is more productive in producing both goods than Tommy.
D) always has a comparative advantage over Tommy in the production of both goods.
E) cannot gain from trade with Tommy.
Answer: C
Topic: Absolute advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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4) If John can produce 10 chairs or 20 lamps during a week while Mary can produce 12 chairs or 22 lamps in the same time, who has the absolute advantage in producing each good?
A) Mary in producing both goods
B) John in producing both goods
C) Mary in producing chairs, John in producing lamps
D) John in producing chairs, Mary in producing lamps
E) Both Mary and John in both goods
Answer: A
Topic: Absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

5) If Toni has an absolute advantage in both sewing and ironing when compared to Tom, then
A) they might benefit from trading, but we need more information to determine in which task they should specialize.
B) neither Toni nor Tom can benefit from trading with each other.
C) Toni should specialize in sewing, and Tom should specialize in ironing.
D) Toni cannot benefit from trading with Tom, but Tom can benefit from trading with Toni.
E) Tom cannot benefit from trading with Toni, but Toni can benefit from trading with Tom.
Answer: A
Topic: Absolute advantage
Skill: Level 3: Using models
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Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

6) If a country has
A) an absolute advantage in producing a good, it definitely also has a comparative advantage in producing that good.
B) an absolute advantage in producing a good, it might or might not have a comparative advantage in producing that good.
C) a comparative advantage in production of a good, it must also have an absolute advantage in producing that good.
D) an absolute advantage in producing a good, it definitely will not have a comparative advantage in producing that good.
E) None of the above answers is correct.
Answer: B
Topic: Absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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7) Hank requires 1 hour to cut the grass and 3 hours to clean the house. His sister Holly requires 1 hour to cut the grass and 4 hours to clean the house. Which of the following statements is TRUE?
A) Hank has a comparative advantage in both cutting the grass and cleaning the house.
B) Hank and Holly both have a comparative advantage in cutting the grass.
C) Hank has a lower opportunity cost of cutting the grass.
D) Hank has an absolute advantage in both cutting the grass and cleaning the house.
E) Holly has a comparative advantage in cutting the grass.
Answer: E
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

8) The United States can use all its resources to produce 250 DVDs or 500 shoes. China can use all of its resources to produce 30 DVDs or 300 shoes. The opportunity cost of producing a DVD in the United States is
A) 2 shoes.
B) 1/2 of a shoe.
C) 20 shoes.
D) 500 shoes.
E) 1 DVD.
Answer: A
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Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

Mary's production in 1 day		Mark's production in 1 day	
Dresses	8	Dresses	24
Jackets	12	Jackets	16

9) In the table above, how many jackets must Mary forgo for every dress she makes?
A) 12 jackets
B) 3/4 of a jacket
C) 2/3 of a jacket
D) 1 1/2 jackets
E) 8 jackets
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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10) In the table above, how many jackets must Mark forgo for every dress he makes?
A) 1 jacket
B) 16 jackets
C) 2/3 of a jacket
D) 1 1/2 jackets
E) 24 dresses
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

11) In the above table, for Mary the opportunity cost of producing a dress is _____ and the opportunity cost for Mark of producing a dress is _____.
A) 1 1/2 jackets; 2/3 of a jacket
B) 1 1/2 jackets; 2 1/2 jackets
C) 1 1/4 jackets; 1/2 of a jacket
D) 1 jacket; 1 jacket
E) 1 dress; 1 dress
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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12) A country has a comparative advantage in the production of a good if it can
A) produce more of the good than another country.
B) produce more of the good most efficiently.
C) produce the good on and remain on its production possibilities frontier.
D) trade off producing the good for another good.
E) produce the good at the lowest opportunity cost.
Answer: E
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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13) Having a comparative advantage means a nation can
A) benefit from trade.
B) produce at a higher opportunity cost.
C) produce more of the good.
D) produce without incurring an opportunity cost.
E) produce the good at a point beyond its *PPF*.
Answer: A
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
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14) When a person has a comparative advantage in producing a good or service, the person has
A) a higher opportunity cost in producing that product than someone else.
B) a constant opportunity cost in producing that product.
C) a decreasing opportunity cost in producing that product.
D) a lower opportunity cost in producing that product than someone else.
E) an increasing marginal benefit in producing the good.
Answer: D
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
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15) Which of the following best describes comparative advantage?
A) being able to produce more output than any other country
B) using the fewest number of resources to produce a given amount of output
C) having the largest number of resources compared to other countries
D) forgoing the fewest units of one product to produce a unit of another product
E) It is the same as absolute advantage.
Answer: D
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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16) Which of the following is correct about comparative advantage?
A) Some countries will have a comparative advantage in everything.
B) Having a comparative advantage without an absolute advantage is impossible.
C) A comparative advantage in a good means that the country can produce more of the good than any other country.
D) A country has a comparative advantage in the production of a good if it can produce the good at lower opportunity cost than any other country.
E) None of the above answers is correct.
Answer: D
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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17) John can make pizza at a lower opportunity cost than Allen, but Allen can make more pizzas per day than John. Therefore
A) John cannot benefit from trade with Allen.
B) Allen cannot benefit from trade with John.
C) John has a comparative advantage in pizza.
D) John has an absolute advantage in pizza.
E) Allen has a comparative advantage in pizza.
Answer: C
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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18) Alice and Gene work in the mailroom, sorting and delivering mail. In order for them to benefit from specialization and trade, Alice must
A) be able to both sort and deliver faster than Gene.
B) be equally productive in both sorting and delivering.
C) have a comparative advantage in both sorting and delivering.
D) have a comparative advantage in one task and Gene must have a comparative advantage in the other task.
E) be equally productive as Gene in both sorting and delivering.
Answer: D
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
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19) When one person's opportunity cost of producing a good is lower than another person's opportunity cost of producing the same good, it is called
A) an absolute advantage.
B) a comparative advantage.
C) specialization.
D) production possibilities.
E) a tradeoff.
Answer: B
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

