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Name:_____ Class:_____ Date:_____

Chapter 02: Economic Models: Trade-offs and Trade

1. A simplified representation that is used to study a real situation is called a(n):
   a. model.
   b. production possibility frontier.
   c. assumption.
   d. trade-off.

ANSWER: a

2. The models that economists construct:
   a. usually make simplifying assumptions.
   b. often rely on physical constructs, such as those used by architects.
   c. rarely use mathematical equations or graphs.
   d. attempt to precisely replicate the real world.

ANSWER: a

3. When building a model, economists:
   a. simplify reality to highlight what really matters.
   b. attempt to duplicate reality in all of its complexity.
   c. ignore the facts and instead try to determine what the facts should be.
   d. are careful to avoid the scientific method.

ANSWER: a

4. The models used in economics:
   a. are always limited to variables that are directly related.
   b. are essentially not reliable because they are not testable in the real world.
   c. are of necessity unrealistic and not related to the real world.
   d. emphasize basic relationships by abstracting from complexities in the everyday world.

ANSWER: d

5. Economic models are:
   a. set up and used to precisely mirror reality.
   b. useless if they are simple.
   c. made generally of wood, plastic, and/or metal.
   d. potentially useful in forming economic policy.

ANSWER: d

6. The importance of an economic model is that it allows us to:
   a. build a complex and accurate model of how the economy should work.
   b. build an accurate mathematical model of every aspect of the economy.
   c. focus on the effects of only one change at a time.
   d. avoid opportunity costs.

ANSWER: c

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7. In constructing a model, economists:
   a. might use a computer simulation.
   b. avoid making any assumptions.
   c. assume that all relevant factors are constantly changing.
   d. are prohibited from using mathematics.

ANSWER: a

8. A simplified version of reality that is used to clarify economic situations is called a(n):
   a. economic fact.
   b. current event.
   c. model.
   d. scarce resource.

ANSWER: c

9. An economic model:
   a. is useful for explaining past economic conditions but not for predicting future outcomes.
   b. often leads to faulty conclusions because of the *ceteris paribus* assumption.
   c. allows nothing to change in the economic situation that is being described.
   d. is a simplified version of reality used to understand real-world economic conditions.

ANSWER: d

10. The financial meltdown of 2008–2009:
   a. was accurately predicted by an economic model.
   b. was due to excessive investment in Internet companies.
   c. was the result of the breakup of the European Union.
   d. resulted partially from a faulty economic model.

ANSWER: d

11. A mortgage-backed security is an asset that:
   a. only homeowners are allowed to purchase.
   b. provides earnings to its owner based on payments made by people on their home loans.
   c. the Federal Reserve uses to implement monetary policy.
   d. is an important part of the circular-flow diagram.

ANSWER: b

12. Before 2000, the mortgage-backed securities market was relatively small because:
   a. economic models predicted that they were bad investments.
   b. they were illegal in many states.
   c. the complexity of these securities made them hard to price properly.
   d. it was difficult to obtain the foreign currencies that were required for purchasing them.

ANSWER: c

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13. The financial crisis of 2008 showed that:
    a. models can be used in all cases to understand financial assets.
    b. homeowners were able to pay their mortgages reliably.
    c. a faulty economic model can have devastating macroeconomic consequences.
    d. the average price of a house should not increase.

ANSWER: c

14. The production possibility frontier illustrates that:
    a. the economy will automatically end up at full employment.
    b. an economy's productive capacity increases one-for-one with its population.
    c. if all resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
    d. economic production possibilities have no limit.

ANSWER: c

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Table: Production Possibilities Schedule I

Alternatives	*A*	*B*	*C*	*D*	*E*	*F*
Consumer goods per period	0	1	2	3	4	5
Capital goods per period	30	28	24	18	10	0

15. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces two units of consumer goods per period, it also can produce, at MOST, _____ units of capital goods per period.
    a. 30
    b. 28
    c. 24
    d. 18

ANSWER: c

16. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 10 units of capital goods per period, it also can produce, at MOST, _____ units of consumer goods per period.
    a. 5
    b. 4
    c. 3
    d. 2

ANSWER: b

17. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. The opportunity cost of producing the fourth unit of consumer goods is _____ units of capital goods.
    a. 2
    b. 4

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c. 6
d. 8

ANSWER: d

18. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 4 units of consumer goods per period, it also can produce, at MOST, _____ units of capital goods per period.

a. 30
b. 28
c. 10
d. 18

ANSWER: c

19. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. If the economy produces 24 units of capital goods per period, it also can produce, at MOST, _____ units of consumer goods per period.

a. 5
b. 4
c. 3
d. 2

ANSWER: d

20. (Table: Production Possibilities Schedule I) Use Table: Production Possibilities Schedule I. The opportunity cost of producing the third unit of consumer goods is _____ units of capital goods.

a. 2
b. 4
c. 6
d. 8

ANSWER: c

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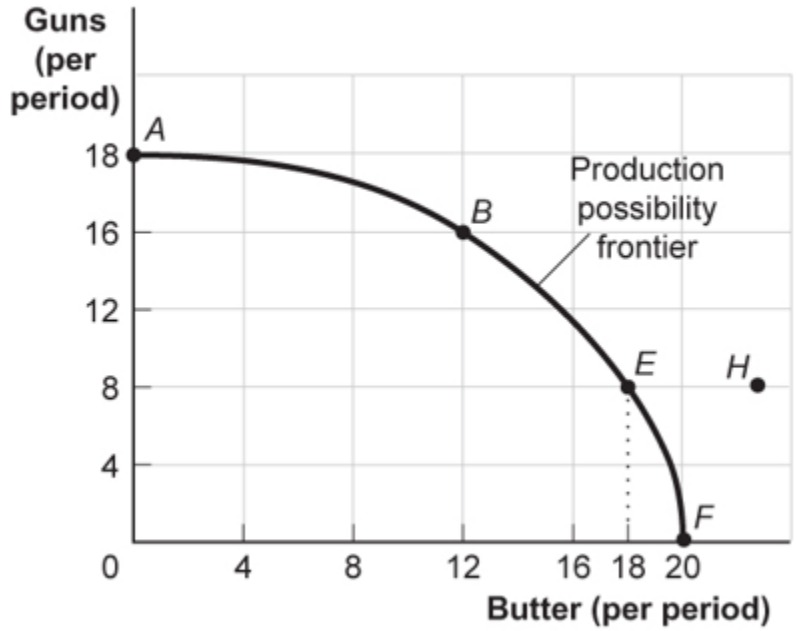
Figure: Guns and Butter



21. (Figure: Guns and Butter) Use Figure: Guns and Butter. On this figure, points A, B, E, and F:
    a. indicate combinations of guns and butter that society can produce using all of its factors efficiently.
    b. indicate increasing opportunity costs for guns but decreasing opportunity costs for butter.
    c. indicate that society wants butter more than it wants guns.
    d. indicate constant opportunity costs for guns and increasing costs for butter.

ANSWER: a

22. (Figure: Guns and Butter) Use Figure: Guns and Butter. This production possibility frontier is:
    a. bowed out because of increasing opportunity costs.
    b. bowed in because of increasing opportunity costs.
    c. bowed in because of constant costs of guns and butter.
    d. linear because of constant costs.

ANSWER: a

23. (Figure: Guns and Butter) Use Figure: Guns and Butter. If the economy is operating at point *B*, producing 16 guns and 12 pounds of butter per period, a decision to move to point *E* and produce 18 pounds of butter:
    a. indicates that you can have more butter and guns simultaneously.
    b. makes it clear that this economy has decreasing opportunity costs.
    c. necessitates a loss of 8 guns per period.
    d. necessitates a loss of 4 guns per period.

ANSWER: c

24. (Figure: Guns and Butter) Use Figure: Guns and Butter. The combination of guns and butter at point *H:*
    a. can be attained but would cost too much.

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b. cannot be attained, given the level of technology and the factors of production available.
c. has no meaning since it does not relate to the preferences of consumers.
d. is attainable but would increase unemployment.

ANSWER: b

25. (Figure: Guns and Butter) Use Figure: Guns and Butter. Suppose the economy produced 8 guns and 12 pounds of butter per period. Given that, which statement is TRUE?
a. This is a possible choice, but it is inefficient.
b. This combination invalidates the notion of increasing opportunity cost.
c. The economy is still efficient but does not buy as much as it could.
d. Something must be done to reduce the amount of employment.

ANSWER: a

26. If an economy has to sacrifice only one unit of good *X* for each unit of good *Y* produced throughout the relevant range, then its production possibility frontier has a(n):
a. zero slope.
b. constant negative slope.
c. increasing negative slope.
d. decreasing negative slope.

ANSWER: b

27. A production possibility frontier that is a straight line sloping down from left to right suggests that:
a. more of both goods could be produced moving along the frontier.
b. the two products must have the same price.
c. the opportunity costs of the products are constant.
d. there are no opportunity costs.

ANSWER: c

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Table: Production Possibilities Schedule II

Production alternatives	*V*	*W*	*X*	*Y*	*Z*
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

28. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If the economy is producing at alternative X, the opportunity cost of producing at Y instead of X is _____ units of consumer goods per period.
a. 0
b. 6
c. 8
d. 14

ANSWER: b

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29. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If an economy is producing at alternative *W*, the opportunity cost of producing at *X* is _____ unit(s) of consumer goods per period.

a. 0
b. 1
c. 4
d. 18

ANSWER: c

30. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. The production of 14 units of consumer goods and 1 unit of capital goods per period would result in:

a. full employment.
b. no unused resources.
c. some unused or inefficiently used resources.
d. an increase in economic growth.

ANSWER: c

31. In movement along a production possibility frontier, the opportunity cost to society of getting more of one good:

a. is always constant.
b. is measured in dollar terms.
c. is measured by the amount of the other good that must be given up.
d. usually decreases.

ANSWER: c

32. If an economy has to sacrifice increasing amounts of good *X* for each additional unit of good *Y* produced, then its production possibility frontier is:

a. bowed out.
b. bowed in.
c. a straight line.
d. a vertical line.

ANSWER: a

33. The fact that a society's production possibility frontier is bowed out, or concave to the origin of a graph, demonstrates the law of _____ opportunity cost.

a. increasing
b. decreasing
c. constant
d. concave

ANSWER: a

34. The economy's factors of production are not equally suitable for producing different types of goods. This

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principle generates:

a. economic growth.
b. technical efficiency.
c. underuse of resources.
d. the law of increasing opportunity cost.

ANSWER: d

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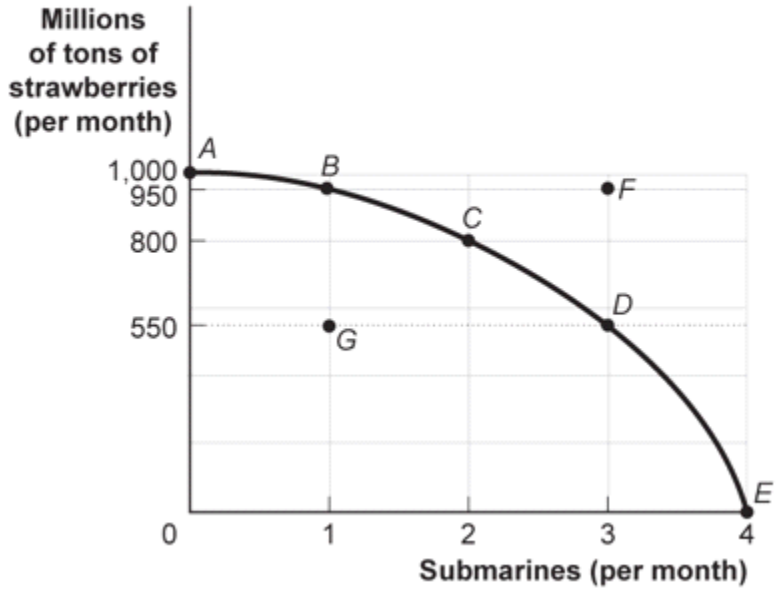
Figure: Strawberries and Submarines



35. (Figure: Strawberries and Submarines) Use Figure: Strawberries and Submarines. Suppose the economy is operating at point *G*. This implies that:

a. the economy can move to a point such as *C* only if it improves its technology.
b. the economy has unemployment and/or inefficiently allocates resources.
c. the economy lacks the resources to achieve a combination such as *C*.
d. people in this economy don't really like strawberries or submarines.

ANSWER: b

36. (Figure: Strawberries and Submarines) Use Figure: Strawberries and Submarines. As the economy moves from point *A* toward point *D*, it will find that the opportunity cost of each additional submarine:

a. falls.
b. rises.
c. remains unchanged.
d. doubles.

ANSWER: b

37. (Figure: Strawberries and Submarines) Use Figure: Strawberries and Submarines. Suppose the economy

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now operates at point *C*. Moving to point *E* would require that the economy:

a. achieve full employment and an efficient allocation of resources.
b. eliminate its production of strawberries.
c. reduce its production of submarines.
d. improve its technology or increase its quantities of factors of production.

ANSWER: b

38. If an economy is producing a level of output that is on its production possibility frontier, the economy has:

a. idle resources.
b. idle resources but is using resources efficiently.
c. no idle resources but is using resources inefficiently.
d. no idle resources and is using resources efficiently.

