Test Bank for Microeconomics Principles for a Changing World 5th Chiang

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Name:_____ Class:_____ Date:_____

Chapter 02: Production, Economic Growth, and Trade

1. Trade is
   a. a way for rich countries to take advantage of poor countries.
   b. good for rich countries and bad for poor countries.
   c. a factor that slows down the economies of the trading countries.
   d. a driver of economic growth.

ANSWER: d

2. Which is NOT one of the three basic economic questions that each society must answer?
   a. What goods and services are to be produced?
   b. How are the goods and services to be produced?
   c. Who decides what goods and services are demanded?
   d. Who will receive the goods and services?

ANSWER: c

3. Which is NOT considered a basic economic question?
   a. How will the system accommodate change?
   b. What goods and services will be produced?
   c. Who will receive the goods and services?
   d. How will these goods and services be produced?

ANSWER: a

4. To answer the question of how goods and services are to be produced, society must decide
   a. what products businesses want to produce.
   b. how to combine its scarce resources to produce the desired products.
   c. what products the government wants.
   d. what products to export.

ANSWER: b

5. The "what" question primarily refers to
   a. the mix of goods and services that are produced.
   b. production efficiency.
   c. whether the goods and services are produced under a communist system or a democratic system.
   d. who gets the goods and services.

ANSWER: a

6. Which is NOT a basic economic question that societies must answer?
   a. What goods and services are to be produced?
   b. How are the goods and services to be produced?
   c. Why are these goods and services being produced?
   d. For whom are the goods and services being produced?

ANSWER: c

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Chapter 02: Production, Economic Growth, and Trade

7. What are the three basic economic questions each society must answer?
   a. What to produce? How to produce? For whom to produce?
   b. How much to produce? What quality to produce? What price to sell at?
   c. What to produce? How much to produce? How to consume?
   d. How much goes to the government? How much goes to consumers? How much is exported?

ANSWER: a

8. Which is NOT one of the basic economic questions that each society must answer?
   a. What goods and services are to be produced?
   b. How are these goods and services to be produced?
   c. How much do we pay those who produce the goods and services?
   d. Who will receive these goods and services?

ANSWER: c

9. _____ refers to the way an economy allocates goods and services to consumers.
   a. Production
   b. Capital
   c. Distribution
   d. Absolute advantage

ANSWER: c

10. The way an economy allocates output to consumers is called
   a. distribution.
   b. efficiency.
   c. government allocation.
   d. output maximization.

ANSWER: a

11. Planned economies rely heavily on _____ to make most economic decisions.
   a. consumers
   b. producers
   c. the government
   d. corporations

ANSWER: c

12. A market economy is also known as a _____ economy, and decisions are made by _____.
   a. capitalist; the government
   b. capitalist; private individuals
   c. socialist; the government
   d. socialist; private individuals

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ANSWER: b

13. A laissez-faire approach to the question "How to produce?" would be found in a _____ economy.
    a. socialist
    b. communist
    c. market
    d. planned

ANSWER: c

14. In a communist state, the _____ decide(s) what a society wants, but in a capitalist economy, the _____ decide what products they want.
    a. consumers; producers
    b. government; consumers
    c. government; producers
    d. producers; consumers

ANSWER: b

15. Which statement does NOT describe a market economy?
    a. Most economic decisions are made by the central government.
    b. Product prices are the principal mechanism for communicating information in the market.
    c. Consumers are free to decide what goods and services to purchase.
    d. The government plays a primary role in protecting private property rights.

ANSWER: a

16. In a market economy, product prices do NOT help to determine how
    a. consumers decide whether to buy or not buy.
    b. firms employ their resources.
    c. firms decide which production technology to use.
    d. governments allocate their resources.

ANSWER: d

17. In a planned economy, most of the productive resources are owned by
    a. households.
    b. business firms.
    c. the government.
    d. foreign countries.

ANSWER: c

18. In a pure market economy, the government's primary role does NOT include
    a. protecting property rights.
    b. enforcing contracts between private parties.

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c. providing public goods, such as national defense.
d. reallocating resources across the economy.

ANSWER: d

19. Which scenario is part of a planned economy?
a. Private individuals and firms own most resources.
b. Product prices are primarily determined by the interaction of supply and demand.
c. Most of the productive resources are owned by the state.
d. Consumers are free to decide what goods and services to purchase.

ANSWER: c

20. In a _____ economy, individuals and firms own most resources, and in a _____ economy, the government controls most resources.
a. market; planned
b. planned; socialist
c. planned; market
d. socialist; planned

ANSWER: a

21. The Scandinavian countries of Europe
a. have economies coordinate solely by markets.
b. allow a large role for government services.
c. have no barriers to the market.
d. do not protect property rights.

ANSWER: b

22. In a capitalist economy, the answer to the question "What should be produced?" is determined by
a. the government.
b. consumers' demands for specific goods and services.
c. producers.
d. government and producers.

ANSWER: b

23. The conversion of resources to satisfy wants is described as
a. consumption.
b. distribution.
c. production.
d. conservation.

ANSWER: c

24. What is NOT an economic factor of production?

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a. land
b. entrepreneurial ability
c. money
d. labor

ANSWER: c

25. Capital, which includes all manufactured products that are used to produce other goods and services, earns
a. profit.
b. wages.
c. interest.
d. rent.

ANSWER: c

26. In economics, the term "land" includes
a. mostly agricultural land.
b. natural resources, excluding water resources.
c. all natural resources.
d. resources found on the Earth's surface.

ANSWER: c

27. Economists refer to rent as a payment toward
a. housing.
b. land.
c. capital.
d. labor.

ANSWER: b

28. The resource known as labor includes
a. physical labor only.
b. physical and mental skills and talents.
c. people willing to do physical and difficult work.
d. the work of legal workers.

ANSWER: b

29. The concept of human capital is important to economists because
a. improvements to human capital lead to higher standards of living.
b. it compares people with machinery.
c. it helps managers plan for future growth.
d. it shows ways for firms to reduce costs.

ANSWER: a

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30. Human capital is
    a. the improvement of labor capabilities from training, education, and apprenticeship programs.
    b. the equipment that companies use in the production process.
    c. included in land.
    d. included in entrepreneurial ability.

ANSWER: a

31. Land as a productive resource does NOT include
    a. mineral deposits.
    b. oil.
    c. water.
    d. computers.

ANSWER: d

32. The payment toward land is called
    a. rent.
    b. wages.
    c. interest.
    d. profit.

ANSWER: a

33. Economists refer to the payment toward capital as
    a. rent.
    b. wages.
    c. interest.
    d. profit.

ANSWER: c

34. Economists refer to the payment toward land as
    a. rent.
    b. wages.
    c. interest.
    d. profit.

ANSWER: a

35. The payment toward entrepreneurship is called
    a. rent.
    b. wages.
    c. interest.
    d. profit.

ANSWER: d

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36. Entrepreneurs receive profits for their efforts primarily because they
    a. combine land, labor, and capital to produce goods and services.
    b. combine land, labor, and capital to produce goods and services and assume the risks associated with business.
    c. assume the risks associated with business.
    d. have the best ideas.

ANSWER: b

37. In economics, capital refers to
    a. funds used by businesses to acquire goods and services.
    b. the process of raising money in the stock market.
    c. manufactured buildings and equipment used in the production process.
    d. anything that adds to human capital.