20) For country Gamma the opportunity cost for producing 1 computer is 10 tons of steel. For country Beta the opportunity cost for producing 1 computer is 6 tons of steel. Which country has the comparative advantage in the production of steel?
A) Gamma
B) Beta
C) Both have the comparative advantage in the production of steel.
D) Neither country has the comparative advantage in the production of steel.
E) More information is needed to determine which of the two nations has the comparative advantage.
Answer: A
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Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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21) For country North, the opportunity cost incurred when 3 tractors are produced is 21 watches. For country South, the opportunity cost incurred when 5 tractors are produced is 100 watches. Which country has the comparative advantage in the production of tractors?
A) North
B) South
C) Both have the comparative advantage in the production of tractors.
D) Neither country has the comparative advantage in the production of tractors.
E) More information is needed about which country has the comparative advantage in the production of watches.
Answer: A
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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22) If Country A can produce an extra plane by giving up two boats, and Country B can produce an extra plane by giving up three boats, then
A) Country A has a comparative advantage over Country B in the production of planes.
B) Country B has a comparative advantage over Country A in the production of planes.
C) The two countries have no incentive to trade with one another.
D) Country A would like to trade with B, but B cannot gain by trading with A.
E) Country A has an absolute advantage in producing planes and a comparative advantage in producing boats.
Answer: A
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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23) David takes 10 minutes to process a customer, and 20 minutes to stock the shelves. Danny takes 15 minutes to process a customer, and 15 minutes to stock the shelves. Which of the following statements is TRUE?
A) David has an absolute advantage in performing both tasks.
B) Danny has an absolute advantage in performing both tasks.
C) David has a comparative advantage in processing customers but not in stocking shelves.
D) Danny has a comparative advantage in processing customers but not in stocking shelves.
E) Danny has a comparative advantage in processing customers and in stocking shelves.
Answer: C
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Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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24) Rika's opportunity cost of producing 100 t-shirts is 50 jackets. Jeff's opportunity cost of producing 75 t-shirts is 25 jackets. Who should specialize in jackets?
A) Rika
B) Jeff
C) neither
D) both
E) More information is needed about their production possibilities frontiers to determine who should specialize in jackets.
Answer: A
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
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25) On a typical acre of land, Iowa can produce either 300 pounds of beef or 100 pounds of soybeans in a year. On a typical acre of land, Nebraska can produce 150 pounds of beef or 200 pounds of soybeans. Which of the following is correct?
A) Nebraska should produce soybeans because its opportunity cost of soybeans is lower.
B) Nebraska should produce soybeans because its opportunity cost of soybeans is higher.
C) Iowa should produce soybeans because its opportunity cost of soybeans is lower.
D) Iowa should produce soybeans because its opportunity cost of soybeans is higher.
E) Nebraska and Iowa should divide each acre evenly between soybean and beef production.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 5: Critical thinking
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

	Potatoes (pounds)		Tomatoes (pounds)
Huey	12	or	8
Steve	6	or	2

26) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, Huey's opportunity cost of producing one pound of tomatoes is
A) 1.5 pounds of potatoes.
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B) 0.66 pound of potatoes.
C) 0, because he has an absolute advantage in it.
D) 0, because he has a comparative advantage in it.
E) 1.0 pound of potatoes.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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27) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, Steve has a comparative advantage in
A) both potatoes and tomatoes.
B) neither potatoes nor tomatoes.
C) potatoes.
D) tomatoes.
E) More information is needed about Huey's comparative advantage in order to determine Steve's comparative advantage.
Answer: C
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

28) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, which of the following statements is correct?
A) Steve has an absolute advantage in both potatoes and tomatoes.
B) Steve has a comparative advantage in both potatoes and tomatoes.
C) Steve has an absolute advantage in potatoes only.
D) Huey has an absolute advantage in potatoes only.
E) Huey has an absolute advantage in both potatoes and tomatoes.
Answer: E
Topic: Absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

29) If Tom can wax a car in fewer hours than Jerry, then Tom definitely has
A) a comparative advantage in car waxing.
B) an absolute advantage in car waxing.
C) both a comparative and an absolute advantage in car waxing.
D) neither a comparative nor an absolute advantage in car waxing.
E) an undetermined advantage because we do not know how long it takes Tom and Jerry to wash a car.
Answer: B
Topic: Comparative advantage versus absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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Jack's production possibilities				Jill's production possibilities			
Production point	Food (pounds)		Clothing (pounds)	Production point	Food (pounds)		Clothing (pounds)
A	24	and	0	A	45	and	0
B	16	and	4	B	30	and	5
C	8	and	8	C	15	and	10
D	0	and	12	D	0	and	15