ANSWER: d

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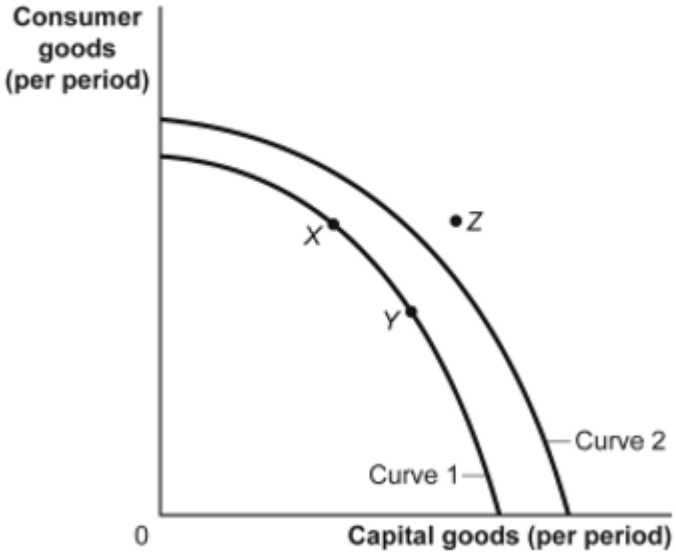
Figure: Consumer and Capital Goods



39. (Figure: Consumer and Capital Goods) Use Figure: Consumer and Capital Goods. The movement from curve 1 to curve 2 indicates:

a. economic growth.
b. a change from unemployment to full employment.
c. a decrease in the level of technology.
d. instability.

ANSWER: a

40. (Figure: Consumer and Capital Goods) Use Figure: Consumer and Capital Goods. Assume the economy's current production possibilities frontier is given by curve 1. Point *Z:*

a. is unattainable, all other things unchanged.

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b. is attainable if the economy is able to reach full employment.
c. is attainable if the quantity and/or quality of factors decreases.
d. will be attained as soon as the economy becomes efficient and moves to curve 2.

ANSWER: a

41. Technological improvements will:
a. leave the production possibility frontier unchanged.
b. shift the production possibility frontier inward.
c. shift the production possibility frontier outward.
d. necessarily lead to increased unemployment.

ANSWER: c

42. A two-dimensional production possibility frontier illustrates the _____ facing an economy that _____ only two goods.
a. prices; sells
b. trade-offs; produces
c. trade-offs; sells
d. shortages; produces

ANSWER: b

43. Suppose Oklahoma decides to produce only two goods, oil and football helmets. If Oklahoma is producing on its production possibility frontier, as oil production increases, the production of football helmets will:
a. increase.
b. not change.
c. decrease at a necessarily decreasing rate.
d. decrease at some rate.

ANSWER: d

44. One of the controversies surrounding the United States' energy markets is the trade-off between energy production and clean air. Assuming clean air has value, the United States will be on its production possibility frontier if and only if:
a. resources used to produce clean air and energy are not being fully used.
b. pollution is eliminated.
c. the price of energy is relatively low.
d. resources used to produce clean air and energy are being fully used.

ANSWER: d

45. If an economy is producing at a point on its production possibilities frontier, it is:
a. efficient in production and allocation.
b. efficient in production but not necessarily in allocation.
c. efficient in allocation but not necessarily in production.
d. not necessarily efficient in production or allocation.

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ANSWER: b

46. Consider a production possibility frontier for Italy. If in 2016 Italy's resources are not being fully utilized, Italy will be somewhere _____ of its production possibility frontier.

a. inside
b. outside
c. near the bottom
d. near the top

ANSWER: a

47. All points inside the production possibility frontier represent:

a. efficient production points.
b. inefficient production points.
c. infeasible production points.
d. regions of economic growth.

ANSWER: b

48. All points on the production possibility frontier are:

a. efficient.
b. inefficient.
c. infeasible.
d. regions of economic growth.

ANSWER: a

49. All points outside the production possibility frontier are:

a. efficient.
b. inefficient.
c. infeasible.
d. regions of economic growth.

ANSWER: c

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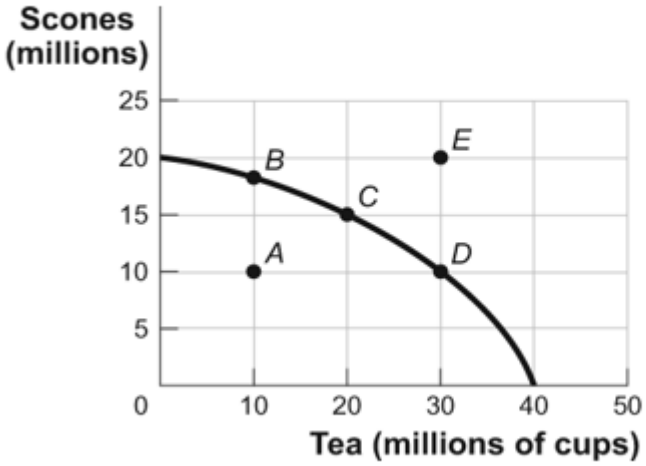
Figure: Production Possibility Frontier Curve for Tealand



50. (Figure: Production Possibility Frontier for Tealand) Use Figure: Production Possibility Frontier for Tealand. If Tealand is producing 10 million scones and 10 million cups of tea (point *A*), we know that the economy:

a. is using its resources efficiently.
b. is using its resources inefficiently.
c. is fully employing its resources.
d. has found new resources.

ANSWER: b

51. (Figure: Production Possibility Frontier for Tealand) Use Figure: Production Possibility Frontier for Tealand. Tealand is producing at point *C* on its production possibility frontier. What is the opportunity cost of increasing the production of tea from 20 million cups to 30 million cups?

a. 10 million cups of tea
b. 5 million scones
c. 10 million scones
d. The answer is impossible to determine from the information given.

ANSWER: b

52. (Figure: Production Possibility Frontier for Tealand) Use Figure: Production Possibility Frontier for Tealand. Tealand can produce at point *E* only if:

a. the government eliminates unemployment.
b. the government raises taxes.
c. the country experiences economic growth.
d. increases the cost of production by decreasing the use of technology.

ANSWER: c

53. The production possibility frontier is bowed out because:

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a. resources are not equally suited for the production of both goods.
b. resources are scarce.
c. economic growth leads to inefficiency.
d. resources are inefficiently used.

ANSWER: a

54. The opportunity cost of production:
a. is the price of a good.
b. is what you give up to produce the good.
c. decreases as production increases.
d. is what you gain by producing the good.

ANSWER: b

55. Suppose Poland is producing on its production possibilities frontier, and it decides to increase the production of steel and decrease the production of vodka. The bowed-out production possibility frontier suggests that there will be a(n) _____ opportunity cost of producing more steel.
a. increasing
b. decreasing
c. nonexistent
d. unchanged

ANSWER: a

56. Economists usually assume that production is subject to increasing opportunity costs because:
a. higher production usually results in more inflation.
b. not all resources are equally suited to producing every good.
c. individuals desire constantly increasing opportunities to make themselves better off.
d. if production is efficient, it is not possible to increase the production of all goods simultaneously.

ANSWER: b

57. The production possibility frontier will shift outward because of:
a. a decrease in the labor force.
b. an increase in infrastructure spending.
c. better technology that improves worker productivity.
d. a decrease in the unemployment rate.

ANSWER: c

58. In terms of the production possibility frontier, the inefficient use of available resources is shown by:
a. an increase in the labor force growth rate.
b. a movement from one point to another along the production possibility frontier.
c. an inward shift of the production possibility frontier due to the lack of opportunity.
d. production at a point inside the production possibility frontier.

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ANSWER: d

59. The production possibility frontier will NOT shift outward due to an:
    a. increase in the unemployment rate.
    b. increase in the labor force.
    c. improvement in technology.
    d. increase in worker productivity.

ANSWER: a

60. The effect of an increase in productive inputs such as labor and capital can be shown by a(n):
    a. point inside of the production possibility frontier.
    b. outward shift of the production possibility frontier.
    c. movement from one point to another along the production possibility frontier.
    d. inward shift of the production possibility frontier.

ANSWER: b

61. The effect of a natural disaster can be shown by a(n) _____ the production possibility frontier.
    a. point inside of
    b. outward shift of
    c. movement from one point to another along
    d. inward shift of

ANSWER: d

62. An inward shift in the U.S. economy's production possibility frontier could represent:
    a. U.S. workers moving to Canada.
    b. workers moving from New Jersey to Massachusetts.
    c. U.S. economic growth.
    d. a movement from labor-intensive to capital-intensive industries in some states.

ANSWER: a

63. If the production possibility frontier is a straight line:
    a. opportunity costs are constant.
    b. firms face increasing costs.
    c. firms face decreasing costs.
    d. there is no trade-off between the two goods represented.

ANSWER: a

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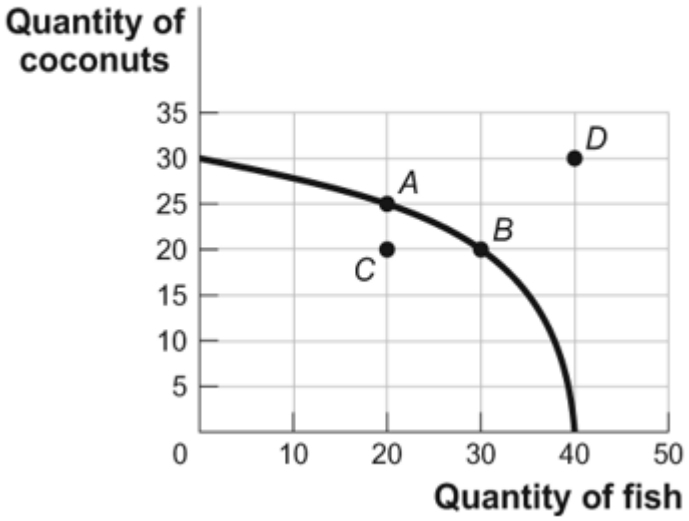
Figure: Omar's Production Possibilities



64. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. Which point or points represent(s) a combination of coconuts and fish that is efficient in production?

a. *A* only
b. *A* and *B*
c. *B* and *C*
d. *D* only

ANSWER: b

65. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. Which point or points represent(s) an inefficient combination of coconuts and fish?

a. *A* only
b. *A* and *B*
c. *C* only
d. *B* and *D*

ANSWER: c

66. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. Which point or points represent(s) an infeasible combination of coconuts and fish?

a. *A* only
b. *A* and *B*
c. *B* and *C*
d. *D* only

ANSWER: d

67. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. Which point or points represent(s) a feasible combination of coconuts and fish?

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a. *A* only
b. *A* and *B*
c. *A*, *B*, and *C*
d. *D* only

ANSWER: c

68. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. The opportunity cost for Tom to move from point *A* on the curve to point *B* is:
a. 10 coconuts.
b. 10 fish.
c. 5 coconuts.
d. 5 fish.

ANSWER: c

69. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. The opportunity cost for Tom to move from point *B* on the curve to point *A* is:
a. 10 coconuts.
b. 10 fish.
c. 5 coconuts.
d. 5 fish.

ANSWER: b

70. (Figure: Omar's Production Possibilities) Use Figure: Omar's Production Possibilities. The opportunity cost for Tom to move from point *C* on the curve to point *A* is:
a. 10 coconuts.
b. 30 fish.
c. 5 coconuts.
d. There is no opportunity cost.

ANSWER: d

71. The _____ illustrates the trade-offs facing an economy that produces only two goods.
a. production possibility frontier
b. circular-flow diagram
c. all else equal assumption
d. income distribution

ANSWER: a

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Table: Trade-off of Study Time and Leisure Time

Quantity of Hours of Study Time	Quantity of Hours of Leisure Time
16	0
12	4
8	8
4	12
0	16

72. (Table: Trade-off of Study Time and Leisure Time) Use Table: Trade-off of Study Time and Leisure Time. A student sleeps 8 hours per day and divides the remaining time between study time and leisure time. The table shows the combinations of study and leisure time that can be produced in the 16 waking hours of each day. If a student decides to consume one additional hour of leisure time, how many hours of study time must she give up?

a. 4
b. 0.25
c. 1
d. 16

ANSWER: c

73. (Table: Trade-off of Study Time and Leisure Time) Use Table: Trade-off of Study Time and Leisure Time. A student sleeps 8 hours per day and divides the remaining time between study and leisure time. The table shows the combinations of study and leisure time that can be produced in the 16 waking hours of each day. Suppose this student is studying 4 hours and spending 10 hours doing leisure activities. This point is:

a. outside the production possibility frontier.
b. inside the production possibility frontier.
c. on the production possibility frontier.
d. both efficient and feasible.

ANSWER: b

74. (Table: Trade-off of Study Time and Leisure Time) Use Table: Trade-off of Study Time and Leisure Time. A student sleeps 8 hours per day and divides the remaining time between study time and leisure time. The table shows the combinations of study and leisure time that can be produced in the 16 waking hours of each day. Suppose the student completes a speed-reading course that allows him to do the same amount of studying in half as many hours. His opportunity cost:

a. of leisure has increased.
b. of studying has increased.
c. of leisure has decreased.
d. has not changed.

ANSWER: a

75. If a production possibility frontier is a straight line, it tells us that the opportunity cost of producing one more unit of good X is:

a. an increasing amount of good Y.

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b. a decreasing amount of good Y.
c. equal to the inverse of the amount of good Y.
d. a constant amount of good Y.

ANSWER: d

76. Suppose Indiana produces only steel and corn, with fixed amounts of land, labor, and capital resources. Which scenario BEST sets the stage for economic growth?
a. The unemployment rate in Indiana rises from 5% to 6%.
b. The Midwest has a devastating drought.
c. The percentage of Indiana residents with a college degree rises from 25% to 30%.
d. The United States imports more and more low-cost steel from Asian countries.