ANSWER: c

38. If a pizza parlor uses an oven in its production process, the oven is an example of which factor of production?
    a. capital
    b. entrepreneurial ability
    c. labor
    d. land

ANSWER: a

39. Which is an example of capital in the production process of an amusement park?
    a. the electricity used at the park
    b. the mechanics who maintain the equipment
    c. the roller coaster
    d. the ticket-taker

ANSWER: c

40. Natural resources in the production process are called _____, and their payment is called _____.
    a. capital; rent
    b. labor; interest
    c. land; rent
    d. land; wages

ANSWER: c

41. What is considered a labor resource?
    a. a sewing machine
    b. a trainee

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c. mineral deposits
d. a copier

ANSWER: b

42. Which is considered a land resource?
a. a sewing machine
b. an apprentice
c. mineral deposits
d. a copier

ANSWER: c

43. Natural resources such as copper deposits are
a. capital.
b. land.
c. labor.
d. investment capital.

ANSWER: b

44. Which is NOT an example of an improvement to human capital?
a. students taking a course in economics
b. increasing the number of machines available to workers
c. an intensive internship program
d. an employee learning to use Microsoft Access

ANSWER: b

45. Land
a. is not a scarce resource.
b. earns rent.
c. earns interest.
d. is only agricultural.

ANSWER: b

46. Capital
a. refers to commercial bank-lending policies.
b. is any manufactured product that is used to produce other products.
c. is a field of corn.
d. is the only element that is needed to turn resources into products.

ANSWER: b

47. Capital includes all of these EXCEPT
a. dollar bills in a bank vault.

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b. copy machines in an insurance company.
c. tractor loaders of a construction firm.
d. drilling equipment at a construction company.

ANSWER: a

48. Which pair does NOT relate?
a. capital – interest
b. land – revenue
c. labor – wages
d. entrepreneurial ability – profit

ANSWER: b

49. All of these are considered human capital EXCEPT
a. working in a clothing factory.
b. obtaining a college education.
c. receiving training for another area in a current job.
d. completing a professional development course.

ANSWER: a

50. Economists refer to the payment to labor as
a. rent.
b. wages.
c. interest.
d. profit.

ANSWER: b

51. In economics, the term capital refers to
a. money available to firms.
b. markets where companies go to raise funds.
c. the primary city in each governmental jurisdiction where most economic activity occurs.
d. manufactured buildings and equipment used to produce other goods and services.

ANSWER: d

52. In economics, the payment toward capital is called
a. wages.
b. interest.
c. capitalization.
d. profit.

ANSWER: b

53. Which statement about entrepreneurs is NOT correct?

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a. Entrepreneurs combine other resources to produce goods and services.
b. Entrepreneurs manage day-to-day marketing, finance, and production decisions.
c. The payment that entrepreneurs earn is called profit.
d. Entrepreneurs do not take on any business risks.

ANSWER: d

54. Entrepreneurs
a. take no risks if they are smart.
b. earn wages for their work.
c. combine and manage inputs of land, labor, and capital.
d. earn rent for their work.

ANSWER: c

55. _____ combine land, labor, and capital to produce goods and services and assume the risks associated with running a business.
a. Economists
b. Capital marketers
c. Entrepreneurs
d. Financiers

ANSWER: c

56. When an economy is producing the mix of goods and services MOST desired by society, that economy is considered to have
a. allocative efficiency.
b. allocative equitability.
c. productive efficiency.
d. productive equitability.

ANSWER: a

57. When the mix of goods and services produced is just what society desires, _____ exists.
a. socialism
b. communism
c. production efficiency
d. allocative efficiency

ANSWER: d

58. _____ occurs when goods and services are produced with as few resources as possible, while _____ occurs when the mix of goods and services produced is the most desired by society.
a. Allocative efficiency; production efficiency
b. Allocative efficiency; social efficiency
c. Production efficiency; allocative efficiency

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d. Production efficiency; social efficiency

ANSWER: c

59. Which statement is TRUE regarding production efficiency?
a. Efficiency and cost are unrelated concepts.
b. Production efficiency is independent of the type of technology used.
c. Producing at the lowest possible resource cost is equivalent to getting as much output as possible from a given set of resources.
d. The most economically efficient production technology is not always the cheapest.

ANSWER: c

60. Production efficiency is described as
a. goods and services that are produced using the fewest resources possible.
b. the mix of goods and services produced being just what society desires.
c. one country having a lower opportunity cost of producing a good than another country.
d. one country being able to produce more of a good than another country.

ANSWER: a

61. When a society is producing the mix of goods that the society wants to consume, it is said to have
a. solved the economic problem.
b. an equitable distribution of goods and services.
c. an efficient form of government.
d. obtained allocative efficiency.

ANSWER: d

62. _____ occurs when the mix of goods society decides to produce is produced at the lowest resource or opportunity cost.
a. Allocative efficiency
b. Production efficiency
c. Opportunity cost
d. Cost allocation

ANSWER: b

63. The production of too many Matchbox cars and not enough Barbie Dolls is an example of _____ inefficiency.
a. production
b. allocative
c. technical
d. labor

ANSWER: b

64. When society produces the mix of goods and services that are most desired and produces them at the lowest

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cost possible

a. production efficiency is achieved.
b. allocative efficiency is achieved.
c. production and allocative efficiency are achieved.
d. inefficiency occurs.

ANSWER: c

65. Which items restrict our choices so that we must make tradeoffs?

a. time and money
b. money and personal preferences
c. time and personal preferences
d. time, money, and personal preferences

ANSWER: a

66. The graph we could draw to represent the combinations of two goods that are possible within a given society at full employment is a(n)

a. efficiency curve.
b. allocation curve.
c. production possibilities frontier.
d. cost graph.

ANSWER: c

67. The _____ shows the combination of two goods that are possible for a society to produce at full employment.

a. full employment line
b. production possibilities frontier
c. goods and services frontier
d. maximal productivity curve

ANSWER: b

68. The derivation of a production possibilities frontier assumes that

a. some resources are not being used.
b. there is a fixed quantity of resources and technology available.
c. some resources are not being produced efficiently.
d. technology is free.

ANSWER: b

69. The production possibilities model holds _____ and _____ constant.

a. growth; human capital
b. land; labor
c. labor; capital

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d. resources; technology

ANSWER: d

70. When an economy is operating efficiently, the production of one more unit of a good will result in some loss of production of another good because

a. technology can improve the production of only one good.

b. the production possibilities frontier (PPF) shifts inward as more of only one good is produced.

c. resources are limited, and efficiency implies that all resources are already in use.

d. consumers will not want more of both goods.

ANSWER: c

71. A point on a nation's production possibilities frontier indicates

a. an undesirable combination of goods and services.

b. combinations of output that are unattainable, given the current stock of resources and technology.

c. levels of production that will cause both unemployment and inflation.

d. that resources are fully utilized in producing the given combination of goods and services.

ANSWER: d

72. A point to the right of the production possibilities frontier is

a. inefficient.

b. unattainable.

c. improbable.

d. efficient.

ANSWER: b

73. Production levels to the right of the production possibilities frontier are

a. attainable.

b. efficient.

c. inefficient.

d. unattainable.

ANSWER: d

74. Production levels to the left of the production possibilities frontier are

a. attainable but efficient.

b. attainable but inefficient.

c. unattainable and efficient.

d. unattainable and inefficient.

ANSWER: b

75. If an economy is operating at a point that is inside of its production possibilities frontier, then it can be assumed that its resources are

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a. efficiently allocated.
b. overutilized.
c. fully utilized.
d. underutilized.

ANSWER: d

76. A country operating outside of the production possibilities frontier is operating
a. efficiently.
b. inefficiently and at an unattainable level.
c. inefficiently but in an area that can be attained with proper use of resources.
d. impossibly because a country cannot operate outside the production possibilities frontier.