30) In the table above, Jack's opportunity cost for 1 pound of food is _____ and his opportunity cost for 1 pound of clothing is _____.
A) 1 pound of clothing; 4 pounds of food
B) 1/2 of a pound of clothing; 2 pounds of food
C) 1/3 of a pound of clothing; 3 pounds of food
D) 2 pounds of clothing; 2 pounds of food
E) 1 pound of food; 1 pound of clothing
Answer: B
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

31) In the table above, Jill's opportunity cost for 1 pound of food is _____ and her opportunity cost for 1 pound of clothing is _____.
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A) 1 pound of clothing; 4 pounds of food
B) 1/2 of a pound of clothing; 2 pounds of food
C) 1/3 of a pound of clothing; 3 pounds of food
D) 2 pounds of clothing; 2 pounds of food
E) 1 pound of food; 1 pound of clothing
Answer: C
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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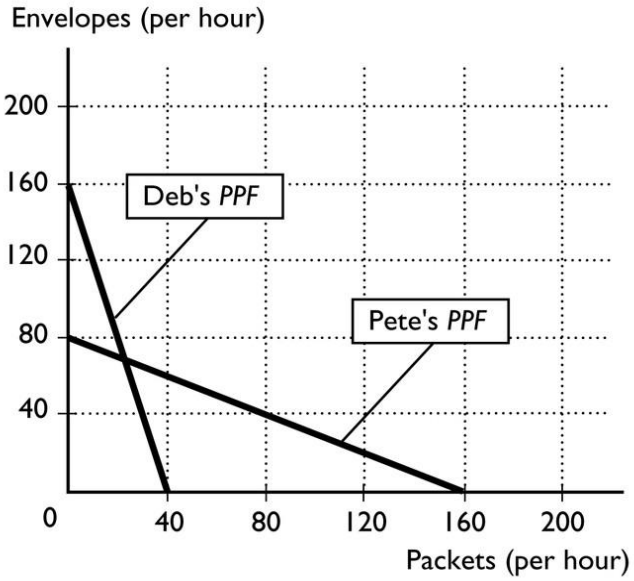
32) In the table above, Jack's comparative advantage is producing _____ and Jill's comparative advantage is producing _____.
A) clothing; food
B) clothing and food; nothing
C) nothing; clothing and food
D) food; clothing
E) clothing; clothing
Answer: A
Topic: Comparative advantage
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills



33) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The given figure shows their production possibilities frontiers for assembling packets and stuffing envelopes. If Deb spends all her time assembling packets, how many can she assemble?
A) 32
B) 40
C) 64
D) 160
E) 22
Answer: B
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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34) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The given figure shows their production possibilities frontiers for assembling packets and stuffing envelopes. What is Deb's opportunity cost of assembling 1 packet?
A) 160 envelopes
B) 40 envelopes
C) 4 envelopes
D) 1/4 of an envelope
E) 4 packets
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

35) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The given figure shows their production possibilities frontiers for assembling packets and stuffing envelopes. Which of the following statements is correct?
A) Deb has a comparative advantage in assembling packets.
B) Pete has an absolute advantage in both assembling packets and stuffing envelopes.
C) Deb has a comparative advantage in stuffing envelopes.
D) Deb has an absolute advantage in both assembling packets and stuffing envelopes.
E) Deb has a comparative advantage in both assembling packets and stuffing envelopes.
Answer: C
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Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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36) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The given figure shows their production possibilities frontiers for assembling packets and stuffing envelopes. If Deb and Pete specialize and trade, how many packets will be assembled?
A) 40
B) more than 40 and less than 80
C) 80
D) 160
E) more than 80 and less than 160
Answer: D
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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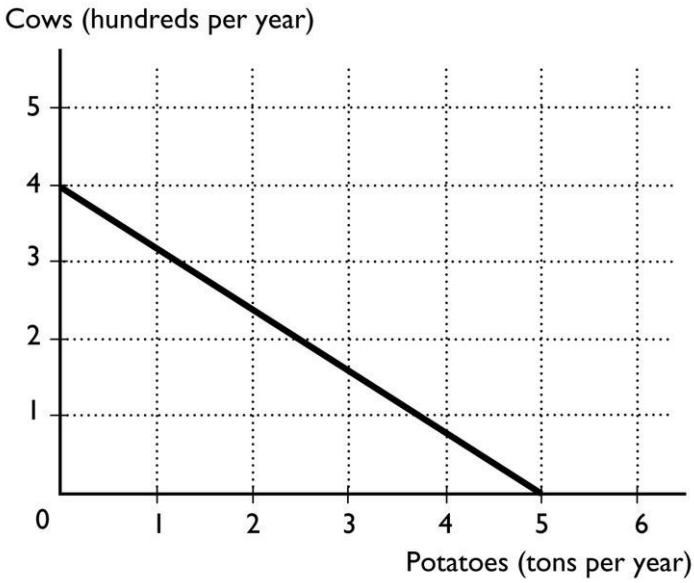