ANSWER: c

77. The production possibility frontier illustrates:
a. the maximum quantity of one good that can be produced given the quantity of the other good produced.
b. that, when markets don't achieve efficiency, government intervention can improve society's welfare.
c. the inverse relation between price and quantity of a particular good.
d. that people usually exploit opportunities to make themselves better off.

ANSWER: a

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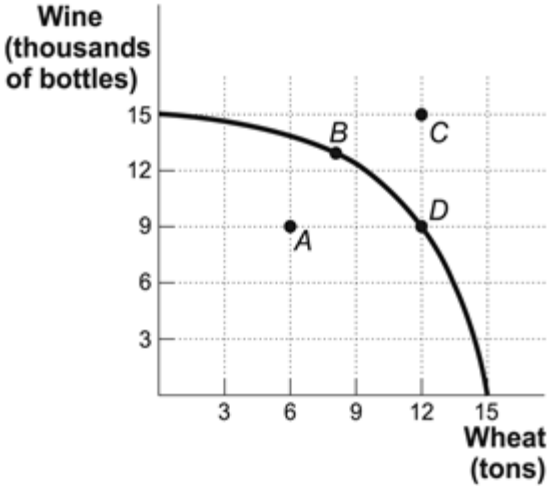
Figure: Wine and Wheat



78. (Figure: Wine and Wheat) Use Figure: Wine and Wheat. If this economy is producing 12 tons of wheat and 9,000 bottles of wine, we know the economy:
a. is using its resources efficiently.
b. is using its resources inefficiently.
c. is producing at an unattainable point.
d. has unemployment.

ANSWER: a

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79. (Figure: Wine and Wheat) Use Figure: Wine and Wheat. If this economy is producing at point *A*, we know the economy is:

a. using its resources efficiently.
b. using its resources inefficiently.
c. producing at an unattainable point.
d. trading with another country.

ANSWER: b

80. (Figure: Wine and Wheat) Use Figure: Wine and Wheat. If this economy is producing at point *A* and wants to produce at point *B*, it must:

a. trade with another country.
b. increase its resources.
c. decrease production.
d. use its existing resources efficiently.

ANSWER: d

81. (Figure: Wine and Wheat) Use Figure: Wine and Wheat. The opportunity cost of moving from producing ONLY wheat to producing ONLY wine is _____ tons of wheat.

a. 3
b. 6
c. 9
d. 15

ANSWER: d

82. (Figure: Wine and Wheat) Use Figure: Wine and Wheat. The opportunity cost of moving from producing ONLY wheat to producing at point *D* is _____ tons of wheat.

a. 3
b. 6
c. 9
d. 15

ANSWER: a

83. (Figure: Wine and Wheat) Use Figure: Wine and Wheat. If this economy is producing on the production possibility frontier, what would allow it to produce at point *C*?

a. an improvement in technology
b. a decrease in resources
c. a decrease in production
d. policies expanding social programs for seniors

ANSWER: a

84. The U.S. production possibility frontier would _____ if all computers using Microsoft operating systems contracted a virus that corrupted all information on those computers.

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a. shift in
b. shift out
c. not change
d. The answer cannot be determined from the information provided.

ANSWER: a

85. The U.S. production possibility frontier will _____ if there is a large influx of working-age immigrants.
a. shift in
b. shift out
c. not change
d. The answer cannot be determined from the information provided.

ANSWER: b

86. In Kessy's old kitchen, he could bake 10 cookies or mix 15 glasses of lemonade in one day. Now Kessy has a larger oven and refrigerator. How does this affect his production possibility frontier?
a. It shifts his production possibility frontier out.
b. It shifts his production possibility frontier in.
c. He will be less efficient.
d. He will not be able to produce as much as before.

ANSWER: a

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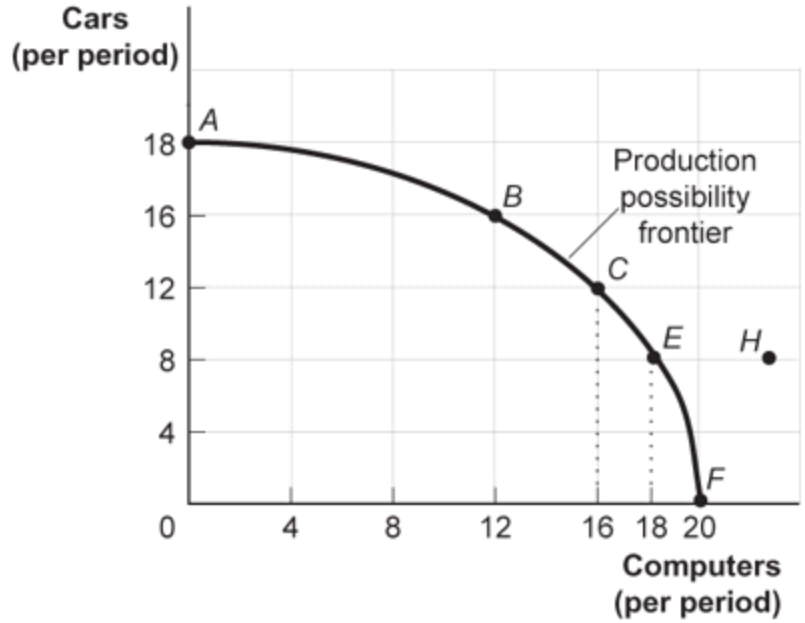
Figure: Production Possibility Frontier



87. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. Points *A*, *B*, *E*, and *F:*

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a. indicate combinations of cars and computers that society can produce using all of its resources efficiently.
b. show that the opportunity cost of cars increases as more cars are produced but that of more computers decreases as more computers are produced.
c. indicate that society wants computers more than cars.
d. indicate constant opportunity costs for cars and increasing opportunity costs for computers.

ANSWER: a

88. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. This production possibility frontier is:
a. bowed out because of increasing opportunity costs.
b. bowed in because of increasing opportunity costs.
c. bowed out because of constant cost of cars and computers.
d. linear because of constant costs.

ANSWER: a

89. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. If the economy is operating at point *B*, producing 16 cars and 12 computers per period, a decision to move to point *E* and produce 18 computers:
a. indicates that you can have more computers and more cars simultaneously.
b. makes it clear that this economy has decreasing opportunity costs.
c. entails a loss of 8 cars per period.
d. entails a loss of 4 cars per period.

ANSWER: c

90. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. The combination of cars and computers at point *H:*
a. can be attained but would cost too much.
b. cannot be attained given the level of technology and the resources available.
c. has no meaning since it is not what consumers want.
d. is attainable but would increase unemployment.

ANSWER: b

91. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. If the economy is producing 8 cars and 12 computers per period:
a. the economy has ongoing unemployment or inefficiency.
b. the notion of increasing opportunity cost is invalidated.
c. the economy is still efficient but has made a decision not to buy as much as it could.
d. something must be done to reduce the amount of employment.

ANSWER: a

92. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. A movement from

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point *C* producing 12 cars and 16 computers per period to point *B* means a _____of _____ cars and a _____ of _____ computers per period.

a. gain; 4; loss; 4
b. gain; 2; loss; 4
c. gain; 4; loss; 6
d. loss; 2; gain; 4

ANSWER: a

93. (Figure: Production Possibility Frontier) Use Figure: Production Possibilities Frontier. Which rate of production per period is NOT efficient?

a. 18 cars and no computers
b. 8 cars and 18 computers
c. 16 cars and 12 computers
d. no cars and 18 computers

ANSWER: d

94. If farmer Sam MacDonald can produce 200 pounds of cabbages and no potatoes or no cabbages and 100 pounds of potatoes and if he faces a linear production possibility frontier, the opportunity cost of producing an additional pound of potatoes is _____ pound(s) of cabbage.

a. 0.5
b. 2
c. 100
d. 200

ANSWER: b

95. If farmer Sam MacDonald can produce 200 pounds of cabbages and no potatoes or no cabbages and 100 pounds of potatoes and if he faces a linear production possibility frontier, the opportunity cost of producing an additional pound of cabbage is _____ pound(s) of potatoes.

a. 0.5
b. 2
c. 100
d. 200

ANSWER: a

96. The slope of a typical production possibility frontier is:

a. 0.
b. vertical.
c. positive.
d. negative.

ANSWER: d

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Chapter 02: Economic Models: Trade-offs and Trade

Table: Production Possibilities Schedule II

Production alternatives	*V*	*W*	*X*	*Y*	*Z*
Capital goods per period	0	1	2	3	4
Consumer goods per period	20	18	14	8	0

97. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If the economy is producing at *Y*, the opportunity cost of producing at *Z* is _____ units of consumer goods per period.

a. 1
b. 6
c. 8
d. 14

ANSWER: c

98. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. If an economy is producing at *X*, the opportunity cost to it of producing at *Y* is _____ units of consumer goods per period.

a. 2
b. 1
c. 6
d. 18

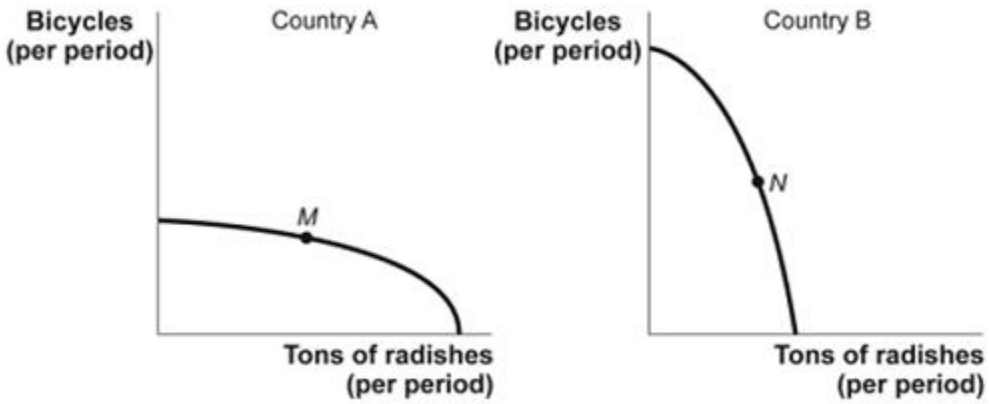
ANSWER: c

99. (Table: Production Possibilities Schedule II) Use Table: Production Possibilities Schedule II. The production of 8 units of consumer goods and 2 units of capital goods per period would result in:

a. full employment.
b. no unused resources.
c. some unused or inefficiently used resources.
d. increased economic growth.

ANSWER: c

Figure: Bicycles and Radishes I



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Chapter 02: Economic Models: Trade-offs and Trade

100. (Figure: Bicycles and Radishes I) Use Figure: Bicycles and Radishes I. The figure shows the production possibility frontiers for two countries that produce only radishes and bicycles. The axes of the two graphs are measured in equivalent units. Country A is operating at point *M*, and country B is operating at point *N*. The opportunity cost of producing an additional ton of radishes would be greater in:

a. country A.
b. country B.
c. neither; the opportunity cost would be the same in both countries.
d. There is not enough information to answer the question.

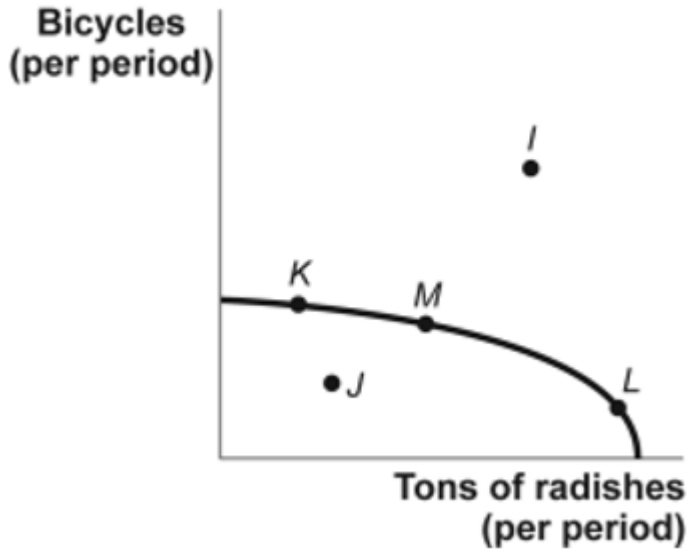
ANSWER: b

101. (Figure: Bicycles and Radishes I) Use Figure: Bicycles and Radishes I. The figure shows production possibility frontiers for two countries that produce only radishes and bicycles. The axes of the two graphs are measured in equivalent units. Country A is operating at point *M*, and country B is operating at point *N*. Suppose country A discovers a new technology that greatly increases its ability to produce bicycles but has no effect on its ability to produce radishes. This would:

a. lower the opportunity cost of producing radishes in country A.
b. increase the opportunity cost of producing radishes in country A.
c. not affect the opportunity cost of producing radishes in country A.
d. increase the opportunity cost of producing radishes in country B.

ANSWER: b

Figure: Bicycles and Radishes II



102. (Figure: Bicycles and Radishes II) Use Figure: Bicycles and Radishes II. The country depicted in this figure is operating at point *M*. It could achieve production at point *I* only if it:

a. used its resources more efficiently.
b. devoted more resources to radish production.
c. devoted more resources to bicycle production.