ANSWER: d

77. A change from a technically or productively inefficient mix to an efficient mix of output would BEST be represented with a production possibilities frontier (PPF) as a _____ the PPF.
a. shift outward of
b. shift inward of
c. movement from inside the PPF onto
d. movement from a point on the PPF to a point inside

ANSWER: c

78. If an economy is producing at a point inside its production possibilities frontier
a. it is possible to produce more of one good without giving up some of the other good.
b. it is producing efficiently.
c. it is producing beyond its production possibilities.
d. full employment is achieved.

ANSWER: a

79. Points that are unattainable for an economy are shown as points
a. inside the production possibilities frontier.
b. on the production possibilities frontier.
c. outside the production possibilities frontier.
d. of unemployment.

ANSWER: c

80. Zetaland produces widgets and gadgets. At current levels of output, it can produce more of both. We can conclude that
a. Zetaland is at full employment.
b. opportunity cost is maximized.
c. some resources are not being used.
d. the economy is on the production possibilities frontier.

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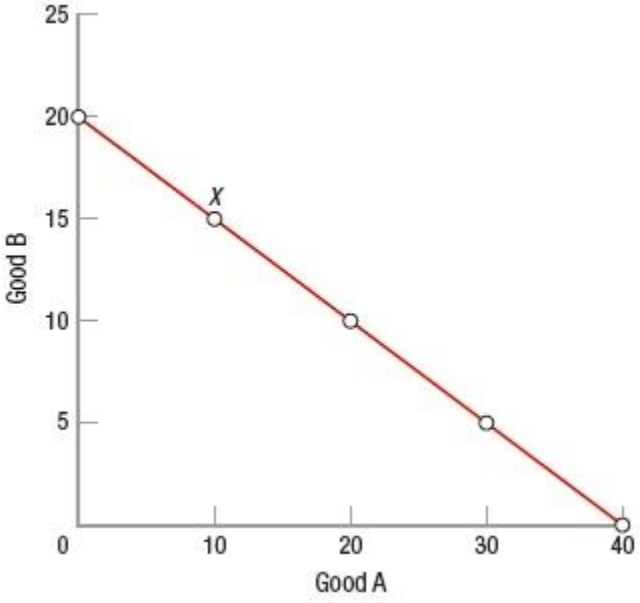
ANSWER: c

81. (Figure: Production Possibilities) Which statement is NOT correct regarding point *X*?



a. The combination produced at point *X* is productively efficient.
b. Society might prefer other combinations on the line to the mix of output at point *X*.
c. Because it is on the line, the combination at point *X* has no opportunity cost.
d. The combination of output at point *X* might not be allocatively efficient.

ANSWER: c

82. Every point on a production possibilities frontier (PPF) represents _____ efficiency.
a. production
b. allocative
c. production and allocative
d. *X*

ANSWER: a

83. (Figure: Tanks and Health Care) Which point in the figure is obtainable but NOT efficient?

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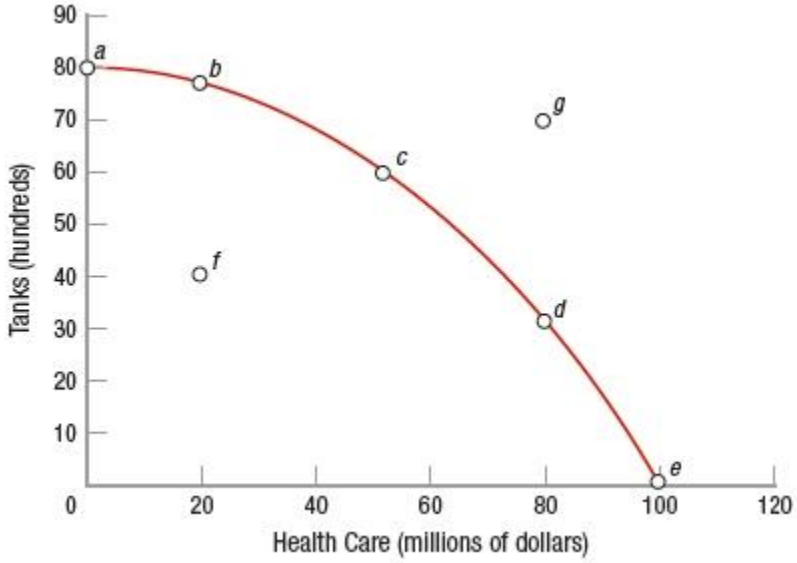
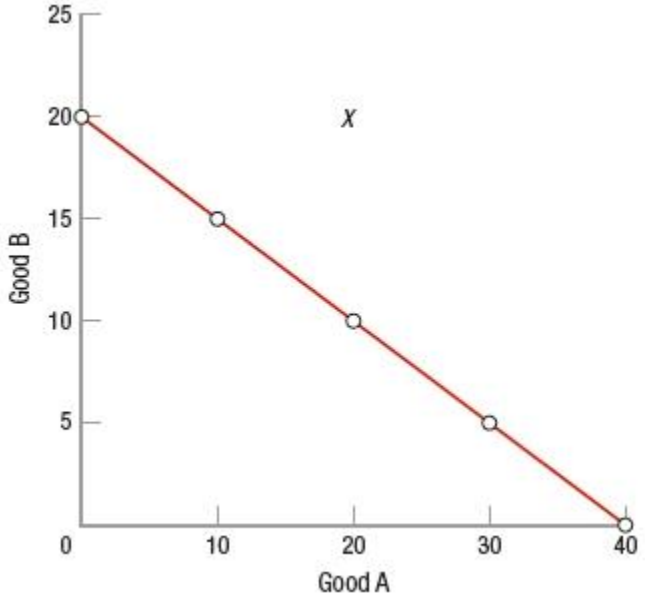


a. *a*
b. *b*
c. *f*
d. *g*

ANSWER: c

84. (Figure: Determining Production Possibilities) The graph shows the production possibilities frontier for goods A and B, while *X* marks a combination that



a. has no opportunity costs.
b. cannot be obtained even with improvements in technology.
c. is unobtainable with current resources.
d. is obtainable if workers work harder.

ANSWER: c

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85. Each point along a production possibilities frontier represents
    a. maximum output, given the state of technology and resource availability.
    b. an economically inefficient combination of goods being produced.
    c. a combination of goods that meets the equity criteria.
    d. a combination of goods produced that can never be produced.

ANSWER: a

86. In the context of the production possibilities frontier, opportunity cost can be measured by the
    a. ratio of the amounts of the two goods being produced.
    b. slope of the frontier.
    c. ratio of the costs of the two goods being produced.
    d. amount of labor needed to produce the goods and services.

ANSWER: b

87. A production possibilities frontier with constant opportunity costs is
    a. convex.
    b. concave.
    c. a straight line.
    d. horizontal.

ANSWER: c

88. A production possibilities frontier with increasing opportunity costs is
    a. convex.
    b. bowed.
    c. a straight line.
    d. horizontal.

ANSWER: b

89. A country operating inside of its production possibilities frontier (PPF) is operating
    a. efficiently.
    b. inefficiently and at an unattainable level.
    c. inefficiently but in an area that can be attained.
    d. in the unattainable region.

ANSWER: c

90. Full employment on a production possibilities frontier (PPF) is shown by
    a. points inside the PPF.
    b. points on the PPF.
    c. points outside the PPF.
    d. an inefficient use of resources.