37) Gabriel operates a ranch in Idaho where he raises cattle and grows potatoes. The given figure illustrates his production possibilities frontier. What is Gabriel's opportunity cost of growing another ton of potatoes?
A) 400 cows
B) 80 cows
C) 100 cows
D) 0 cows
E) 1 ton of potatoes
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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38) Gabriel operates a ranch in Idaho where he raises cattle and grows potatoes. The given figure illustrates his production possibilities frontier. What is Gabriel's opportunity cost of raising another 100 cows?
A) 1.25 tons of potatoes
B) 5.0 tons of potatoes
C) 3.0 tons of potatoes
D) 1.0 ton of potatoes
E) 100 cows
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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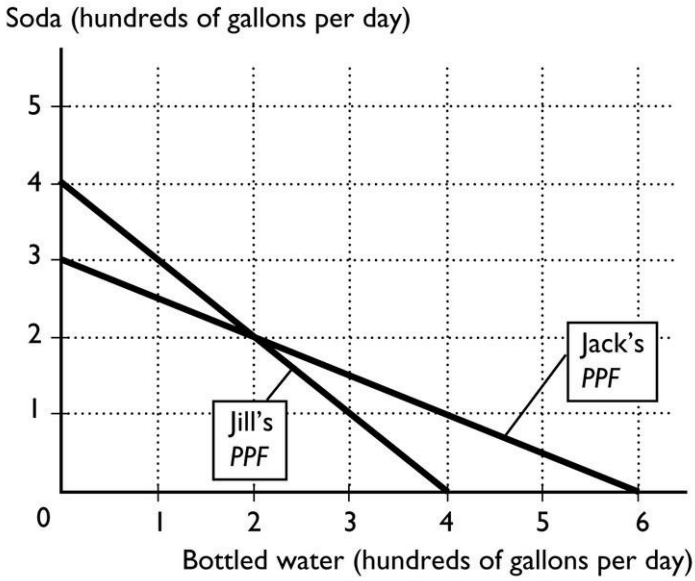

39) In the given figure, Jack's opportunity cost of producing 1 gallon of soda is _____ of bottled water.
A) 1 gallon
B) 1/2 of a gallon
C) 6 gallons
D) 1/4 of a gallon
E) 2 gallons
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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40) In the given figure, Jack's opportunity cost of producing 1 gallon of bottled water is _____ of soda.
A) 2 gallons
B) 1/2 of a gallon
C) 6 gallons
D) 1/4 of a gallon
E) 1 gallon
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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41) In the given figure, Jill's opportunity cost of producing 1 gallon of soda is _____ of bottled water.
A) 2 gallons
B) 1/2 of a gallon
C) 4 gallons
D) 1 gallon
E) 1/4 of a gallon
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

42) In the given figure, Jill's opportunity cost of producing 1 gallon of bottled water is _____ of soda.
A) 2 gallons
B) 1/2 of a gallon
C) 4 gallons
D) 1 gallon
E) 1/4 of a gallon
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
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Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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43) Using the given figure, if Jack and Jill specialize and gain from trade, then
A) Jack produces equal amounts of gallons of water and bottled water.
B) Jack specializes in the production of bottled water.
C) Jack and Jill produce beyond their *PPF*.
D) Jack specializes in the production of soda.
E) Jack specializes on the production of soda and water.
Answer: B
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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44) What is gained when people engage in specialization and trade?
A) Specialization and trade allow people to consume outside their individual production possibilities frontiers.
B) Specialization and trade allow people to consume inside their production possibilities frontiers.
C) Specialization and trade allow people to consume at a point on their production possibilities frontiers.
D) Specialization and trade allow people to produce outside their individual production possibilities frontiers.
E) There are no gains from specialization and trade.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

45) Gains from trade
A) occur when one party to the trade has an absolute advantage in both goods.
B) result in being able to consume beyond the trading individuals' production possibilities frontiers.
C) occur when people do not specialize.
D) occur when opportunity costs are equal.
E) always benefit one party but not the other party of any trade.
Answer: B
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

46) In one hour John can produce 20 loaves of bread or 8 cakes. In one hour Phyllis can produce 30 loaves of bread or 15 cakes. Which of the following statements is TRUE?
A) Phyllis has a comparative advantage in producing bread.
B) John has a comparative advantage in producing cakes.
C) Phyllis has an absolute advantage in both goods.
D) John has an absolute advantage in both goods.
E) Phyllis has a comparative advantage in producing both cakes and bread.
Answer: C
Topic: Absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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47) "Comparative advantage" is defined as a situation in which one person can produce
A) more of all goods than another person.
B) more of a good than another person.
C) a good for a lower dollar cost than another person.
D) a good for a lower opportunity cost than another person.
E) all goods for lower opportunity costs than another person.
Answer: D
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

48) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Scott's opportunity cost of producing 1 taco is
A) 1/2 of a pizza.
B) 1 pizza.
C) 2 pizzas.
D) 20 pizzas.
E) 2 tacos.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
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Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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49) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Cindy's opportunity cost of producing 1 taco is
A) 3/4 of a pizza.
B) 1 pizza.
C) 30 pizzas.
D) 40 pizzas.
E) 1 1/3 tacos.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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50) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Based on these data
A) Cindy has a comparative advantage at producing tacos.
B) Scott has a comparative advantage at producing tacos.
C) Cindy and Scott have the same comparative advantage in producing tacos.
D) neither Cindy nor Scott has a comparative advantage in producing tacos.
E) Cindy and Scott have the same comparative advantage in producing pizzas.
Answer: B
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