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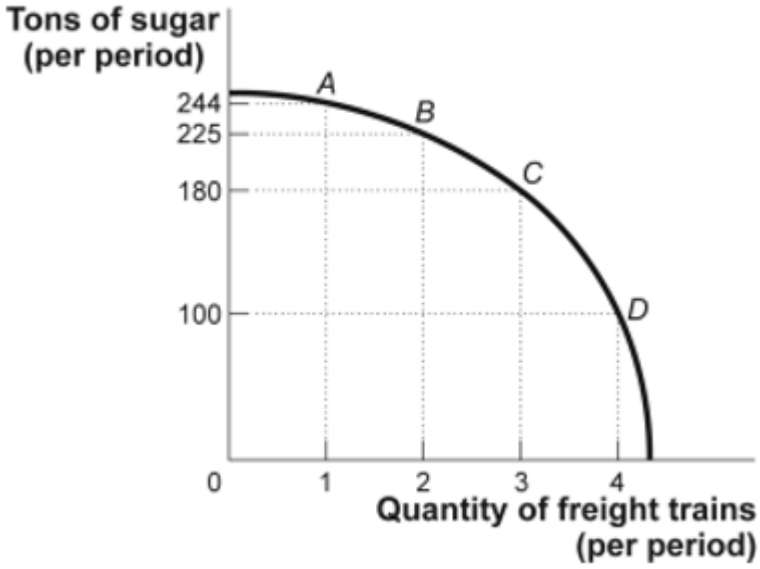
d. increased the quantities of capital, natural resources, or labor available or improved its technology.

ANSWER: d

Figure: Sugar and Freight Trains



103. (Figure: Sugar and Freight Trains) Use Figure: Sugar and Freight Trains. Suppose the economy is operating at point *B*. The opportunity cost of producing the third freight train would be _____ tons of sugar.

a. 6

b. 19

c. 45

d. 80

ANSWER: c

104. (Figure: Sugar and Freight Trains) Use Figure: Sugar and Freight Trains. Suppose the economy is operating at point *C*. The opportunity cost of producing the fourth freight train would be:

a. 19 tons of sugar.

b. 45 tons of sugar.

c. 80 tons of sugar.

d. 3 freight trains.

ANSWER: c

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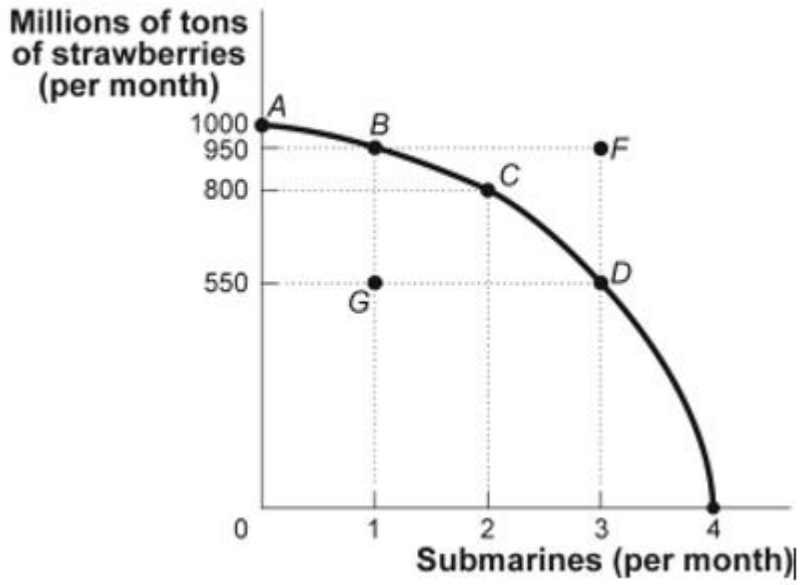
Figure: Strawberries and Submarines II



105. (Figure: Strawberries and Submarines II) Use Figure: Strawberries and Submarines II. Point *F* is:

a. unattainable, all other things unchanged.
b. attainable if the quantity and/or quality of factors decreases.
c. attainable if the economy is able to reach full employment.
d. feasible but not efficient.

ANSWER: a

106. (Figure: Strawberries and Submarines II) Use Figure: Strawberries and Submarines II. Suppose the economy is operating at point *A*. The first submarine, which is achieved at point *B*, would have an opportunity cost of _____ million tons of strawberries.

a. 50
b. 150
c. 400
d. 950

ANSWER: a

107. (Figure: Strawberries and Submarines II) Use Figure: Strawberries and Submarines II. Assume that the economy is operating at point *A*. The opportunity cost of moving to point *C* is equal to _____ million tons of strawberries:

a. 800
b. 200
c. 2
d. 50

ANSWER: b

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108. (Figure: Strawberries and Submarines II) Use Figure: Strawberries and Submarines II. The downward slope of the production possibility frontier implies that resources:

a. must be used efficiently.
b. are scarce.
c. should not be wasted.
d. should be allocated so that approximately equal amounts of both goods are produced.

ANSWER: b

109. (Figure: Strawberries and Submarines II) Use Figure: Strawberries and Submarines II. Suppose the economy is operating at point *B*. Achieving production at point *F* would require that the economy:

a. achieve full employment and an efficient allocation of resources.
b. reduce its production of strawberries.
c. reduce its production of submarines.
d. improve its technology or increase its resources.

ANSWER: d

110. Efficient production occurs when the economy is _____ its production possibility frontier.

a. operating inside
b. operating on
c. operating outside
d. moving beyond

ANSWER: b

111. Assume an economy is operating on its production possibility frontier, which shows the production of military and civilian goods. If the output of military goods is increased, the output of civilian goods:

a. will increase, too.
b. will not change.
c. must decrease.
d. may increase or decrease.

ANSWER: c

112. The process observed when an economy's production possibility frontier shifts outward is:

a. comparative advantage.
b. economic growth.
c. full employment.
d. specialization.

ANSWER: b

113. Increases in resources or improvements in technology will tend to cause a society's production possibility frontier to:

a. shift inward.

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b. shift outward.
c. remain unchanged.
d. become vertical.

ANSWER: b

114. Technological improvements will:
a. leave the production possibility frontier unchanged.
b. shift the production possibility frontier inward.
c. shift the production possibility frontier outward.
d. necessarily lead to increased unemployment.

ANSWER: c

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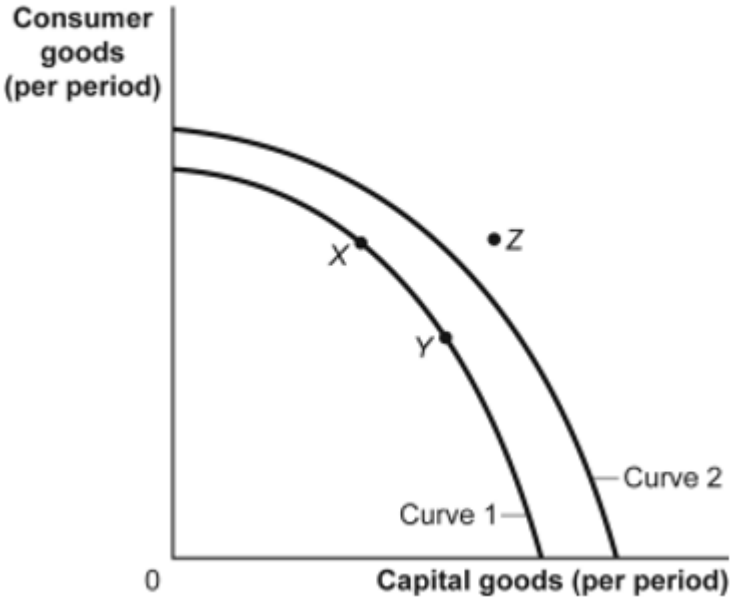
Figure: Consumer and Capital Goods



115. (Figure: Consumer and Capital Goods) Use Figure: Consumer and Capital Goods. If the economy is operating at point *Y* and its relevant production possibility frontier is curve 1:
a. the economy is at full employment and is efficient.
b. the economy is less than fully employed.
c. the economy is not efficient.
d. economic growth is not possible in the future.

ANSWER: a

116. (Figure: Consumer and Capital Goods) Use Figure: Consumer and Capital Goods. The movement from curve 1 to curve 2 indicates a(n):
a. growing ability of the economy to produce capital and consumer goods.

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b. increase in the stock market.
c. decrease in the factors of production.
d. shift of the production possibility frontier toward producing fewer goods.

ANSWER: a

117. (Figure: Consumer and Capital Goods) Use Figure: Consumer and Capital Goods. Technological improvements will likely:
a. shift the production possibility frontier inward to curve 1.
b. shift the production possibility frontier outward to curve 2.
c. lead to increased unemployment.
d. leave the production possibility frontier unchanged.

ANSWER: b

118. Abe starts exercising regularly, and after a few months he can do twice as much of everything. In a single day, Abe can now make 10 hamburgers or 8 milkshakes, rather than the 5 hamburgers and 4 milkshakes he made in the past. We now know that Abe's production possibility frontier has _____, but his opportunity costs of making milkshakes have _____.
a. shifted right; not changed
b. shifted right; decreased
c. not changed; increased
d. not changed; decreased

ANSWER: a

119. When a nation's economy grows:
a. its production possibility frontier shifts outward.
b. its production possibility frontier shifts inward.
c. it has been able to reach full employment.
d. it has moved to a more consumer-oriented position on its production possibility frontier.

ANSWER: a

120. As long as people have different _____, everyone has a comparative advantage in something.
a. direct costs
b. benefits
c. utility
d. opportunity costs

ANSWER: d

121. Because of trade, a country may:
a. consume outside its production possibility frontier.
b. consume inside its production possibility frontier.
c. find its production possibility frontier shifting outward.
d. avoid opportunity costs.

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ANSWER: a

122. An economy is said to have a comparative advantage if it:
a. can produce more of all goods than another economy.
b. can produce fewer of all goods than another economy.
c. has the highest cost of producing a particular good, compared with other economies.
d. has the lowest cost of producing a particular good, compared with other economies.

ANSWER: d

123. The economy with the LOWEST opportunity cost of producing a particular good is said to have a(n):
a. technological advantage.
b. comparative advantage.
c. production possibility frontier.
d. increasing opportunity cost.

ANSWER: b

124. An economy is said to have a comparative advantage in the production of a good if it can produce that good:
a. with more resources than another economy.
b. with a higher opportunity cost than another economy.
c. outside its production possibilities curve.
d. at a lower opportunity cost than another economy.

ANSWER: d

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Table: Fish and Coconut Production Possibilities

	Fish	Coconuts
Tom	12	8
Hank	5	5

125. (Table: Fish and Coconut Production Possibilities) Use Table: Fish and Coconut Production Possibilities. The table shows the maximum number of fish and coconuts that Tom and Hank can produce if they produce only one good. In the absence of trade, Tom produces and consumes 9 fish and 2 coconuts, and Hank produces and consumes 3 fish and 2 coconuts. Now they decide to engage in trade. Which statement is INCORRECT?
a. For both to become better off, each should specialize in the production of some good. However, since Hank is equally productive in both goods, it doesn't matter which good each specializes in.
b. For both to become better off, each should specialize completely in the production of the good in which he has a comparative advantage.
c. After trade, it is possible for Tom to consume 9 fish and 2.5 coconuts and for Hank to consume 3 fish and 2.5 coconuts.
d. For each individual, the consumption point after trade will lie outside that individual's production possibility frontier.

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ANSWER: a

126. In one hour, the United States can produce 25 tons of steel or 250 automobiles. In one hour, Japan can produce 30 tons of steel or 275 automobiles. This information implies that:

a. Japan has a comparative advantage in the production of automobiles.
b. the United States has an absolute advantage in the production of steel.
c. Japan has a comparative advantage in the production of both goods.
d. the United States has a comparative advantage in the production of automobiles.

ANSWER: a

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Table: Coffee and Salmon Production Possibilities

	Coffee	Salmon
Brazil	40	20
Alaska	10	10

127. (Table: Coffee and Salmon Production Possibilities) Use Table: Coffee and Salmon Production Possibilities. The table shows the maximum amounts of coffee and salmon that Brazil and Alaska can produce if they just produce one good. The opportunity cost of producing 1 unit of coffee for Brazil is _____ salmon.

a. 2
b. 0.25
c. 1
d. 0.5

ANSWER: d

128. (Table: Coffee and Salmon Production Possibilities) Use Table: Coffee and Salmon Production Possibilities. The table shows the maximum amounts of coffee and salmon that Brazil and Alaska can produce if they just produce one good. The opportunity cost of producing 1 unit of salmon for Alaska is _____ coffee(s).

a. 2
b. 0.25
c. 1
d. 0.5

ANSWER: c

129. Free trade between countries:

a. should be based on absolute advantage.
b. always involves wealthy countries exploiting less developed nations.
c. will shift the domestic production possibility frontier to the right.
d. will allow for greater levels of consumption than without trade.

ANSWER: d

130. If they spend all night writing computer programs, Laurence can write 10 programs, and Carrie Anne can

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write 5. If they spend all night making sunglasses, Laurence can make 6 pairs, and Carrie Anne can make 4. Given this information and supposing Laurence and Carrie Anne have constant opportunity costs, we know that _____ has an absolute advantage in _____.

a. Laurence; programs but not in sunglasses.
b. Laurence; both programs and sunglasses.
c. Carrie Anne; programs but not in sunglasses.
d. Carrie Anne; both programs and sunglasses.

ANSWER: b

131. If they spend all night writing computer programs, Laurence can write 10 programs, and Carrie Anne can write 5. If they spend all night making sunglasses, Laurence can make 6 pairs, and Carrie Anne can make 4. We know that:

a. Laurence's opportunity cost of writing programs is less than Carrie Anne's.
b. Laurence's opportunity costs of writing programs and of making sunglasses are less than Carrie Anne's.
c. Carrie Anne's opportunity costs of writing programs and of making sunglasses are less than Laurence's.
d. Carrie Anne's opportunity cost of writing programs is less than Laurence's.

