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1 A nation–s production possibilities frontier is a graph of the various possible combinations of total feasible production rates for two items within that country.

(A) TRUE

(B) FALSE

Answer: (A) TRUE

Feedback:

2 The slope of a line tangent to a nation–s production possibilities frontier reflects the opportunity cost of producing more of the good on the vertical axis.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: The slope of a line tangent to a nation–s production possibilities frontier reflects the opportunity cost of producing more of the good on the horizontal axis.

3 In country A, the opportunity cost of producing 2,000 pounds of microprocessors is 4,000 tablet devices. In country B, the opportunity cost of 3,000 tablet devices is 4,000 pounds of microprocessors. Both countries can experience gains from trade if the exchange rate for a ton of cereal is 3 tablet devices per pound of microprocessors.

(A) TRUE

(B) FALSE

Answer: (A) TRUE

Feedback:

4 Absent any trade, a country's residents either can produce 1,000 laptop computers and 500 computer servers per week, or can produce 750 laptop computers and 750 computer servers per week. After trade takes place, its residents either can consume both 1,000 laptop computers and 600 computer servers, or can consume both 850 laptop computers and 750 computer servers. These outcomes represent:

(A) gains from international trade.

(B) absolute advantage in international trade.

(C) redistributive effects of international trade.

(D) points on a production possibilities frontier.

Answer: (A) gains from international trade.

Feedback:

5 If technology improves or the amounts of available resources increase, the:

(A) absolute advantage of producing goods and services declines.

(B) redistribution effects of international trade disappear.

(C) production possibilities frontier shifts outward.

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(D) potential for gains from international trade disappears.

Answer: (D) potential for gains from international trade disappears.

Feedback:

6 The production possibilities frontier is _____ because, as more of a country's fixed resources are used to produce an item using the same technology, the opportunity cost of producing the item usually _____.

(A) convex; rises

(B) convex; falls

(C) concave; rises

(D) concave; falls

Answer: (C) concave; rises

Feedback:

7 If there is international trade, then a nation's consumption possibilities are _____ its production possibilities.

(A) the same as

(B) less than

(C) greater than

(D) steeper than

Answer: (C) greater than

Feedback:

8 The points at which a country–s production possibilities frontier touches each of the coordinate axes measure:

(A) the redistributive effect of opting for one technology over another.

(B) the redistributive effect of trading one item rather than another.

(C) the levels of output that can be produced if resources that otherwise could produce other items are left idle and unused.

(D) the maximum quantities of each good that residents can produce using all resources.

Answer: (D) the maximum quantities of each good that residents can produce using all resources.

Feedback:

9 Consider two nations, country A and country B, that produce goods X and Y. The production possibility frontiers for the two nations are graphed with units of good Y measured vertically and units of good X measured horizontally. At the two nation–s current points along their frontiers, the slope of a tangent line is steeper for country A than for country B. We can conclude that:

(A) country A has an absolute advantage in producing good X.

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(B) country B has an absolute advantage in producing good X.

(C) country A has a comparative advantage in producing good X.

(D) country B has a comparative advantage in producing good X.

Answer: (D) country B has a comparative advantage in producing good X.

10 A redistribution effect of international trade unambiguously involves:

(A) a shift of income from people affiliated with one set of industries to people associated with other industries.

(B) an equiproportionate expansion of consumption possibilities for all of a nation–s residents.

(C) a situation in which the nation has no comparative advantage.

(D) a situation in which the nation experiences no absolute advantage.

Answer: (A) a shift of income from people affiliated with one set of industries to people associated with other industries.

11 Gains from trade occur for an individual nation when international trade results in:

(A) constraining consumption possibilities to the nation–s individual production possibilities

(B) an increase in the nation–s consumption possibilities beyond its individual production possibilities

(C) an absolute advantage

(D) gains from trade

Answer: (A) constraining consumption possibilities to the nation–s individual production possibilities

12 If one nation–s production possibilities frontier is always located inside another country–s production possibilities frontier, then the two nations may nevertheless experience gains from international trade.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: One nation–s production possibilities frontier can lie everywhere inside that of another nation, yet the opportunity cost of producing a good could be lower in one country than in the other, and vice versa.

13 Absolute advantage exists when residents of one country can produce a good or service at lower opportunity cost than residents of another country.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: This is a situation of comparative advantage.

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14 The value of each and every alternative value sacrificed in order to obtain an item is the item's opportunity cost.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: Only the value of the next-highest-valued alternative is the opportunity cost of an item one chooses.

15 The slope of a line tangent to a country's production possibilities frontier measures the opportunity cost its residents incur when they opt to produce an additional unit of a good or service.

(A) TRUE

(B) FALSE

Answer: (A) TRUE

Feedback:

16 The opportunity cost of producing an additional unit of an item typically decreases as the more units of that item are produced.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: In fact, the opportunity cost of producing an item typically increases as total production of the item increases.

17 If the opportunity cost of producing an additional good is always the same to residents of a nation, no matter how many units they produce, the production possibilities frontier would be a convex curve.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: In this situation, the production possibilities frontier would be a straight line.

18 Without trade, the production possibilities frontier also depicts a nation–s consumption possibilities.

(A) TRUE

(B) FALSE

Answer: (A) TRUE

Feedback:

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19 Absolute advantage is the term for a situation in which engaging in international trade redistributes more income from one industry to another than is the case in other countries.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: Absolute advantage refers to the capability of a nation's residents to produce more output of a good or service utilizing a given amount of inputs than could be produced by residents of another country.

20 Absolute advantage is required for residents of nations to gain from international trade.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: Comparative advantage is typically thought to rationalize why most international trade takes place.

21 In country A, the opportunity cost of 50 flash drives is 100 e-books. In country B, the opportunity cost of 50 flash drives is 40 e-books. Country A has a comparative advantage in flash drive production.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: In country A, the opportunity cost of a flash drive is 2 e-books, but country B–s opportunity cost of a flash drive is only 0.8 e-books, so country B has the lower opportunity cost of producing flash drives and hence a comparative advantage in flash drive production.

22 The possession of redistribution advantage in the production of two different items by residents of two countries suggests that specialization and international trade can boost the two nations' combined total output.

(A) TRUE

(B) FALSE

Answer: (B) FALSE

Feedback: A nation must possess an absolute or comparative advantage to achieve such an outcome.

23 After residents of two nations specialize in producing different items and engage in international trade, each country's economy's consumption possibilities are typically located at points outside their production possibilities frontiers.

(A) TRUE

(B) FALSE

Answer: (A) TRUE

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Feedback:

24 If a nation has an absolute advantage in producing a good:

(A) it necessarily has a comparative advantage.

(B) it will export that good.

(C) it necessarily has a comparative disadvantage.

(D) it may export or import that good, depending on whether it has a comparative advantage.

Answer: (D) it may export or import that good, depending on whether it has a comparative advantage.

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