51) In one hour John can produce 20 loaves of bread or 16 cakes. In one hour Phyllis can produce 30 loaves of bread or 15 cakes. Which of the following statements is TRUE?
A) Phyllis has a comparative advantage in producing bread.
B) John has a comparative advantage in producing cakes.
C) Phyllis has an absolute advantage in both goods.
D) John has an absolute advantage in both goods.
E) Phyllis has a comparative advantage in producing both cakes and bread.
Answer: B
Topic: Comparative advantage
Skill: Level 3: Using models
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Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

52) Comparative advantage is most closely related to which of the following concepts?
A) productivity
B) efficiency
C) opportunity cost
D) competition
E) fairness
Answer: C
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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53) What is comparative advantage? Give an example.
Answer: Comparative advantage is the ability of a person to produce a good at a lower opportunity cost compared to another person. A lower opportunity cost means that the person gives up less to produce the good compared to another person. For example, one person may need to give up one hour of typing to get dinner made while another person must give up two hours of typing to produce the same dinner.
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

54) "When a person has an absolute advantage in producing a good, the person necessarily has a lower opportunity cost of producing it." Is this assertion true or false?
Answer: The assertion is incorrect. An absolute advantage is when a person can produce more of the good than someone else. A comparative advantage relies on a comparison of opportunity costs, so a person has a comparative advantage in producing a good if the person can produce the good at a lower opportunity cost.
Topic: Comparative advantage versus absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

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55) "When a person is more productive in producing a good or service than another person, the first person has the comparative advantage in producing the good." Is this assertion correct or incorrect? Explain your answer.
Answer: The assertion is incorrect. The statement describes an absolute advantage, that is, a person has an absolute advantage in the production of a good if the person can produce more of it in a given time period than someone else. Comparative advantage, however, relies on a comparison of opportunity costs. A person has a comparative advantage in producing a good if the person can produce the good at a lower opportunity cost than another person.
Topic: Comparative advantage versus absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

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Omar's production in 1 day		John's production in 1 day	
Computers fixed	12	Computers fixed	4
Lines of code	800	Lines of code	200

56) Omar and John can fix computers or write computer programs. The table above shows the number of computers they can fix and the lines of code they can write in a day.
a. Who, if anyone, has the absolute advantage?
b. Who has the comparative advantage in fixing computers? Why?
c. Who has the comparative advantage in writing programs? Why?
Answer:
a. Omar has an absolute advantage in fixing computers and writing code because he can fix 12 per day compared to John who can fix only 4 per day, and can write 800 lines of code per day compared to John who can write only 200 lines a day.
b. John has the comparative advantage in fixing computers. He has the comparative advantage because his opportunity cost of fixing one computer is 50 lines of computer code. Omar does not have a comparative advantage in fixing computers because his opportunity cost of fixing a computer is higher at 66.7 lines of code.
c. Omar has the comparative advantage in writing programs. His opportunity cost of writing one line of code is .015 of a computer fixed. John does not have the comparative advantage in writing programs because his opportunity cost of writing one line of code is 0.02 computers fixed. (Alternatively, to write 1 line of code costs Omar the opportunity to repair 1.5 percent of a computer and costs John the opportunity to repair 2.0 percent of a computer.)
Topic: Comparative advantage
Skill: Level 3: Using models
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Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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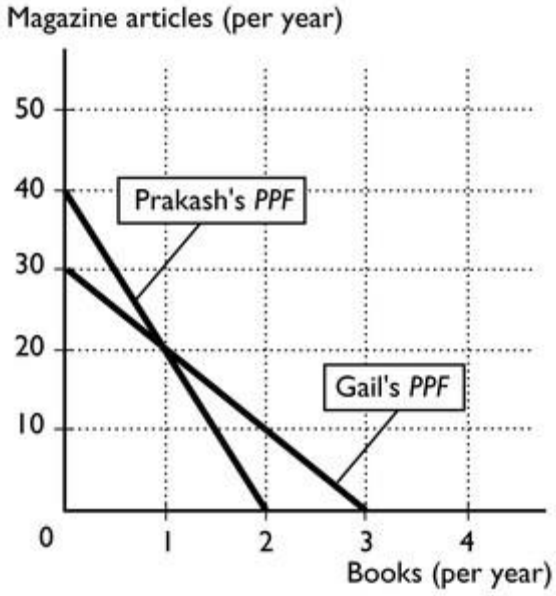

57) The given figure shows Prakash's and Gail's production possibilities frontiers for writing books and magazine articles.

a. What is Prakash's opportunity cost of a book? What is Gail's opportunity cost? Who has the comparative advantage in writing books?

b. Who has the comparative advantage in writing magazine articles?

c. According to their comparative advantages, who should write books and who should write magazine articles?