ANSWER: a

132. If they spend all night writing computer programs, Laurence can write 10 programs, and Carrie Anne can write 5. If they spend all night making sunglasses, Laurence can make 6 pairs, and Carrie Anne can make 4. We know that _____ has a comparative advantage in _____.

a. Laurence; programs
b. Laurence; both programs and sunglasses
c. Carrie Anne; programs
d. Carrie Anne; both programs and sunglasses

ANSWER: a

133. Which statement is TRUE?

a. Some very talented people have a comparative advantage in everything they do.
b. Some very untalented people have a comparative advantage in nothing they do.
c. Some very talented people have a very low opportunity cost in everything they do.
d. It is possible to have an absolute disadvantage but a comparative advantage in something.

ANSWER: d

134. In a single day, Sarah can produce 10 hamburgers, and Abe can produce 5 hamburgers. Therefore, _____ has a(n) _____ advantage in making hamburgers.

a. Sarah; comparative
b. Sarah; absolute
c. Abe; comparative
d. Abe; absolute

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ANSWER: b

135. If they produce only hamburgers, in a single day Sarah can produce 10 hamburgers, and Abe can produce 5 hamburgers. If they make milkshakes only, in a single day Sarah can produce 10 milkshakes, and Abe can produce 4 milkshakes. Therefore, _____ has an absolute advantage and a comparative advantage in making _____.

a. Sarah; hamburgers.
b. Sarah; milkshakes.
c. Abe; hamburgers.
d. Abe; milkshakes.

ANSWER: b

136. Roommates Sarah and Zoe are hosting a Halloween party and have to make food for their guests and costumes for themselves. To finish both tasks as quickly as possible, Sarah and Zoe know that each of them should focus on just one task, but they don't know who should do what. Sarah and Zoe should determine which roommate:

a. has the absolute advantage in cooking.
b. has the comparative advantage in cooking.
c. can cook the most in a given amount of time.
d. can complete the cooking in the least amount of time.

ANSWER: b

137. Economists generally believe that a country should specialize in the production of a good or service if the:

a. production possibility frontier is further from the origin than that of any other country.
b. production possibility frontier is closer to the origin than that of any other country.
c. country can produce the product using more resources than any other country.
d. country can produce the product while forgoing fewer alternative products than any other country.

ANSWER: d

Table: Coffee and Salmon Production Possibilities II

	Coffee	Salmon
Brazil	40	20
Alaska	20	20

138. (Table: Coffee and Salmon Production Possibilities II) Use Table: Coffee and Salmon Production Possibilities II. This table shows the maximum amounts of coffee and salmon, both measured in pounds, that Brazil and Alaska can produce if they just produce one good. Brazil has an absolute advantage in producing:

a. coffee only.
b. salmon only.

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c. both coffee and salmon.
d. neither coffee nor salmon.

ANSWER: a

139. (Table: Coffee and Salmon Production Possibilities II) Use Table: Coffee and Salmon Production Possibilities II. This table shows the maximum amounts of coffee and salmon, both measured in pounds, that Brazil and Alaska can produce if they just produce one good. Alaska has an absolute advantage in producing:
a. coffee only.
b. salmon only.
c. both coffee and salmon.
d. neither coffee nor salmon.

ANSWER: d

140. (Table: Coffee and Salmon Production Possibilities II) Use Table: Coffee and Salmon Production Possibilities II. This table shows the maximum amounts of coffee and salmon, both measured in pounds, that Brazil and Alaska can produce if they just produce one good. Brazil has a comparative advantage in producing:
a. coffee only.
b. salmon only.
c. both coffee and salmon.
d. neither coffee nor salmon

ANSWER: a

141. An economy is said to have a comparative advantage in the production of one good if it:
a. can produce more of all goods than another economy.
b. can produce fewer of all goods than another economy.
c. has the highest opportunity cost of producing a particular good.
d. has the lowest opportunity cost of producing a particular good.

ANSWER: d

142. An economy that has the LOWEST opportunity cost of producing a particular good is said to have a(n):
a. absolute advantage in production of that good.
b. comparative advantage in production of that good.
c. production possibility frontier.
d. increasing opportunity cost in production of that good.

ANSWER: b

143. The concept of comparative advantage is based on:
a. absolute labor productivity.
b. relative labor costs.
c. dollar prices of labor.
d. relative opportunity costs.

ANSWER: d

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144. An economy is said to have a comparative advantage in the production of a good if it can produce that good:

a. with more resources than another economy.
b. at a higher opportunity cost than another economy.
c. outside its production possibility frontier.
d. at a lower opportunity cost than another economy.

ANSWER: d

145. If the opportunity cost of manufacturing machinery is lower in the United States than in Britain and the opportunity cost of manufacturing sweaters is higher in the United States than in Britain, then the United States will:

a. export both sweaters and machinery to Britain.
b. import both sweaters and machinery from Britain.
c. export sweaters to Britain and import machinery from Britain.
d. import sweaters from Britain and export machinery to Britain.

ANSWER: d

146. If the opportunity cost of manufacturing machinery is higher in the United States than in Britain and the opportunity cost of manufacturing sweaters is lower in the United States than in Britain, then the United States will:

a. export both sweaters and machinery to Britain.
b. import both sweaters and machinery from Britain.
c. export sweaters to Britain and import machinery from Britain.
d. import sweaters from Britain and export machinery to Britain.

ANSWER: c

147. Trade can be beneficial to an economy because:

a. it results in a more efficient use of the combined resources of some of the trading countries, even though it reduces efficiency in others.
b. more goods and services can be obtained at lower opportunity cost.
c. it prevents specialization in activities in which countries have a comparative advantage.
d. it eliminates unemployment.

ANSWER: b

148. If Brazil gives up three automobiles for each ton of coffee it produces, while Peru gives up seven automobiles for each ton of coffee it produces, then Brazil has a comparative advantage in _____ production and should specialize in _____.

a. automobile; coffee
b. coffee; automobiles
c. coffee; coffee
d. automobile; automobiles

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ANSWER: c

149. If countries engage in international trade:
a. they give up the ability to specialize in production.
b. worldwide levels of production are lower.
c. they can consume inside their production possibility frontiers.
d. they can consume outside their production possibility frontiers.

ANSWER: d

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Table: Comparative Advantage I

Sweden and Finland produce only two goods, herring and cell phones, and this table shows the maximum amount that each nation can produce of the two goods.

	Sweden	Finland
Herring	100,000 boxes	50,000 boxes
Cell Phones	10,000	10,000

150. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Sweden has an absolute advantage in producing:
a. cell phones only.
b. herring only.
c. both cell phones and herring.
d. neither cell phones nor herring.

ANSWER: b

151. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Finland has an absolute advantage in producing:
a. cell phones only.
b. herring only.
c. both cell phones and herring.
d. neither cell phones nor herring.

ANSWER: d

152. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Sweden has a comparative advantage in producing:
a. cell phones only.
b. herring only.
c. both cell phones and herring.
d. neither cell phones nor herring.

ANSWER: b

153. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. Finland has a comparative

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advantage in producing:

a. cell phones only.
b. herring only.
c. both cell phones and herring.
d. neither cell phones nor herring.

ANSWER: a

154. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of cell phones for Sweden is _____ box(es) of herring.

a. 10
b. 0.2
c. 5
d. 0.1

ANSWER: a

155. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of cell phones for Finland is _____ box(es) of herring.

a. 10
b. 0.5
c. 5
d. 0.1

ANSWER: c

156. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of herring for Sweden is _____ box(es) of cell phones.

a. 10
b. 0.5
c. 5
d. 0.1

ANSWER: d

157. (Table: Comparative Advantage I) Use Table: Comparative Advantage I. The opportunity cost of producing 1 box of herring for Finland is _____ box(es) of cell phones.

a. 10
b. 0.2
c. 5
d. 0.1

ANSWER: b

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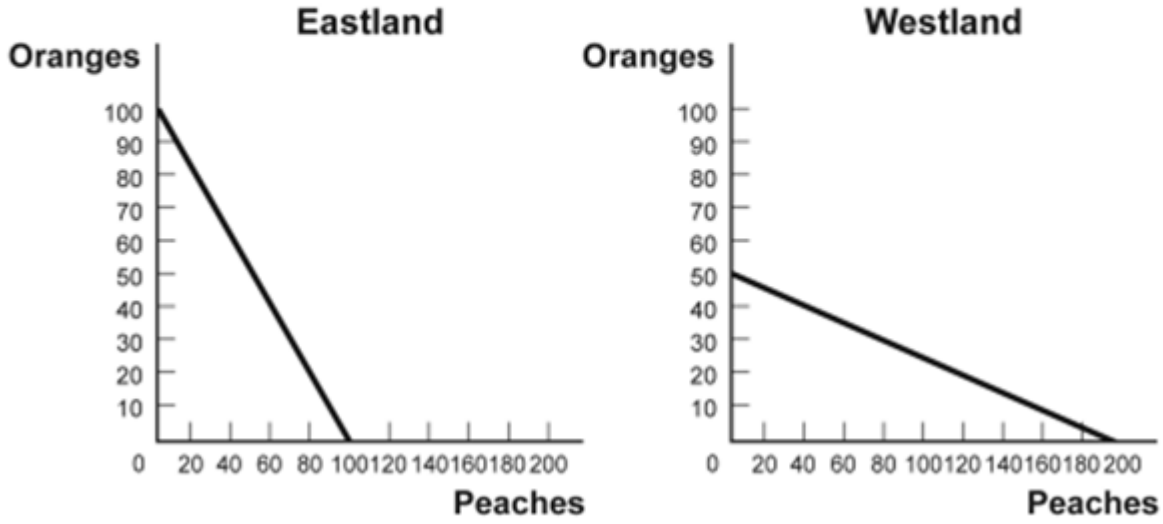
Figure: Comparative Advantage
Eastland and Westland produce only two goods, boxes of peaches and boxes of oranges, and this figure shows each nation's production possibility frontier for the two goods.



158. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. Eastland has an absolute advantage in producing:

a. oranges only.
b. peaches only.
c. both oranges and peaches.
d. neither oranges nor peaches.

ANSWER: a

159. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. Westland has an absolute advantage in producing:

a. oranges only.
b. peaches only.
c. both oranges and peaches.
d. neither oranges or peaches.

ANSWER: b

160. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of oranges for Eastland is _____ box(es) of peaches.

a. 1
b. 0.25
c. 4
d. 10

ANSWER: a

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161. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of oranges for Westland is _____ box(es) of peaches.

a. 1
b. 0.25
c. 4
d. 10

ANSWER: c

162. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of peaches for Eastland is _____ box(es) of oranges.

a. 1
b. 0.25
c. 4
d. 10

ANSWER: a

163. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. The opportunity cost of producing 1 box of peaches for Westland is _____ box(es) of oranges.

a. 1
b. 0.25
c. 4
d. 10

ANSWER: b

164. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. Eastland has a comparative advantage in producing:

a. oranges only.
b. peaches only.
c. both oranges and peaches.
d. neither oranges nor peaches.

ANSWER: a

165. (Figure: Comparative Advantage) Use Figure: Comparative Advantage. Westland has a comparative advantage in producing:

a. oranges only.
b. peaches only.
c. both oranges and peaches.
d. neither oranges nor peaches.

ANSWER: b

166. Which statement is TRUE?

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a. Very talented people may have a comparative advantage in everything they do.
b. Very untalented people have a comparative advantage in something they do.
c. Very talented people may have a low opportunity cost in most things they do.
d. Very untalented people may have a high opportunity cost in most things they do.

ANSWER: b

167. In a single day, George can bake 10 cakes and Greta can bake 5 cakes. We know that _____ has a(n) _____ advantage in baking cakes.
a. George; comparative
b. George; absolute
c. Greta; comparative
d. Greta; absolute

ANSWER: b

168. If they bake only cakes, in a single day George can bake 10 cakes, and Greta can bake 5 cakes. If they make only pies, in a single day George can bake 10 pies, while Greta can bake 4 pies. We know that _____ has an absolute advantage and a comparative advantage in making _____.
a. George; cakes
b. George; pies
c. Greta; cakes
d. Greta; pies

ANSWER: b

169. Greta starts using a new baking technique, and she can now do twice as much of everything. In a single day, Greta can now make 10 cakes or 8 pies, rather than the 5 cakes and 4 pies she could previously bake. Greta's production possibility frontier has _____, and her opportunity cost of making pies _____.
a. shifted right; is unchanged
b. shifted right; has decreased
c. not changed; has increased
d. not changed; has decreased

ANSWER: a

170. Coworkers Yvonne and Rodney are washing dishes and sweeping the floors of the store. They know that to finish both tasks as quickly as possible, each of them should focus on just one task, but they don't know who should do what. Yvonne and Rodney should determine which one:
a. has the absolute advantage in both sweeping and dishwashing.
b. has the comparative advantage in dishwashing.
c. has the production possibility frontier that is farthest from the origin in dishwashing.
d. can wash the dishes faster.

ANSWER: b

171. To achieve gains from trade, each nation should specialize in the production of a good or service if:

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a. its production possibility frontier is farther from the origin than that of any other country.
b. its production possibility frontier is closer to the origin than that of any other country.
c. the country can make that good or service using fewer resources than any other country.
d. the country can make that good or service while forgoing the production of fewer alternative products than any other country.