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ANSWER: b

91. The production possibilities frontier shows
   a. that unattainable combinations of goods occur inside the curve.
   b. decreasing opportunity costs along the curve.
   c. only two possible combinations of goods an economy can produce at full employment.
   d. all possible combinations of two goods an economy can produce, given its available factors of production and technology.

ANSWER: d

92. A production possibilities frontier that is a straight line is the result of
   a. constant opportunity costs.
   b. increasing opportunity costs.
   c. scarcity.
   d. underemployment of resources.

ANSWER: a

93. A lawyer can argue a case in court for one hour and make $300. She could alternatively use that hour of time to type a legal brief in her office. What is the opportunity cost of her typing the legal brief?
   a. nothing, since she would never type a legal brief
   b. nothing, since she would always hire an administrative assistant to type for her
   c. $300, since that is the amount she could have made by arguing a case in court
   d. $13.50, the average hourly wage for a typist

ANSWER: c

94. Abdul decided to sleep in rather than attend his 8:30 A.M. economics class. Economists would find this choice
   a. rational if Abdul has not missed any other classes.
   b. irrational because economic analysis suggests you should always attend the classes for which you have paid.
   c. irrational because oversleeping is not in Abdul's self-interest.
   d. rational if Abdul values sleep more highly than the benefit he would expect to receive from attending the class.

ANSWER: d

95. Which statement is NOT an illustration of opportunity cost?
   a. If a person takes a job as a long-distance truck driver, he won't have as much time to spend with his family.
   b. If a person studies for her English class, she won't have as much time to write creative poetry.
   c. The more a person works at her job, the more leisure time she has.
   d. If I party every night of the week, my grades at school will drop.

ANSWER: c

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96. If someone accepts a job in Seattle as a financial analyst, he must give up the chance to accept a similar job in Australia. Giving up the job in Australia is his

a. allocative cost.
b. opportunity cost.
c. production cost.
d. cost factor.

ANSWER: b

97. If the government of Spain decides to spend less on the military and more on health care, the forgone spending on military items represents the _____ of the extra health care.

a. cost factor
b. production efficiency
c. opportunity cost
d. allocative cost

ANSWER: c

98. If the total expenses of being a full-time college student for one year adds up $17,000, and that student could have earned $20,000 working full time during the same year, then the student's opportunity cost for the year of college would be

a. $3,000.
b. $17,000.
c. $20,000.
d. $37,000.

ANSWER: c

99. (Figure: Pork and Corn PPF) When we move from point *b* to point *c*, the opportunity cost of producing more corn is _____ the opportunity cost of moving from point *d* to point *e*.

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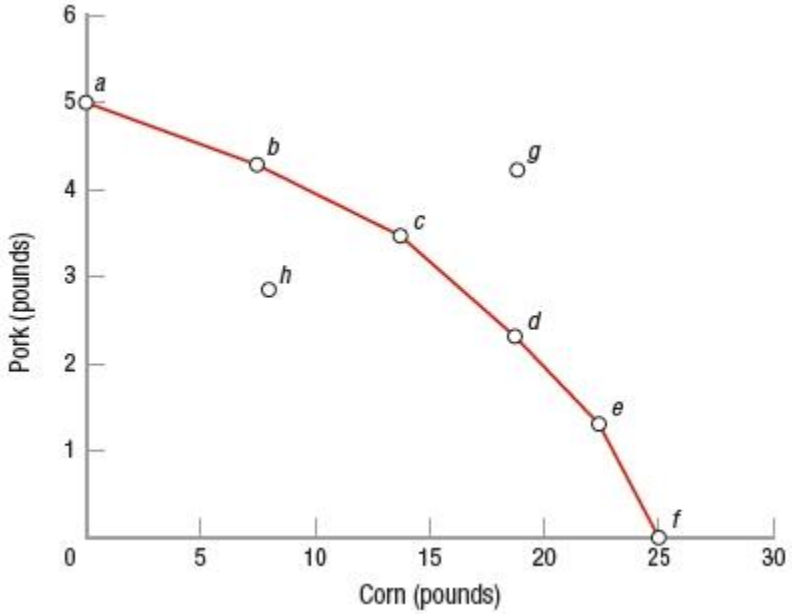

a. greater than
b. exactly the same as
c. less than
d. indeterminately related to

ANSWER: c

100. When you move from one point to another on the production possibilities frontier (PPF) and the opportunity cost of producing one good in terms of the other good does not change, then the PPF
a. must be bowed out.
b. must be bowed in.
c. must be a straight line.
d. has an indeterminate shape.

ANSWER: c

101. (Table) The table shows the production possibilities schedule for guns and butter. As the production of butter increases, the opportunity cost of butter

Guns (hundreds)	6	5	4	3	2	1	0
Butter (tons)	0	5	10	15	20	25	30

a. first rises, then falls.
b. first falls, then rises.
c. falls continuously.
d. remains constant.

ANSWER: d

102. (Table) The table shows the production possibilities schedule for guns and butter. The opportunity cost of increasing gun production from 100 to 200 units is _____ tons of butter.

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Guns (hundreds)	6	5	4	3	2	1	0
Butter (tons)	0	5	10	15	20	25	30

a. 0
b. 5
c. 10
d. 15

ANSWER: b

103. (Table) The table shows coffee and tea units produced for the United States and Japan. If Japan decides to increase production of tea from 12 to 24 units, the opportunity cost is

			United States			
Coffee	25	20	15	10	5	0
Tea	0	2	4	6	8	10
			Japan			
Coffee	58	52	44	34	20	0
Tea	0	12	24	36	48	60

a. 15 units of tea.
b. 10 units of tea.
c. 8 units of coffee.
d. 10 units of coffee.

ANSWER: c

104. (Table) The table shows coffee and tea units produced for the United States and Japan. The opportunity costs are

			United States			
Coffee	25	20	15	10	5	0
Tea	0	2	4	6	8	10
			Japan			
Coffee	58	52	44	34	20	0
Tea	0	12	24	36	48	60

a. increasing for the United States and Japan.
b. constant for the United States and Japan.
c. increasing for the United States and constant for Japan.
d. constant for the United States and increasing for Japan.

ANSWER: d

105. In an eight-hour day, Isabel can produce 15 pounds of taffy or 3 pounds of chocolate chip cookies. In an eight-hour day, Ramona can produce 6 pounds of taffy or 6 pounds of chocolate chip cookies. The opportunity cost of producing 1 pound of chocolate chip cookies is

a. one-fifth of an hour for Isabel and one hour for Ramona.
b. one hour for Isabel and one hour for Ramona.
c. five pounds of taffy for Isabel and one pound of taffy for Ramona.
d. one-fifth of a pound of taffy for Isabel and one pound of taffy for Ramona.

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ANSWER: c

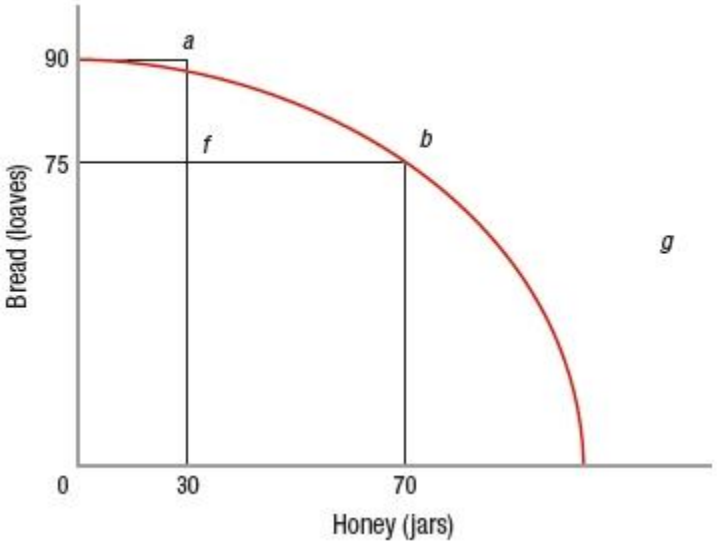
106. (Table) Given the production possibilities schedule shown in the table, what is the opportunity cost of moving from E to F?