Answer:

a. In a year, Prakash can write 2 books or 40 magazine articles. Hence the opportunity cost of 1 book is (40 magazine articles) ÷ (2 books) = 20 magazine articles per book. In a year, Gail can write 3 books or 30 magazine articles. Hence the opportunity cost of 1 book is (30 magazine articles) ÷ (3 books) = 10 magazine articles per book. Gail's opportunity cost of writing books is lower than Prakash's, so Gail has the comparative advantage in writing books.

b. Prakash has the comparative advantage in writing magazine articles.

c. Gail has the comparative advantage in writing books, so she should write books. Prakash has the comparative advantage in writing magazine articles, so he should write magazine articles.

Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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2.4 How Economic Life Is Organized

1) _____ the owners of the factors of production, while _____ what amounts of those factors to hire.
A) Households are; firms determine
B) Households are; the government determines
C) The government is; firms determine
D) Firms are; households determine
E) Firms are; the government determines
Answer: A
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

2) What two groups of decision makers are represented in the basic circular flow model?
A) governments and financial institutions
B) lenders and borrowers
C) wholesalers and retailers
D) bankers and regulators
E) households and firms
Answer: E
Topic: Circular flow
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Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

3) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market
A) requires a physical location for buyers and sellers to get together.
B) is any arrangement that brings buyers and sellers together.
C) must include a written contract between buyers and sellers.
D) is only a place to purchase groceries.
E) must have many buyers and only one seller, who is willing to sell to all the buyers.
Answer: B
Topic: Markets
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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4) The decisions of firms and households are
A) coordinated by markets.
B) made independently of one another.
C) controlled by but not totally coordinated by the government.
D) unexplainable by the circular flow model.
E) coordinated by but not totally controlled by the government.
Answer: A
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

5) The circular flow model is used to show the
A) flow of renewable natural resources.
B) recycling process of production materials.
C) expansions and contractions of economic activity.
D) flow of expenditures and incomes in the economy.
E) flow of supply and the flow of demand.
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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6) The circular flow model shows the flow of
A) expenditure and income throughout the economy.
B) only money throughout the economy.
C) only funds in stock and bond markets.
D) only tax payments and government expenditures.
E) goods markets and factor markets as they move through the economy.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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7) In the circular flow model, consumption goods are bought and sold in the
A) goods market.
B) financial market.
C) factor markets.
D) government market.
E) monetary flows.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

8) The circular flow model shows that goods and services flow from
A) businesses to households.
B) households to business.
C) the factor market to businesses.
D) the goods market to businesses.
E) the factor markets to the goods markets.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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9) As the circular flow model shows, the factors of production flow from
A) firms to households through the factor market.
B) households to firms through the factor market.
C) firms to households through the goods market.
D) households to firms through the goods market.
E) the goods market through firms to the factor markets.
Answer: B
Topic: Circular flow model
Skill: Level 2: Using definitions
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10) In the circular flow model, the factors of production flow in the
A) same direction as do the rents, wages, interest, and profits.
B) opposite direction as do the rents, wages, interest, and profits.
C) opposite direction as does the government.
D) same direction as does the goods market.
E) opposite direction as does the goods market.
Answer: B
Topic: Circular flow model
Skill: Level 4: Applying models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

11) In the goods market, firms _____ and households _____.
A) purchase goods and services; supply goods and services
B) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
C) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
D) supply goods and services; purchase goods and services
E) hire land, labor, capital, and entrepreneurship services; supply goods and services
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
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Status: Old
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12) In the factor market, firms _____ and households _____.
A) hire land, labor, capital, and entrepreneurship services; purchase goods and services
B) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
C) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
D) purchase goods and services; supply goods and services
E) supply goods and services; purchase goods and services
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
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13) Which markets are depicted in the basic circular flow model?
A) the goods market and the stock market
B) the factor market and the bond market
C) the goods market and the factor market
D) the money market and the foreign exchange market
E) the stock market and the bond market
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

14) Terri is enrolled in her first economics course. She is required to give a presentation about the circular flow. Which of the following statements should she include in her presentation?
A) Households choose the amount of the factors of production to provide the firms.
B) Firms choose the amount of the factors of production to provide households.
C) Households receive wages for the amount of entrepreneurship they provide firms.
D) Firms pay wages for the amount of entrepreneurship they provide households.
E) The flows of goods and services and payments for the goods and services flow in the same direction.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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15) Aaron locked himself out of his house and had to pay $40 to Brianna, who works for Lucky Locksmith, to open his door. Based on this transaction in the economy and using concepts from the circular flow model, which of the following is TRUE?
A) Brianna earned income from supplying her labor services.
B) Aaron earned income from supplying his labor services.
C) Brianna purchased goods and services.
D) Aaron acted as a firm in this transaction.
E) Aaron supplied goods and services.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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16) A market is defined as
A) the physical place where goods (but not services) are sold.
B) the physical place where goods *and* services are sold.
C) any arrangement that brings buyers and sellers together.
D) a place where money is exchanged for goods.
E) another name for a store.
Answer: C
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