ANSWER: d

172. Dr. Colgate is a dentist who employs an assistant, Ms. Crest. If Dr. Colgate worked all day at the front desk, she could answer 40 phone calls. If she worked all day with patients, she could clean the teeth of 40 patients. If Ms. Crest worked all day at the front desk, she could answer 60 phone calls. If she worked all day with patients, she could clean the teeth of 20 patients. _____ has a(n) _____ advantage in _____.

a. Dr. Colgate; absolute; answering phones
b. Ms. Crest; comparative; answering phones
c. Ms. Crest; absolute; cleaning patients' teeth
d. Dr. Colgate; comparative; answering phones

ANSWER: b

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Table: Wheat and Aluminum

	Wheat Production	Aluminum Production
U.S.	100	0
	0	100
	Wheat Production	**Aluminum Production**
Germany	50	0
	0	100

173. (Table: Wheat and Aluminum) Use Table: Wheat and Aluminum. The United States and Germany can produce both wheat and aluminum. The table shows, in tonnage, the maximum annual output combinations of wheat and aluminum that can be produced. Which choice represents a possible trade based on specialization and comparative advantage?

a. Germany would trade 2 tons of wheat to the United States for 1 ton of aluminum.
b. Germany would trade 2 tons of aluminum to the United States for 0.5 ton of wheat.
c. The United States would trade 1 ton of wheat to Germany for 1 ton of aluminum.
d. The United States would trade 1 ton of wheat to Germany for 1.5 tons of aluminum.

ANSWER: d

174. (Table: Wheat and Aluminum) Use Table: Wheat and Aluminum. The United States and Germany can produce both wheat and aluminum. The table shows the maximum annual output combinations of wheat and aluminum that can be produced. Based on the table:

a. the United States has a comparative advantage in wheat and an absolute advantage in wheat.
b. Germany has an absolute advantage in aluminum and a comparative advantage in wheat.

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c. the United States has a comparative advantage in both aluminum and wheat.
d. Germany has a comparative advantage in aluminum and an absolute advantage in aluminum.

ANSWER: a

175. In one day, Kessy can bake 10 cookies or mix 15 glasses of lemonade. His friend Ava can make 10 cookies or 10 glasses of lemonade. His other friend, Ian, can make 10 cookies or 20 glasses of lemonade. Who has the LOWEST opportunity cost in cookie production?

a. Kessy
b. Ava
c. Ian
d. Kessy and Ava have the same opportunity cost in cookie production.

ANSWER: b

176. Because Casey can type reports faster and more accurately than Ahmet, Casey has a(n) _____ in typing reports.

a. comparative advantage
b. absolute advantage
c. opportunity cost
d. specialization

ANSWER: b

177. Mark and Julie are going to sell brownies and cookies for their third annual fundraiser bake sale. In one day, Mark can make 40 brownies or 20 cookies, and Julie can make 15 brownies or 15 cookies. Based on this information, _____ has the comparative advantage in making brownies and _____ has the comparative advantage in making cookies.

a. Mark; Julie
b. Mark; Mark
c. Julie; Mark
d. Julie; Julie

ANSWER: a

178. Mark and Julie are going to sell brownies and cookies for their third annual fundraiser bake sale. In one day, Mark can make 40 brownies or 20 cookies, and Julie can make 15 brownies or 15 cookies. What is Mark's opportunity cost to produce one brownie?

a. 1 cookie
b. 1 brownie
c. 0.5 cookie
d. 0.5 brownie

ANSWER: c

179. Mark and Julie are going to sell brownies and cookies for their third annual fundraiser bake sale. In one day, Mark can make 40 brownies or 20 cookies, and Julie can make 15 brownies or 15 cookies. With specialization, _____ brownies and _____ cookies will be made in one day.

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a. 15; 20
b. 40; 20
c. 40; 15
d. 55; 35

ANSWER: c

180. Mark and Julie are going to sell brownies and cookies for their third annual fundraiser bake sale. In one day, Mark can make 40 brownies or 20 cookies, and Julie can make 15 brownies or 15 cookies. Based on this information, _____ has the absolute advantage in making brownies and _____ has the absolute advantage in making cookies.

a. Mark; Julie
b. Mark; Mark
c. Julie; Mark
d. Mark; neither Mark nor Julie

ANSWER: b

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Table: Bongos and Frisbees

Bill		Mickey	
Bongos	**Frisbees**	**Bongos**	**Frisbees**
1	10	4	14
2	9	5	12
3	8	6	10

181. (Table: Bongos and Frisbees) Use Table: Bongos and Frisbees. Bill and Mickey make bongos and Frisbees. Who has the comparative advantage in producing Frisbees?

a. Bill
b. Mickey
c. both
d. neither

ANSWER: b

182. (Table: Bongos and Frisbees) Use Table: Bongos and Frisbees. Bill and Mickey make bongos and Frisbees. Who should specialize in the production of bongos?

a. Bill
b. Mickey
c. both
d. neither

ANSWER: a

183. If the opportunity cost of manufacturing automobiles is lower in the United States than in Britain and the opportunity cost of manufacturing airplanes is higher in the United States than in Britain, then the United States will:

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a. export both airplanes and automobiles to Britain.
b. import both airplanes and automobiles from Britain.
c. export airplanes to Britain and import automobiles from Britain.
d. import airplanes from Britain and export automobiles to Britain.

ANSWER: d

184. If the opportunity cost of manufacturing automobiles is higher in the United States than in Britain and the opportunity cost of manufacturing airplanes is lower in the United States than in Britain, then the United States will:

a. export both airplanes and automobiles to Britain.
b. import both airplanes and automobiles from Britain.
c. export airplanes to Britain and import automobiles from Britain.
d. import airplanes from Britain and export automobiles to Britain.

ANSWER: c

185. Assume that Colombia gives up three motorcycles for each ton of coffee it produces, while Bolivia gives up seven motorcycles for each ton of coffee it produces. Colombia has a comparative advantage in _____ production and should specialize in _____.

a. motorcycle; coffee
b. coffee; motorcycles
c. coffee; coffee
d. motorcycle; motorcycles

ANSWER: c

186. Economists are generally in support of:

a. government restrictions on trade.
b. free international trade.
c. tariffs to restrict trade.
d. subsidizing exports.

ANSWER: b

187. Trade takes the form of _____ when people directly exchange goods they have for goods they want.

a. exploitation
b. benevolence
c. barter
d. a zero-sum game

ANSWER: c

188. The simplest circular-flow model shows the interaction between households and firms. In this model:

a. only barter transactions take place.
b. households and firms interact in the market for goods and services, but firms are the only participants in the factor markets.

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c. firms supply goods and services to households, which in turn supply factors of production to firms.
d. attention is focused on real flows of goods, services, and factors of production, but money flows between households and firms are ignored for simplicity.

ANSWER: c

189. A high-school graduate who gets a college degree is adding to the economy's stock of:
a. labor.
b. capital.
c. human capital.
d. financial capital.

ANSWER: c

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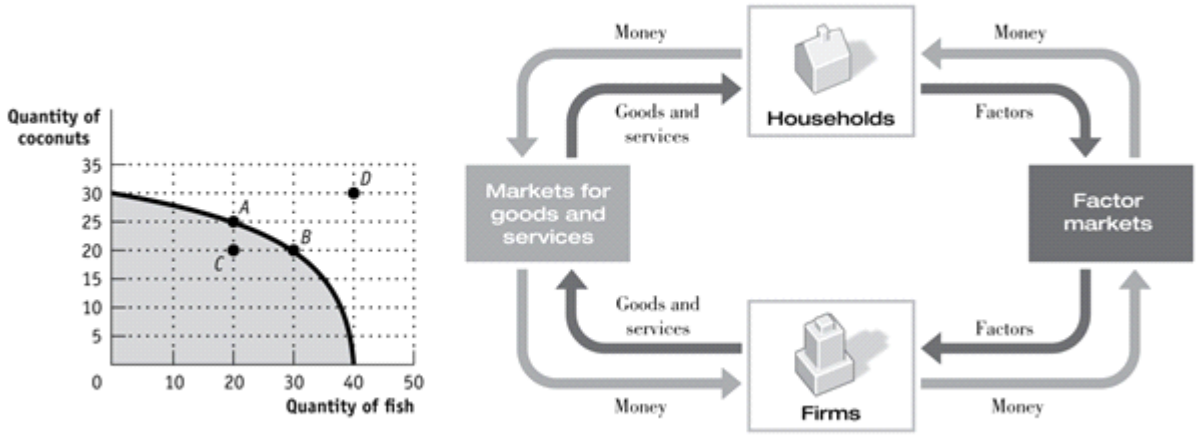
Figure: Production Possibilities and Circular-Flow Diagram



190. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram there is a significant decrease in the amount of labor flowing to the firms that produce coconuts. If all other variables remain unchanged, this adjustment in the economy would be BEST represented in the production possibilities figure by a move from point *A* toward:
a. point *A* (no movement).
b. point *B* (a decrease in coconut production and an increase in fish production).
c. point *C* (a decrease in coconut production).
d. point *D* (an outward shift of the entire curve).

ANSWER: c

191. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram capital that used to flow to firms producing coconuts now flows to firms producing fish. This adjustment in the economy would be BEST represented in the production possibilities figure by a move from

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point *A* toward:

a. point *A* (no movement).
b. point *B* (a decrease in coconut production and an increase in fish production).
c. point *C* (a decrease in coconut production).
d. point *D* (an outward shift of the entire curve).

ANSWER: b

192. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram there is a significant increase in the amount of human capital flowing to both coconut producers and fish producers. If all other variables remain unchanged, then the adjustment in this economy would be BEST represented in the production possibilities figure by a movement from point *A* toward:

a. point *A* (no movement).
b. point *B* (a decrease in coconut production and an increase in fish production).
c. point *C* (a decrease in coconut production).
d. point *D* (an outward shift of the entire curve).

ANSWER: d

193. (Figure: Production Possibilities and Circular-Flow Diagram) Use Figure: Production Possibilities and Circular-Flow Diagram. Assume the two figures represent the same economy. Suppose that in the circular-flow diagram most firms undergo a significant increase in productivity. This results in a significant increase in the output of both coconuts and fish. If all other variables remain unchanged, then the adjustment in this economy would be BEST represented in the production possibilities figure by a movement from point *A* toward:

a. point *A* (no movement).
b. point *B* (a decrease in coconut production and an increase in fish production).
c. point *C* (a decrease in coconut production).
d. point *D* (an outward shift of the entire curve).

ANSWER: d

194. If LeRoyce trades two cookies for one of Amir's brownies, we say that they are engaging in:

a. exploitation.
b. benevolence.
c. barter.
d. a zero-sum game.

ANSWER: c

195. Which statement is FALSE about the circular-flow diagram?

a. Households are the primary demanders of goods and services.
b. Firms are the primary suppliers of goods and services.
c. Money flows from households to firms as households offer factors of production for sale.
d. Money flows in the direction opposite to goods and services and factors of production.

ANSWER: c

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Chapter 02: Economic Models: Trade-offs and Trade

196. Which item is NOT a factor of production?
a. labor
b. machines and buildings
c. land
d. money
ANSWER: d

197. The circular-flow diagram illustrates how households _____ goods and services and _____ factors of production.
a. buy; sell
b. buy; buy
c. own; buy
d. own; sell
ANSWER: a

198. The circular-flow diagram illustrates how firms _____ goods and services and _____ factors of production.
a. buy; sell
b. buy; buy
c. sell; buy
d. sell; sell
ANSWER: c

199. In the simplest circular-flow model, households supply _____ and demand _____.
a. capital; barter
b. wages and income; capital markets
c. factors of production; goods and services
d. firms; markets
ANSWER: c

200. The circular-flow diagram represents the market for _____ and the market for _____.
a. goods and services; factors of production
b. households; firms
c. money; goods and services
d. factors of production; money
ANSWER: a

201. The circular-flow diagram shows the flow of _____, the flow of _____, and the flow of_____.
a. goods and services; factors of production; and markets
b. households; firms; money
c. money; goods and services; factors of production.
d. factors of production; money; households.

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ANSWER: c

202. The circular-flow diagram shows how:
a. banks receive deposits and create money.
b. money, goods and services, and factors of production flow through the economy.
c. the various levels of government allocate tax revenues to meet the needs of society.
d. the work force is educated and trained to increase labor productivity.

ANSWER: b

203. The basis of the circular-flow diagram is that:
a. the best models avoid making assumptions.
b. goods and services flow in a circle in the factor market.
c. resources are sold along with goods and services in the resource market.
d. the flow of money into each market or sector is equal to the flow of money coming out of that market or sector.

ANSWER: d

204. In the circular-flow diagram, the flow of money going into each sector or market is _____ the flow of money coming out of that market or sector.
a. equal to
b. greater than
c. less than
d. unrelated to

ANSWER: a

205. In the circular-flow diagram, an individual or a group of people (usually a family) who share their income is a(n):
a. market.
b. factor.
c. household.
d. business.

ANSWER: c

206. In the circular-flow diagram, a household is a(n):
a. entity that sells goods and services.
b. individual or group of people who share their income.
c. entity that purchases factors of production.
d. member of a group that is prohibited from buying imported goods and services.

ANSWER: b

207. In the circular-flow diagram, an organization that produces goods or services for sale is a:
a. market.

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b. household.
c. factor.
d. firm.

ANSWER: d

208. In the circular-flow diagram, a firm is an:
a. organization that produces goods or services for sale.
b. individual or a group of people who share their income.
c. organization that sells factors of production.
d. organization that purchases goods and services.

ANSWER: a

209. In the circular-flow diagram, the product market is where:
a. firms buy goods and services.
b. firms buy resources used to produce goods and services.
c. households buy goods and services.
d. households buy resources used to produce goods and services.