	Bananas	Apples
E	12	2
F	9	4
G	5	6
H	0	8

a. 2 bananas
b. 3 bananas
c. 2 apples
d. 4 apples

ANSWER: b

107. (Figure: Bread and Honey) As more honey is produced, the opportunity cost of producing honey



a. decreases.
b. increases.
c. remains constant.
d. is constant for the first 50 jars and then decreases as productive efficiency is achieved.

ANSWER: b

108. (Figure: Bread and Honey) In the graph, point *b* represents

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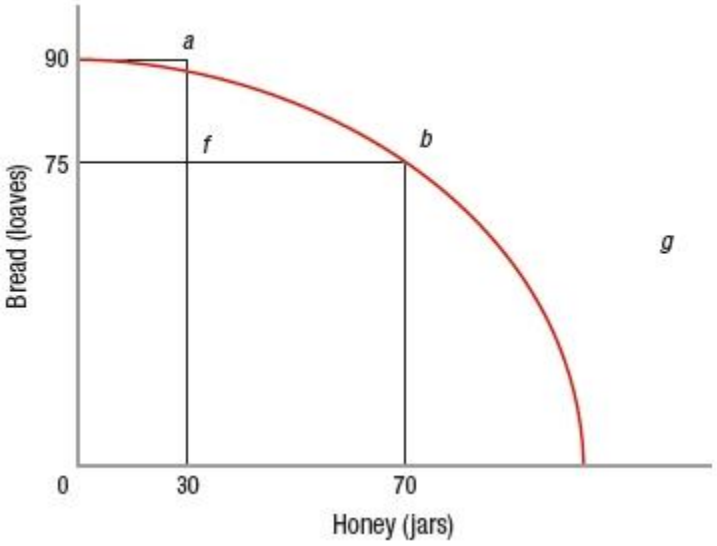
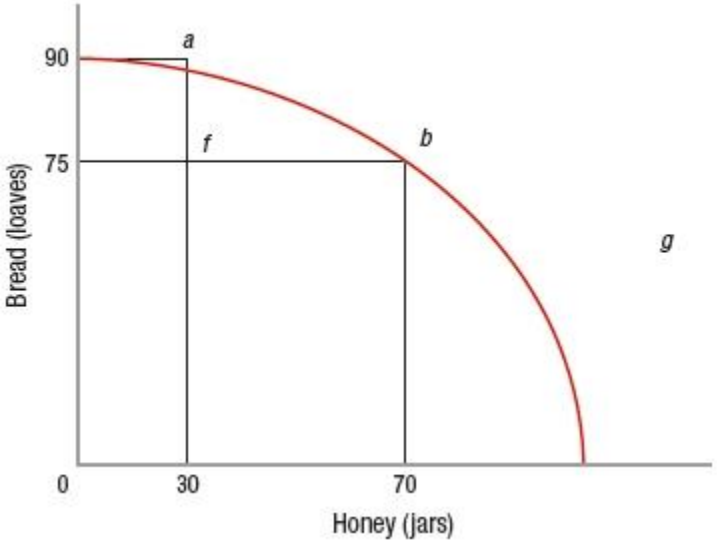


a. a point of inefficiency.
b. a point where all of society's resources are fully employed.
c. a better economic situation than point *a*.
d. economic growth.

ANSWER: b

109. (Figure: Bread and Honey) In the graph, a move from point *a* to point *b* costs



a. 70 jars of honey.
b. 75 loaves of bread.
c. 90 loaves of bread.
d. 15 loaves of bread.

ANSWER: d

110. (Figure: Bread and Honey) Which point in the graph represents unemployed resources?

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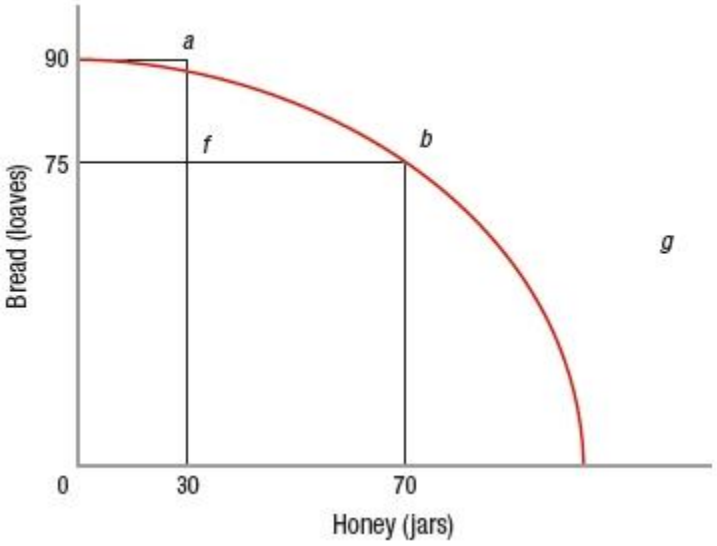
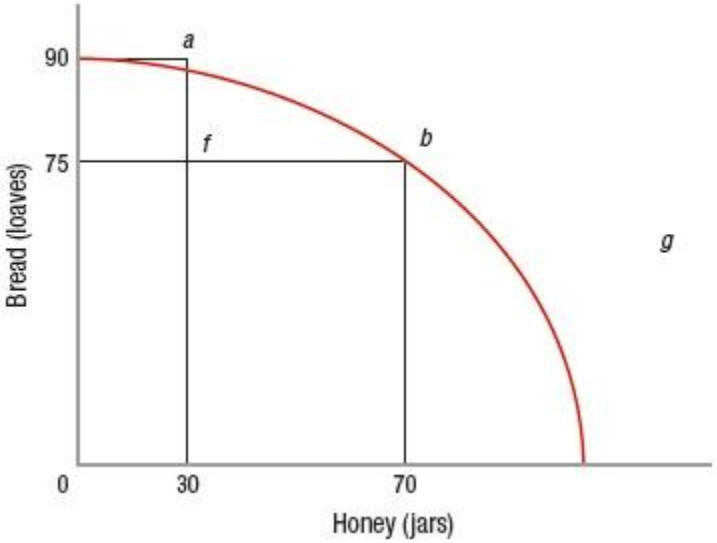


a. *a*
b. *b*
c. *f*
d. *g*

ANSWER: c

111. (Figure: Bread and Honey) In the graph, a move from point *f* to point *g*



a. is a move from full employment to less than full employment.
b. is impossible with the resources that are available.
c. is a move from an inefficient point to one that fully utilizes all the available resources.
d. reflects a positive opportunity cost tradeoff.