17) In the circular flow model
A) only firms sell in markets.
B) only households buy from markets.
C) some firms only sell and some firms only buy.
D) the money used to buy goods and the goods themselves travel in the same direction.
E) both firms and households buy or sell in different markets.
Answer: E
Topic: Markets
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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18) _____ choose the quantities of factors of production to hire and _____ choose the quantities of goods and services to produce.
A) Entrepreneurs; firms
B) Firms; firms
C) Markets; markets
D) Factor markets; goods markets
E) Firms; households
Answer: B
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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19) In the circular flow model, rent, wages, interest, and profit paid flow from _____ through _____ to _____.
A) households; goods markets; firms as payment for goods
B) firms; factor markets; households
C) firms; goods markets; households
D) households; factor markets; firms
E) firms; goods markets; firms
Answer: B
Topic: Households vs. firms
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

20) A circular flow model shows the interrelationship between the _____ markets and the _____ markets.
A) household; goods
B) household; factor
C) business; household
D) expenditure; income
E) goods; factor
Answer: E
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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21) In the circular flow model, the expenditures on goods and services flow in the
A) same direction as goods and services in all cases.
B) same direction as goods and services ONLY IF they both flow through the goods market.
C) same direction as goods and services ONLY IF they both flow through the factor market.
D) opposite direction as goods and services.
E) same direction as factor markets.
Answer: D
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
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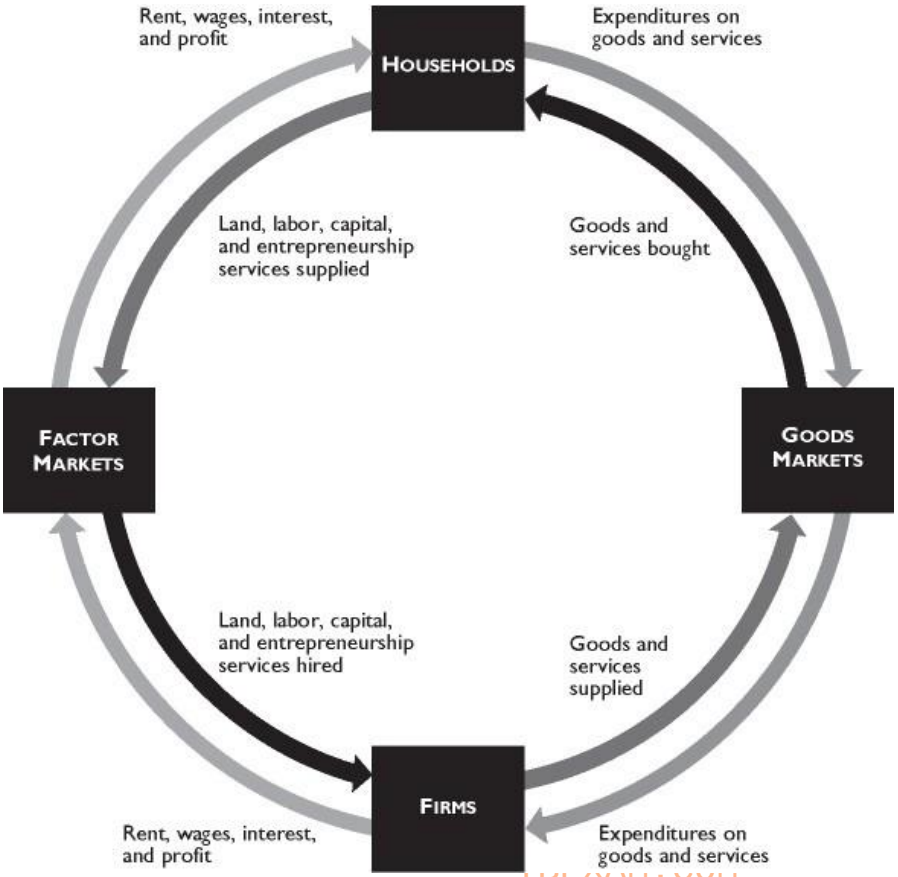

The given figure shows the circular flow model.

22) In the given figure, which of the following represents a real flow of a factor of production?
A) labor
B) wages
C) goods bought
D) services sold
E) firms' expenditures on factors of production
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
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23) In the given figure, which of the following represents a money flow?
A) goods purchased
B) interest
C) capital
D) services sold
E) goods supplied
Answer: B
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

24) In the given figure, which of the following represents a real flow?
A) expenditures on real estate services
B) profit
C) capital
D) wages
E) both B and D
Answer: C
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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25) In the given figure, which of the following transactions take place in the factor markets?
i. Michael, a student, orders a computer from Dell online.
ii. Peter gets a job at a Walmart store.
iii. Apple Computer opens a new store in Georgia.
A) ii and iii
B) only i
C) only ii
D) only iii
E) i and ii
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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26) Margo orders a MacBook Pro computer from The Apple Store online to use it in her graphic design business. How will this be reflected in the given figure?
A) as a flow of a factor of production
B) as a flow of goods and services bought
C) as expenditures on goods and services
D) as goods and services supplied
E) It won't be shown in the figure because this transaction takes place neither in goods markets nor in factor markets.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