ANSWER: c

210. Households buy goods and services in the _____ markets.
a. factor
b. product
c. resource
d. financial

ANSWER: b

211. In the circular-flow diagram, the factor market is where:
a. households buy factors of production.
b. households buy goods and services.
c. businesses buy goods and services.
d. businesses buy factors of production.

ANSWER: d

212. Businesses buy resources used to produce goods and services in the:
a. factor market.
b. product market.
c. market for goods and services.
d. foreign exchange market.

ANSWER: a

213. Jim is being paid $7.25 an hour to work at a restaurant. In the circular flow, this is an example of a:
a. business selling goods and services in the product market.

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b. household buying goods and services in the product market.
c. household buying goods and services in the factor market.
d. household selling a resource in the factor market.

ANSWER: d

214. Jim is being paid $7.25 an hour to work at a restaurant. In the circular flow, this is an example of a:
a. business selling goods and services in the product market.
b. household buying goods and services in the product market.
c. business buying a resource in the factor market.
d. household buying a resource in the factor market.

ANSWER: c

215. Mary spends $5 on food for her cat. This is an example of a:
a. business buying goods and services in the product market.
b. household buying goods and services in the product market.
c. household buying goods and services in the factor market.
d. household selling a resource in the factor market.

ANSWER: b

216. Which of the following is sold in the factor market?
a. hamburgers
b. video games
c. haircuts
d. labor

ANSWER: d

217. Which of the following is sold in the factor market?
a. hot dogs
b. bulldozers
c. nail polish
d. appendectomies

ANSWER: b

218. Which of the following is sold in the product market?
a. land
b. labor
c. cell phones
d. human capital

ANSWER: c

219. Which of the following is sold in the product market?
a. footballs

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b. labor
c. physical capital
d. human capital

ANSWER: a

220. In the circular-flow diagram, households buy _____ in the _____ market.
a. goods and services; product
b. goods and services; factor
c. resources; factor
d. resources; product

ANSWER: a

221. In the circular-flow diagram, households receive money for _____ in the _____ market.
a. producing and selling goods and services; product
b. selling resources; product
c. selling resources; factor
d. selling goods and services; factor

ANSWER: c

222. In the circular-flow diagram, firms buy _____ in the _____ market.
a. goods and services; product
b. goods and services; factor
c. resources; product
d. resources; factor

ANSWER: d

223. In the circular-flow diagram, firms receive money for _____ in the _____ market.
a. selling goods and services; product
b. selling resources; product
c. selling resources; factor
d. selling goods and services; factor

ANSWER: a

224. Which statement is positive? Which statement is normative?
I. The federal minimum wage in 2016 was $7.25 an hour.
II. The minimum wage should be high enough that families will not live in poverty.
a. I is positive; II is normative.
b. I is positive; II is positive.
c. I is normative; II is positive.
d. I is normative; II is normative.

ANSWER: a

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Chapter 02: Economic Models: Trade-offs and Trade

225. Which statement is normative?
a. Women's labor force participation rate has increased during the past 100 years.
b. The federal minimum wage is higher today than it was in 1990.
c. Children in the United States are required to go to school until they reach a certain age.
d. The best way to encourage growth in the economy is through government spending.
ANSWER: d

226. Which statement is normative?
a. The minimum wage has not kept pace with inflation.
b. The minimum wage is an important tool in fighting poverty and should be increased.
c. The minimum wage can cause higher unemployment for teens and unskilled workers.
d. A higher minimum wage is expected to increase the price of a fast-food cheeseburger.
ANSWER: b

227. Which statement is normative?
a. International trade leads to expanded consumption opportunities.
b. Higher expenditures on health care will reduce infant mortality rates.
c. To improve our economic security, we should reduce our dependence on oil imports.
d. Increased defense spending will lead to higher budget deficits.
ANSWER: c

228. Which statement is a positive economic statement?
a. Government has grown too large and should be reduced.
b. There has been an increase in the rate of inflation.
c. Government should be subject to the same rules as all other institutions.
d. Women should be paid as much as men are for the same work.
ANSWER: b

229. Which statement is positive?
a. The rate of unemployment is 4%.
b. A high rate of economic growth is the most important economic goal for the country.
c. Everyone in the country should be covered by national health insurance.
d. Baseball players should not be paid higher salaries than is the president of the United States.
ANSWER: a

230. Which statement is positive?
a. The rate of unemployment should be 4%.
b. A high rate of economic growth should be a more important economic goal than a low rate of inflation.
c. The federal government spends half of its budget on national defense.
d. Everyone in the country should be covered by national health insurance.

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ANSWER: c

231. "Unemployment of 5% is too high" is:
a. a normative statement.
b. a positive statement.
c. the circular-flow model.
d. an example of comparative advantage.

ANSWER: a

232. Which statement is normative?
a. Government has grown too large and should be reduced.
b. The rate of inflation has increased.
c. Government is subject to the same rules as all other institutions.
d. The money supply grew by 3% last year.

ANSWER: a

233. Which statement is positive?
a. The poverty rate is 14%.
b. A high rate of inflation is the most important economic goal for the country.
c. Everyone in the country should save money for retirement.
d. Basketball players should not be paid higher salaries than are teachers.

ANSWER: a

234. Which statement is positive?
a. The poverty rate should be 4%.
b. A high rate of economic growth should be a more important goal for the country than should a low rate of unemployment.
c. The federal government pays for 46% of U.S. health care costs.
d. Everyone in the country should be covered by national health insurance.

ANSWER: c

235. Statements that make value judgments are:
a. pecuniary.
b. positive.
c. nominal.
d. normative.

ANSWER: d

236. Which statement is normative?
a. The rate of unemployment is 9%.
b. The price of gasoline should be less than $4 per gallon.
c. The federal government spends half of its budget on national defense.

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d. Millions of Americans lack health insurance.

ANSWER: b

237. Which statement is normative?

a. The rate of unemployment is 9%.

b. A high rate of economic growth creates jobs.

c. The federal government spends half of its budget on national defense.

d. Everyone in the United States deserves to be covered by national health insurance.

ANSWER: d

238. "The current unemployment rate of 9% is too high" is a _____ statement.

a. normative

b. *ceteris paribus*

c. positive

d. marginal

ANSWER: a

239. "The rate of unemployment is 9%." This statement:

a. is positive.

b. is normative.

c. involves a value judgment.

d. is a personal reflection and has no value in economics.

ANSWER: a

240. Unemployment decreased to its lowest level in 10 years last month. This statement is a(n):

a. example of an opportunity cost.

b. positive economic statement.

c. normative economic statement.

d. value judgment.

ANSWER: b

241. A statement that the minimum wage should be increased is a:

a. positive statement.

b. normative statement.

c. *ceteris paribus* assumption.

d. scientific conclusion based on marginal analysis.

ANSWER: b

242. A normative statement deals with:

a. the facts.

b. what was, is, or will be.

c. what ought to be.

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d. the scientific method.

ANSWER: c

243. Which office of the U.S. government is a major employer of economists?
a. the International Monetary Fund
b. the United Nations
c. the World Bank
d. the Bureau of Labor Statistics

ANSWER: d

244. Economists who are asked to choose between two government policies may disagree because:
a. they make the same value judgments about the desirability of the policies.
b. they base their conclusions on models that make different assumptions.
c. as a matter of course, economists often take opposing points of view so that all sides of a question may be discussed.
d. economists are trained ignore facts and focus on theory.

ANSWER: b

245. Economists may disagree about policies because they:
a. approach the issue using the same sets of values.
b. use different economic models.
c. enjoy disagreeing with each other.
d. only consider issues in positive economics.

ANSWER: b

246. Economic models that make unrealistic assumptions may be useful in analyzing some economic problems.
a. True
b. False

ANSWER: a

247. It is impossible for economists to use computers to simulate how the economy works.
a. True
b. False

ANSWER: b

248. In building models, economists avoid making any assumptions that might leave out any aspect of reality.
a. True
b. False

ANSWER: b

249. In building models, economists often assume that opportunity costs don't matter.
a. True

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b. False

ANSWER: b

250. The assumption *ceteris paribus* in a model means "other things equal."

a. True

b. False

ANSWER: a

251. Because models make simplifying assumptions, they are of very little use in the real world.

a. True

b. False

ANSWER: b

252. An economic model is a simplified version of reality that is used to analyze real-world economic situations.

a. True

b. False

ANSWER: a

253. The financial meltdown in 2008–2009 was partially the result of a faulty economic model that misestimated the value of mortgage-backed securities.

a. True

b. False

ANSWER: a

254. The value of a mortgage-backed security is tied to the interest on the national debt paid by the Federal Reserve.

a. True

b. False

ANSWER: b

255. After 2000, the market for mortgage-backed securities grew rapidly because Wall Street financial theorists claimed they had a model that could accurately assess what their price should be.

a. True

b. False

ANSWER: a

256. On any given production possibility frontier, we see the minimum quantity of one good that can be produced for any given production of the other.

a. True

b. False

ANSWER: b

257. Suppose residents of Montana operate on their production possibility frontier, and they want to increase

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production of both wheat and fly-fishing rods. According to the production possibility frontier, this cannot happen without new resources or technological improvement.

a. True

b. False

ANSWER: a

258. A typical bowed-out production possibility frontier between two goods, guns and butter, shows that the opportunity cost of butter in terms of guns increases as more butter is produced. This implies that the opportunity cost of guns in terms of butter decreases as more guns are produced.

a. True

b. False

ANSWER: b

259. If the United States is more productive than Mexico in all lines of production, then the United States cannot benefit from trade with Mexico.

a. True

b. False

ANSWER: b

260. Bangladesh produces much of the clothing we wear because it can produce more clothes than can the United States.

a. True

b. False

ANSWER: b

261. Nations can gain from trade with other nations, even if they are less productive in all industries than the nations with which they trade.

a. True

b. False

ANSWER: a

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Table: Fish and Coconut Production Possibilities

	Fish	Coconuts
Tom	12	8
Hank	5	5

262. (Table: Fish and Coconut Production Possibilities) Use Table: Fish and Coconut Production Possibilities. The table shows the maximum number of fish or coconuts that Tom and Hank can produce when each produces only one of the goods. The table implies that Hank has an absolute advantage in the production of both goods.

a. True

b. False

ANSWER: b

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Chapter 02: Economic Models: Trade-offs and Trade

263. (Table: Fish and Coconut Production Possibilities) Use Table: Fish and Coconut Production Possibilities. The table shows the maximum number of fish or coconuts that Tom and Hank can produce when each produces only one of the goods. The table implies that Tom has a comparative advantage in the production of both goods.

a. True

b. False

ANSWER: b

264. Absolute advantage is the basis for gains from trade.

a. True

b. False

ANSWER: b

265. The principle of comparative advantage suggests that, if New York and Florida exchange taxi parts for oranges, each state will be made worse off.

a. True

b. False

ANSWER: b

266. A firm is an organization that produces goods and/or services.

a. True

b. False

ANSWER: a

267. Fertilizer, used to grow pumpkins, is a factor of production.

a. True

b. False

ANSWER: b

268. Labor and capital are the only two factors of production.

a. True

b. False

ANSWER: b

269. The basis of the circular-flow diagram is that the money flowing into each sector or market is greater than the money that flows out.

a. True

b. False

ANSWER: b

270. The basis of the circular-flow diagram is that the money flowing into each sector or market is equal to the money that flows out.

a. True

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b. False

ANSWER: a

271. In the product market, households buy goods and services.

a. True

b. False

ANSWER: a

272. In the factor market, households buy goods and services.

a. True

b. False

ANSWER: b

273. In the factor market, firms buy goods and services.

a. True

b. False

ANSWER: b

274. In the factor market, firms buy resources.

a. True

b. False

ANSWER: a

275. If Mary accepts a job as a nurse, she has sold a factor of production in the factor market.

a. True

b. False

ANSWER: a

276. If Jim buys a lunch at a restaurant, he has bought a factor of production in the factor market.

a. True

b. False

ANSWER: b

277. An apple is a resource sold in the factor market.

a. True

b. False

ANSWER: b

278. "Teachers in northern New Hampshire should earn more money" is a normative statement.

a. True

b. False

ANSWER: a

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279. Positive economics is the branch of economics that makes prescriptions about the way the economy should work.

a. True

b. False

ANSWER: b

280. "Steel tariffs will prevent job losses in the steel industry" is a positive statement.

a. True

b. False

ANSWER: a

281. "The unemployment rate should be higher" is a normative statement.

a. True

b. False

ANSWER: a

282. "Many economists agree that income taxes should be increased for rich people" is a positive statement.

a. True

b. False

ANSWER: b

283. Economists disagree more over normative economics than positive economics.

a. True

b. False

ANSWER: a

284. Explain how an economic model contributed to the financial crisis in 2008–2009.

ANSWER: Mortgage-backed securities are assets whose value is linked to the housing market. Pricing these assets had been a challenge prior to 2000. But in 2000, financial theorists on Wall Street constructed a model that seemed to solve the problem of pricing these assets, driving a huge boom in this financial market. However, when home prices fell in 2007, the flaws in the model used to price these assets became more and more apparent. Because of these flaws, many investors took large losses and the economies of most countries entered a severe recession.

285. Consider a point inside the production possibility frontier for a simple economy that produces only two goods, X and Y. Why is this point described as feasible but not efficient?

ANSWER: Any point that lies inside the frontier is feasible. This simply means that the economy has the resources and technology to produce this combination of goods. However, it is not efficient because more of one good could be produced without sacrificing any of the other good. In fact, more of both goods could be produced by moving to a point on the frontier above and to the right of the point inside the frontier.