ANSWER: b

112. (Figure: Bread and Honey) In the graph, a movement from point *f* to point *g* could occur if

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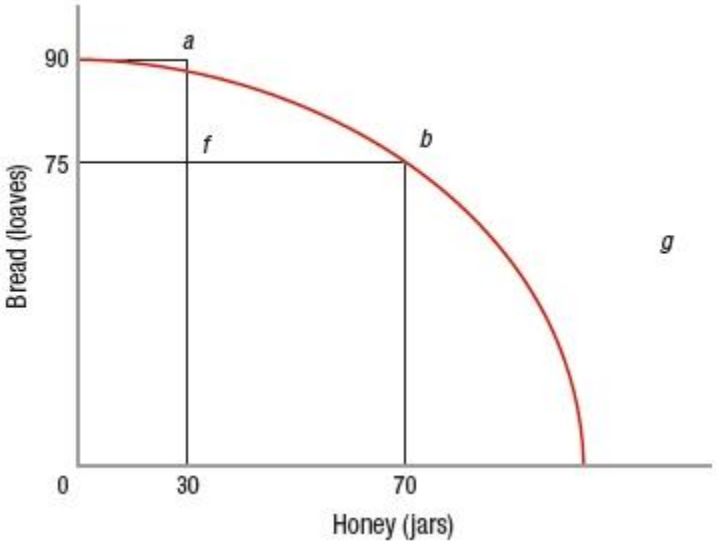

a. technological improvements occur.
b. unemployed workers find jobs.
c. people decide they prefer bread to honey.
d. people decide they prefer honey to bread.

ANSWER: a

113. A production possibilities frontier will have a curved, or "bowed out," shape if
a. opportunity costs are declining.
b. opportunity costs are increasing.
c. resources are scarce.
d. the economy is growing.

ANSWER: b

114. Increasing opportunity costs occur along the production possibilities frontier because
a. of unemployment in the economy.
b. not all resources are equally well suited to produce all goods.
c. resources lack specialization.
d. of inequities in the distribution of income.

ANSWER: b

115. Suppose that in Japan one worker can produce either four cars or 5 tons of grain per year. What is the opportunity cost of producing one car in Japan?
a. 0.4 ton of grain
b. 0.8 ton of grain
c. 1.25 tons of grain
d. 2.5 tons of grain

ANSWER: c

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116. A curve of which shape reflects the reality that most goods are better suited for specific sorts of production?

a. straight-line production possibilities frontier
b. concave production possibilities frontier
c. downward-sloping production possibilities frontier
d. convex possibilities frontier

ANSWER: b

117. If an economy faces increasing opportunity costs with respect to the production of two goods, then the production possibilities frontier between the two goods will be

a. bowed inward.
b. a straight downward-sloping curve.
c. bowed outward.
d. a positively sloped curve.

ANSWER: c

118. If a producer does NOT face increasing opportunity cost, then the production possibilities frontier is

a. bowed inward.
b. a straight downward-sloping curve.
c. bowed outward.
d. a positively sloped curve.

ANSWER: b

119. Which statement BEST illustrates increasing opportunity costs?

a. As new technology evolves, it becomes more difficult to obtain the energy to run the technology.
b. Immigration increases the productivity of the labor force even if it costs existing workers their jobs.
c. The costs of closing factories exceed the profit opportunities of keeping them operating.
d. As more rice is produced, rice farmers plant in land that is good for growing other crops but poor for growing rice.

ANSWER: d

120. (Table) The table shows the number of hours Paul spends either reading books or watching movies. Paul has only 10 hours he can use on the activities. If Paul decides to go from spending 2 hours reading books to 4 hours reading books, what is his opportunity cost for spending 2 more hours reading books?

Books	0	2	4	6	8	10
Movies	10	8	6	4	2	0

a. 2 hours of movie watching
b. 4 hours of movie watching
c. 6 hours of movie watching
d. 8 hours of movie watching

ANSWER: a

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121. (Table) According to the table, the shape of the production possibilities frontier is

Books	0	2	4	6	8	10
Movies	10	8	6	4	2	0

a. a straight line.
b. bowed.
c. vertical.
d. horizontal.

ANSWER: a

122. (Table: Production Possibilities Schedule) If the table is graphed, the production possibilities frontier shows

iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. constant opportunity costs.
b. increasing opportunity costs.
c. decreasing opportunity costs.
d. a constant slope.

ANSWER: b

123. (Table: Production Possibilities Schedule) In the table, production of a combination of 3,500 iPads and 1,500 HDTVs

iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. is unattainable.
b. wasted resources.
c. is accomplished at full employment.
d. lies outside of the production possibilities frontier.

ANSWER: b

124. (Table: Production Possibilities Schedule) In the table, a combination of 4,500 iPads and 2,000 HDTVs

iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. is unattainable.
b. is a point on the production possibilities frontier.
c. is a point inside of the production possibilities frontier.

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d. is accomplished at full employment.

ANSWER: a

125. (Table: Production Possibilities Schedule) In the table, a combination of 3,500 iPads and 2,000 HDTVs is

iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. unattainable.

b. a point inside of the production possibilities frontier.

c. a point outside of the production possibilities frontier.

d. a point on the production possibilities frontier.

ANSWER: d

126. (Table: Production Possibilities Schedule) In the table, if society wants to increase production of HDTVs from 1,000 to 2,000 units, the opportunity cost of doing so will be _____ iPads.

iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. 500

b. 4,500

c. 3,500

d. 1,000

ANSWER: d

127. (Table: Production Possibilities Schedule) In the table, if society wants to increase production of HDTVs from 2,000 to 3,000 units, the opportunity cost of doing so will be _____ iPads.

iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. 500

b. 1,500

c. 1,000

d. 2,000

ANSWER: b

128. (Table: Production Possibilities Schedule) In the table, if society wants to increase production of iPads from 4,500 to 5,000 units, production of HDTVs will

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iPads	HDTVs
5,000	0
4,500	1,000
3,500	2,000
2,000	3,000
0	4,000

a. fall to 1,000 units.
b. increase.
c. fall to 0 units.
d. stay the same.

ANSWER: c

129. (Table) Suppose an economy can produce the combinations of bread and cookies shown in the table. The opportunity cost of increasing bread production from 25 to 50 loaves is _____, and the opportunity cost of increasing bread production from 50 to 75 loaves is _____.

Bread (loaves)	Cookies (dozens)
0	100
25	90
50	75
75	45
100	0

a. 25 loaves of bread; 30 dozen cookies
b. 15 dozen cookies; 30 dozen cookies
c. 90 dozen cookies; 45 dozen cookies
d. 75 loaves of bread; 50 loaves of bread

ANSWER: b

130. When resources are being used inefficiently, the
a. economy is operating at a point outside its production possibility frontier.
b. production possibility frontier shifts outward.
c. economy is operating at a point inside its production possibility frontier.
d. economy is operating at a point on the production possibility frontier.

ANSWER: c

131. Points inside (below and to the left of) the production possibility frontier are
a. attainable and efficient.
b. unattainable and efficient.
c. attainable and inefficient.
d. unattainable and inefficient.

ANSWER: c

132. When a country is operating at its full potential output, it is producing at a point
a. above and to the right of the production possibility frontier.