27) Explain the structure of the circular flow model.
Answer: Households own the factors of production and sell the services from them to firms in the factor market. Income earned by households in the factor market is used to purchase goods and services from firms in the goods market. And the revenue the firms gain by selling the goods and services in the goods market is used to pay for the services of the factors of production they hire in the factor markets.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
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Status: Old
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28) How are the roles of the household different in the goods market and in the factor markets?
Answer: In the goods market, households are buyers. They purchase the goods and services produced by the firms. In exchange for the goods and services, households pay firms. In the factor market, households are sellers. They provide the services from land, labor, capital, and entrepreneurship to the firms. In the factor markets, households receive payments from firms.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

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29) Describe the circular flow of the economy by discussing the two markets where households and firms meet.
Answer: Firms and households meet in two markets: the goods market and the factors market. In the goods markets, households buy the goods and services that firms sell. In this market, households give firms money in exchange for the goods and services. In the factors market, households sell the services of the factors of production to firms, which buy the services of these factors. In the factors market, firms pay households money in exchange for the productive resources. Hence households earn their incomes in the factors market and spend their incomes in the goods market. And firms earn their revenue in the goods market and pay their costs in the factors market.
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

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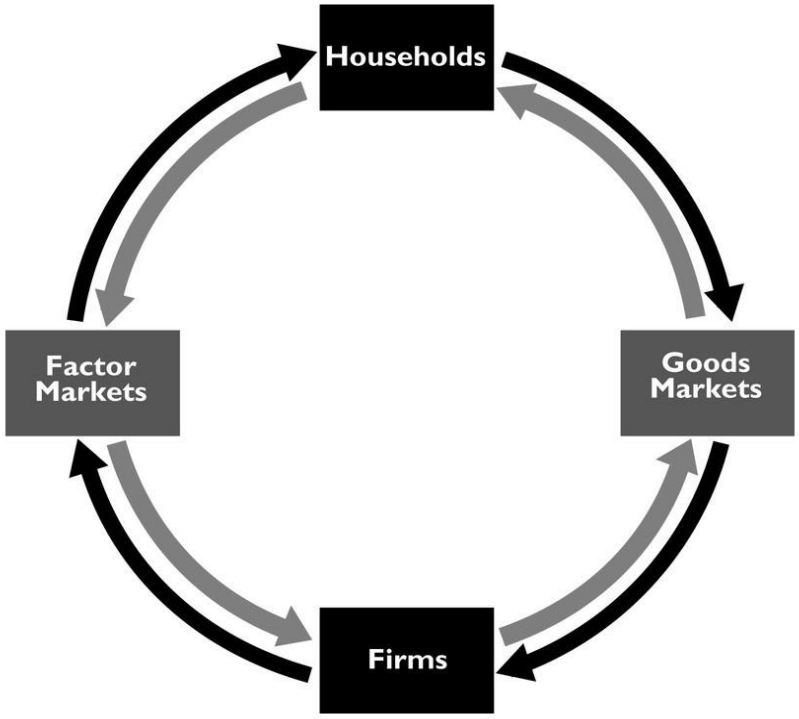
30) Label the flows in the simplified circular flow diagram that ignores the government.



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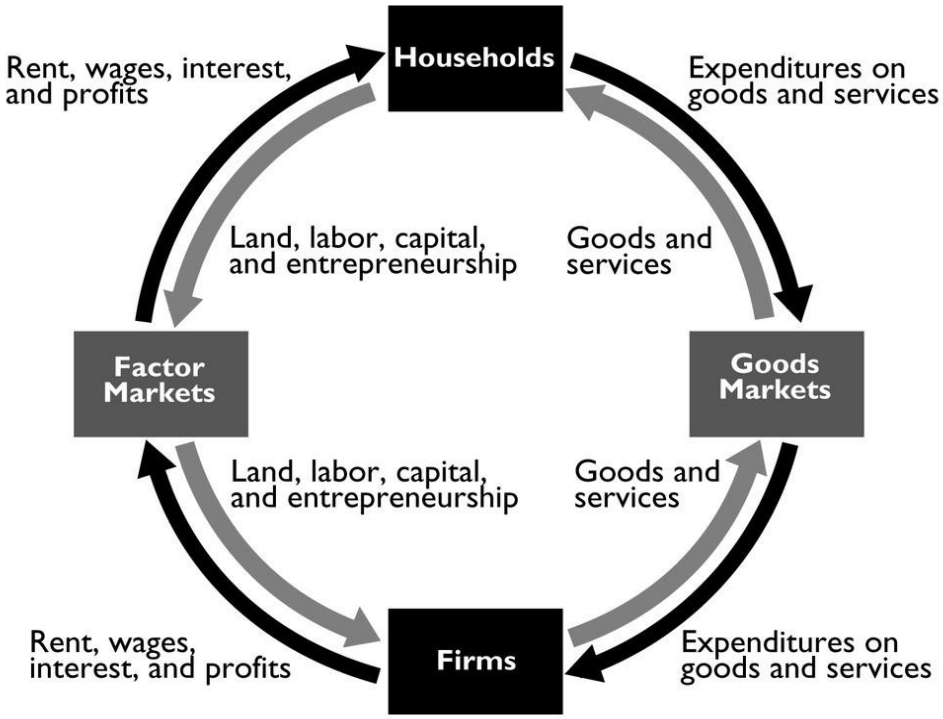
Answer:



The given figure shows the labeled flows.
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Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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