286. Explain why economists believe that production possibility frontiers have a bowed-out curvature, rather than a straight line.

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ANSWER: As an economy produces more and more of one good, the opportunity cost of that good, in terms of the other goods sacrificed to make it, begins to rise. One reason for this principle is that resources (land, labor, capital) are not equally well suited for producing all goods. Because some resources are better suited to producing good X (and ill-suited to producing good Y), they will be employed in the production of the first unit of good X. This causes a large increase in production of good X at a cost of very little lost production of good Y. However, as the production of good X increases, it is necessary to use resources that were very well-suited to producing good Y and not very productive in producing good X. The consequence is a very small increase in production of good X at a very large cost in the loss of production of good Y.

287. Leaders of a small town are tired of looking at a vacant and dilapidated warehouse that sits on a prime piece of real estate. The town finds an investor who purchases the warehouse and promises to renovate the old building and build condominiums in the old building. Is this economic growth?

ANSWER: A politician would probably tell you that it is economic growth, but an economist might disagree. The land and building are unproductive. You might imagine that this indicates the town is operating inside the production possibility frontier. When the land is purchased and made productive again, the town moves out toward the frontier, but the frontier itself does not move outward. Simply put, this is not economic growth, but it is a more efficient use of resources.

288. Explain how technological progress is a source of economic growth.

ANSWER: Suppose a nation's factors of production (land, labor, capital, and human capital) are fixed, but its collective technology improves. This means it can produce more goods and services with a fixed quantity of economic resources. If it can produce more with the same amount of resources, the production possibility frontier must increase, or shift outward.

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Table: Crab and Cake Production in Chesapeake

Crab Production	Cake Production
500	0
400	250
300	450
200	600
100	700
0	750

289. (Table: Crab and Cake Production in Chesapeake) Use Table: Crab and Cake Production in Chesapeake. What is the opportunity cost of increasing the production of crabs from zero to 100? What is the opportunity cost of increasing the production of crabs from 400 to 500? Explain the difference in your answers.

ANSWER: When the region increased production from zero to 100 crabs, the cost was only 50 cakes. But when Chesapeake increased crab production from 400 to 500, the cost was a much larger 250 cakes. In other words, the opportunity cost of crab production rose as more crabs were produced. The reason is that resources (labor, land, capital, and human capital) are not perfectly substituted between crab production and cake production. A unit of capital, such as a boat, is very good at producing crabs but terrible at producing cakes. A square mile of ocean is very good at producing crabs but useless at producing cakes. At some point, as you seek to produce more and more crabs, you run out of such productive resources for making crabs. So you need to start using some resources that may be less productive at producing crabs. In other words, the opportunity cost of producing a given good rises as

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you produce more and more of that good (since you are running out of resources that are well-suited to making that good!).

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Table: Wheat and Aluminum

	Wheat Production	Aluminum Production
U.S.	100	0
	0	100
	Wheat Production	**Aluminum Production**
Germany	50	0
	0	100

290. (Table: Wheat and Aluminum) Use Table: Wheat and Aluminum. The table shows the maximum possible production of wheat and aluminum for both the United States and Germany. Are gains from trade possible between these nations? Explain.

ANSWER: Yes. The United States has a comparative advantage in the production of wheat because the opportunity cost of producing wheat is only 1 ton of aluminum, but in Germany the opportunity cost of 1 ton of wheat is 2 tons of aluminum. The United States should specialize in wheat production. Germany has a comparative advantage in the production of aluminum because the opportunity cost of producing 1 ton of aluminum is only 0.5 ton of wheat, while in the United States the opportunity cost of 1 ton of aluminum is 1 ton of wheat. Germany should therefore specialize in aluminum production. The United States would trade wheat to Germany for aluminum. By specializing and trading with each other, Germany and the United States can consume a combination of wheat and aluminum that is outside of their individual production possibility frontiers; that is, more than they would be able to produce in the absence of trade.

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Table: Crab and Cake Production in Chesapeake

Crab Production	Cake Production
500	0
400	250
300	450
200	600
100	700
0	750

291. (Table: Crab and Cake Production in Chesapeake) Use Table: Crab and Cake Production in Chesapeake. The table shows the maximum annual output combinations of crabs and cakes. Given the scarce resources and limited technology, as Chesapeake uses more resources for the production of cakes, fewer resources are available to produce crabs. Can this nation produce 200 crabs and 500 cakes? Is this efficient? Explain.

ANSWER: Yes, Chesapeake can produce 200 crabs and 500 cakes; after all, it can produce 200 crabs and 600 cakes. However, producing 200 crabs and 500 cakes is not efficient because, if it produces only 500 cakes, there must be idle resources in the economy, and the nation is operating inside the production possibility frontier. Without losing any crab production, the nation could produce 100 more cakes

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and move out to the production possibility frontier, if only it were able to more efficiently use its resources.

292. Consider a nation with a large economy, like the United States, and a nation with a small economy, like the Dominican Republic. How can the United States, with absolute advantage in production of almost all goods, benefit from trade with the Dominican Republic?

ANSWER: The answer lies not in absolute advantage, but in comparative advantage. Anytime two nations have different opportunity costs, one nation can produce a good more cheaply than the other. Each nation has a comparative advantage in something and a comparative disadvantage in something. Both the United States and the Dominican Republic can benefit from trade if each nation specializes in goods in which it has a comparative advantage and trades the goods that it produces for goods in which it does not have a comparative advantage.

293. You are reading an editorial in your local newspaper. The editorial says: "The United States had a trade deficit of $18.4 billion in February 2008. This is a clear indication to our leaders that we must renegotiate our trade agreements with China to make them fairer for the American worker." What part of this editorial is positive and what part is normative?

ANSWER: The statement of historical fact "trade deficit of $18.4 billion" is positive. It does not imply any value judgment. The second statement, "our leaders must renegotiate . . ." is normative. The editorial board is prescribing the way the economy, in this case trade with China, should work. There is a very clear value judgment that the trade deficit is unfair to U.S. workers and we should work to remedy the deficit.

294. Economists use models to explain real-life situations because:

a. such models tend to be exactly what is occurring in each situation.
b. assumptions found in such models tend to make analyzing the situation more difficult.
c. simplifications and assumptions often yield results that can help to explain the more difficult real-life situations.
d. real-life situations are not relevant to the building of models.

ANSWER: c

295. Economic models often:

a. vary greatly in assumptions and simplifications.
b. are correct.
c. provide similar answers.
d. fail to explain any of the real-life scenarios they are supposed to help solve.

ANSWER: a

296. "All other relevant factors remain unchanged" is another way of saying:

a. all other things equal.
b. allow several variables to change to understand how those variables affect one variable held constant.
c. allow all variables to change and attempt to understand how the variables interact with each other.
d. no variables change.

ANSWER: a

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Chapter 02: Economic Models: Trade-offs and Trade

297. Alexander has a straight-line, or linear, production possibility frontier when he produces soybeans and corn. If he uses all of his resources to grow soybeans, he can produce 200 bushels of soybeans; if he uses all of his resources for corn production, he can produce 400 bushels of corn. Alexander CANNOT produce _____ bushels of soybeans and _____ bushels of corn.

a. 200; 0
b. 200; 600
c. 0; 400
d. 100; 200

ANSWER: b

298. Frances has a linear production possibility frontier when she produces tomatoes and green beans. If she uses all of her resources, she can produce 400 bushels of tomatoes or 800 bushels of green beans. Frances is NOT producing efficiently if she produces _____ bushels of tomatoes and _____ bushels of green beans.

a. 400; 0
b. 200; 400
c. 200; 200
d. 0; 800

ANSWER: c

299. Alison has a linear production possibility frontier in bracelets and necklaces. In one hour, she can produce 5 bracelets or 10 necklaces. What is the opportunity cost to make 1 necklace?

a. 5 bracelets
b. 10 necklaces
c. 0.5 bracelet
d. 2 necklaces

ANSWER: c

Scenario: Linear Production Possibility Frontier
Largetown has a linear production possibility frontier, and it produces socks and shirts with 80 hours of labor. The table shows the number of hours of labor necessary to produce one pair of socks or one shirt.

Number of hours of labor to produce one shirt	Number of hours of labor to produce one pair of socks
4	2

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300. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. What is the maximum number of pairs of socks Largetown can produce?

a. 40
b. 20
c. 2
d. 4

ANSWER: a

301. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. If Largetown decides to devote half of its labor time to the production of socks and half of the time to the production of shirts, it can produce _____ shirts and _____ pairs of socks.

a. 10; 20
b. 20; 10
c. 30; 30
d. 0; 30

ANSWER: a

302. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. If Largetown's labor resource decreases by 40 hours, the opportunity cost of producing shirts:

a. increases.
b. decreases.
c. does not change.
d. may or may not change depending upon the number of pairs of socks it wishes to produce.

ANSWER: c

303. (Scenario: Linear Production Possibility Frontier) Use Scenario: Linear Production Possibility Frontier. Largetown CANNOT produce _____ shirts and _____ pairs of socks.

a. 20; 0
b. 40; 40
c. 0; 40
d. 10; 20

ANSWER: b

304. Smallville has a linear production possibility frontier in the production of good X and good Y. It can produce 6 of X per hour or 8 of Y per hour. Suppose it has 240 hours of labor and divides labor hours equally between production of good X and good Y. What is the MAXIMUM number of good Y it can produce in the time it has allocated to Y production?

a. 960
b. 30
c. 720
d. 6

ANSWER: a

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Table: Production of Good Z and Good X in Urbanville

Combination	Good Z	Good X
A	0	75
B	5	70
C	10	60
D	15	45
E	20	25
F	25	0

305. (Table: Production of Good Z and Good X in Urbanville) Use Table: Production of Good Z and Good X in Urbanville. This table shows the production possibility frontier for Urbanville. Suppose Urbanville is producing 5 of Z and 50 of X; this combination is:

a. feasible but inefficient.
b. feasible and efficient.
c. not feasible but efficient.
d. neither feasible nor efficient.

ANSWER: a

306. (Table: Production of Good Z and Good X in Urbanville) Use Table: Production of Good Z and Good X in Urbanville. This table shows the production possibility frontier for Urbanville. Suppose Urbanville is producing 15 of Z and 45 of X; this combination is:

a. both allocatively and productively efficient.
b. productively efficient.
c. allocatively efficient.
d. neither productively nor allocatively efficient.

ANSWER: b

307. (Table: Production of Good Z and Good X in Urbanville) Use Table: Production of Good Z and Good X in Urbanville. This table shows the production possibility frontier for Urbanville. Suppose Urbanville is producing at combination C and moves to combination D. What is the opportunity cost of this move?

a. 15 of X
b. 5 of Z
c. 15 of Z
d. 45 of X

ANSWER: a

308. (Table: Production of Good Z and Good X in Urbanville) Use Table: Production of Good Z and Good X in Urbanville. This table shows the production possibility frontier for Urbanville. Suppose Urbanville is producing at combination F, what is the opportunity cost of a move to combination E?

a. 5 of Z
b. 20 of Z

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c. 25 of X
d. 0 of X

ANSWER: a

309. If an economy produces the desired mix of goods from its available resources, then this mix of goods is:
a. allocatively efficient.
b. both productively and allocatively efficient.
c. productively efficient.
d. neither productively nor allocatively efficient.

ANSWER: a

Scenario: Countries A and B
Two countries, A and B, produce two goods, wheat (W) and steel (S). Each has a linear production possibility frontier in both goods. If country A spends all of its available resources to produce wheat, it can produce 500 tons of wheat and no steel. If it uses all of its resources to produce steel, it can produce 250 tons of steel and no wheat. If country B spends all of its available resources producing wheat, it can produce 400 tons of wheat, and if it spends all of its resources on the production of steel, it can produce 400 tons of steel.

310. (Scenario: Countries A and B) Use Scenario: Countries A and B. Given this information, country _____ has a comparative advantage in the production of wheat, and country _____ has a comparative advantage in the production of steel.
a. A; A
b. A; B
c. B; B
d. B; A

ANSWER: b

311. (Scenario: Countries A and B) Use Scenario: Countries A and B. If each country devotes half of its resources to the production of wheat and half to the production of steel, then their combined total production of wheat will be _____ tons and their combined total production of steel will be _____ tons.
a. 450; 325
b. 900; 650
c. 500; 250
d. 400; 400

ANSWER: a

312. (Scenario: Countries A and B) Use Scenario: Countries A and B. If country B produces 300 tons of steel, how many tons of wheat can it produce?
a. 100
b. 200

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c. 300
d. 400

ANSWER: a

313. (Scenario: Countries A and B) Use Scenario: Countries A and B. If countries A and B both specialize and trade:
a. only country A will gain.
b. only country B will gain.
c. country A and country B will gain if they both specialize in the good in which they have a comparative advantage.
d. neither country will gain.

ANSWER: c

314. (Scenario: Countries A and B) Use Scenario: Countries A and B. Given this information, the country that has the absolute advantage in wheat is _____, and the country that has the absolute advantage in steel is _____.
a. A; A
b. A; B
c. B; B
d. B; A

ANSWER: b

315. Positive economics:
a. describes opinions and perspectives on how the world should work.
b. is based on opinion polls.
c. describes how the world does work.
d. is the same as normative economics.

ANSWER: c

316. Which statement(s) reflect(s) a normative view?
I. The United States should increase the minimum wage to $10 per hour.
II. There is a federal minimum wage in the United States.
III. The federal minimum wage in the United States is less than $10 per hour.
a. I, II, and III
b. None is normative.
c. I and II
d. I

ANSWER: d

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