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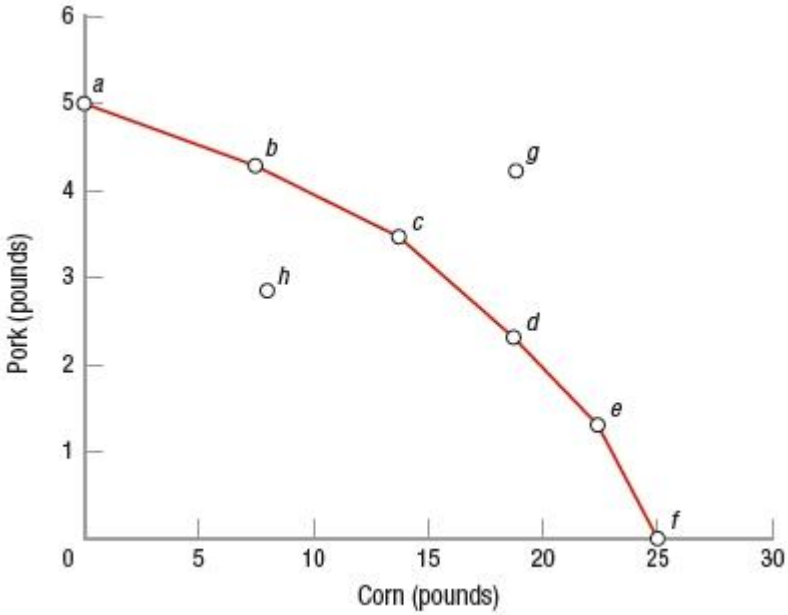
b. on the production possibility frontier.
c. below and to the left of the production possibility frontier.
d. on the production possibilities curve that is farthest from the origin.

ANSWER: b

133. (Figure: Pork and Corn PPF) Using the graph, if we are operating at the economy's potential output, then production can be at points



a. *b* or *h*.
b. *c* or *f*.
c. *h* or *g*.
d. *g* or *d*.

ANSWER: b

134. (Figure: Pork and Corn PPF 2) If we want to produce 10 units of corn, then we can produce no more than _____ unit(s) of pork.

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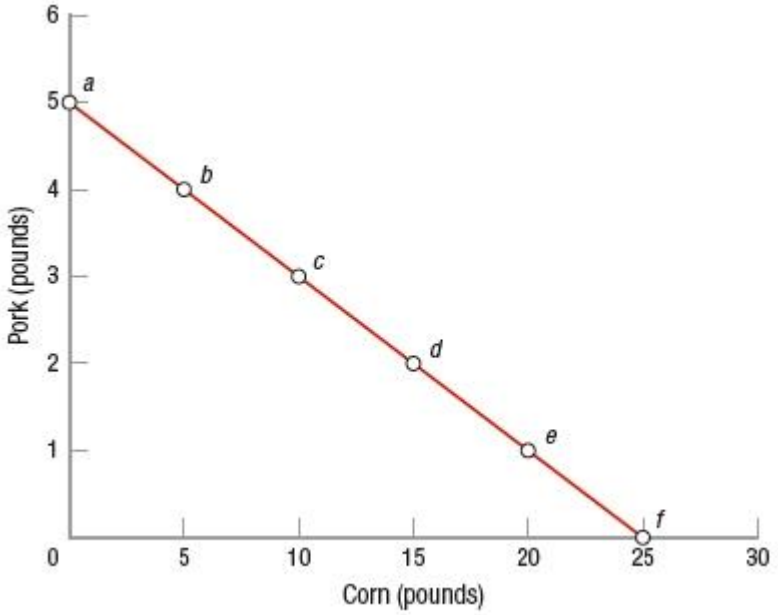
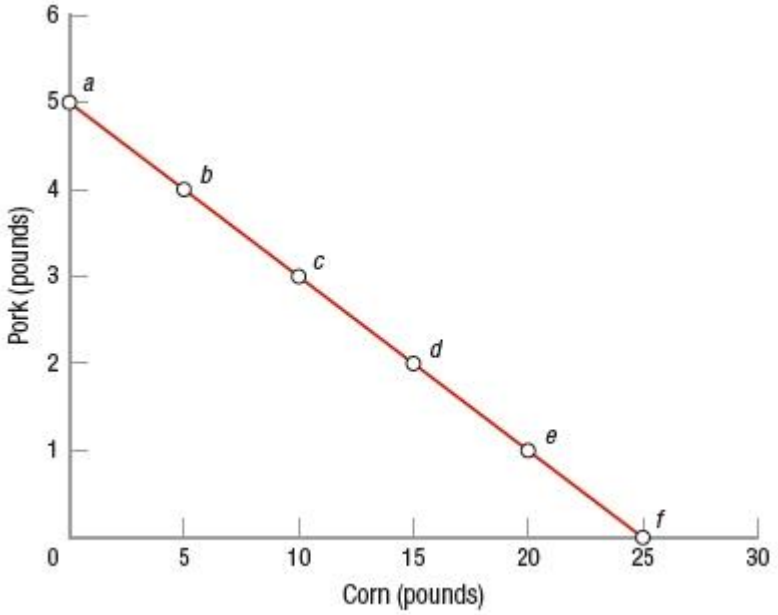


a. 1
b. 2
c. 3
d. 4

ANSWER: c

135. (Figure: Pork and Corn PPF 2) The opportunity cost of producing a unit of pork is _____ unit(s) of corn.



a. 1
b. 5
c. 8
d. 10

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ANSWER: b

136. A country's GDP is inside the frontier of the production possibilities frontier. This could happen because of
a. technological change.
b. a recession.
c. economic growth.
d. a lack of land resources.

ANSWER: b

137. An increase in the quantity and/or quality of labor available could be due to each of these EXCEPT
a. an increase in the working age population.
b. more women entering the workforce.
c. strict immigration policy enforcement.
d. an increase in the college graduation rate.

ANSWER: c

138. Which is NOT a source of economic growth?
a. increasing business investment
b. increasing research and development
c. reducing the level of international trade
d. reducing barriers to financial aid for higher education

ANSWER: c

139. Which are the principal resources that can be changed through actions taken by the government?
a. capital and entrepreneurial ability
b. capital and labor
c. labor and entrepreneurial ability
d. labor and land

ANSWER: b

140. If a society's production possibilities frontier shifts to the right
a. the society's standard of living is likely to decrease.
b. the society must choose a different mix of goods.
c. there must be an increase in the production of one industry and a decrease in production in other industries.
d. there is likely an increase in the society's resources.

ANSWER: d

141. (Figure: Interpreting PPF Shifts) According to the graph, which changes may cause the production possibilities frontier to shift inward from PPF_1 to PPF_0?

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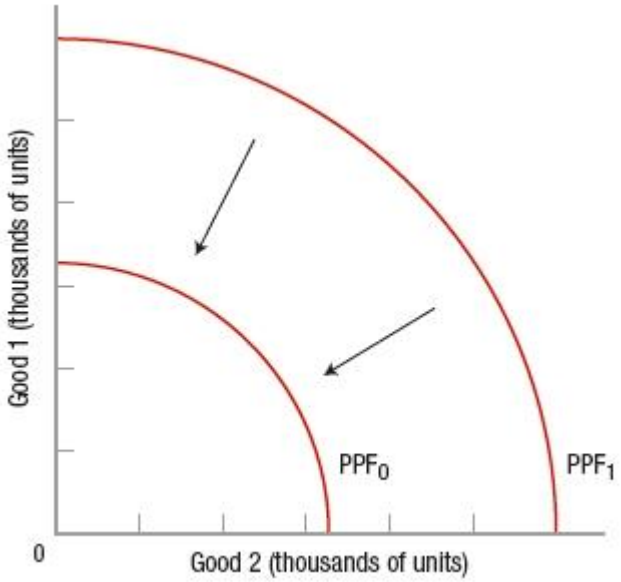
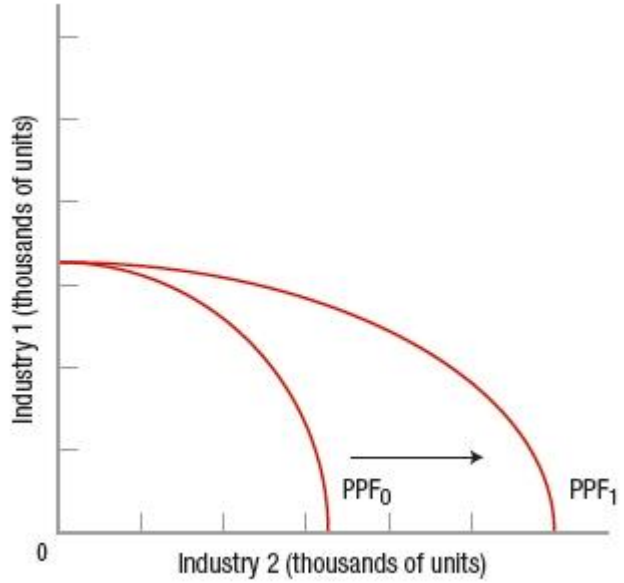


a. increase in the labor force
b. improve the skills of the workers
c. increase government regulation on businesses overall
d. increase in the population

ANSWER: c

142. (Figure: Interpreting PPF Shifts 2) The graph describes a situation in which



a. both industries have experienced technological improvements.
b. only industry 1 has had a technological improvement.
c. neither industry has had a technological improvement.
d. only industry 2 has had a technological improvement.

ANSWER: d

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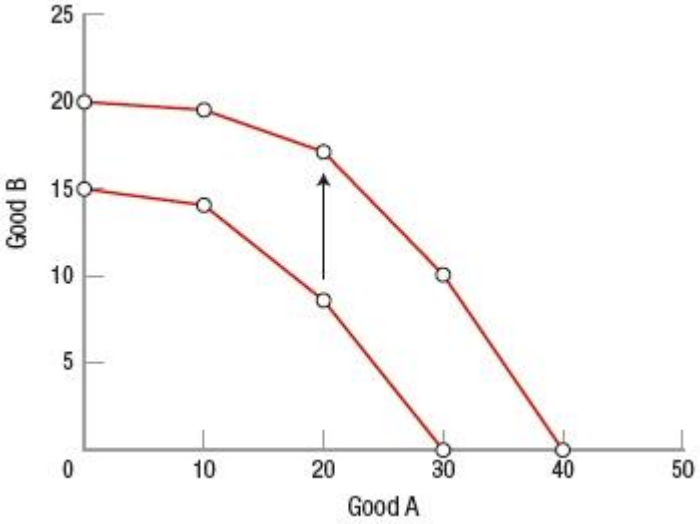
143. (Figure: Interpreting PPF Shifts 3) Which statement would NOT be a possible explanation for the shift depicted in the graph?



a. Workers receive more education.
b. New technology is developed.
c. Unemployment rises.
d. New energy resources are found.

ANSWER: c

144. Which of these can lead to a decrease (leftward shift) in the production possibilities frontier?
a. banning a technology due to its adverse environmental effects
b. a policy encouraging more immigration
c. tax breaks on the adoption of more efficient technologies
d. a policy that encourages entrepreneurship

ANSWER: a

145. A country can use its given resources to produce capital goods or consumer goods. This implies that
a. an economy can "have it all."
b. there is a conflict between capitalists and consumers.
c. more consumption in the present leads to higher economic growth for future generations.
d. there is a tradeoff between the current and the future standards of living.

ANSWER: d

146. Suppose that the government could stimulate spending in one expenditure categories. In which category would the spending increase contribute MOST to an expansion of the country's production possibilities frontier?
a. consumption goods
b. government purchases
c. net exports
d. capital goods

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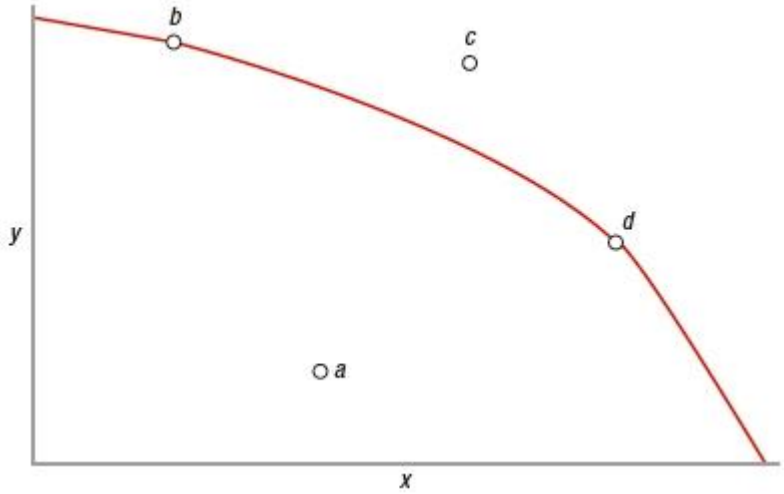
ANSWER: d

147. Which of these would be MOST likely to cause the production possibilities frontier to shift to the left?
a. increase in population
b. advancement in technology
c. decrease in the size of the labor force
d. decrease in taxes

ANSWER: c

148. (Figure: Determining Production Possibilities 2) Which point in the graph is consistent with a recession?



a. *a*
b. *b*
c. *c*
d. *d*

ANSWER: a

149. Which of these is MOST likely to cause the production possibilities frontier to shift to the right?
a. increase in technology
b. increase in consumption
c. increase in producer prices
d. increase in tax revenues

ANSWER: a

150. Economic growth is shown as a _____ the PPF.
a. shift to the left of
b. shift to the right of
c. an upward movement along
d. a downward movement along

ANSWER: b

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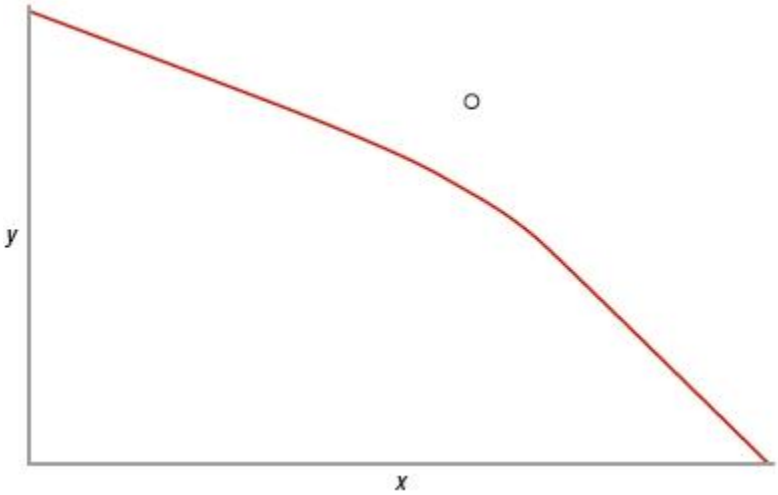
151. (Figure: Determining Production Possibilities 3) According to the graph, the output combination represented by the point can be achieved only



a. by reducing immigration.
b. if the unemployment rate were zero.
c. if more resources were acquired.
d. by reducing imports.

ANSWER: c

152. The increased participation of women in the workforce
a. has led to a shift in the structure of the workforce toward services.
b. has not contributed to the rate of economic growth because the women have simply shifted from waged work to unwaged work.
c. has contributed to the rate of economic growth.
d. shifts the production possibilities frontier curve to the left.

ANSWER: c

153. Economic growth is shown as a _____ the PPF.
a. leftward shift of
b. movement inside
c. movement along
d. rightward shift of

ANSWER: d

154. Which of these results in a higher standard of living?
a. higher tax rates
b. higher inflation rates
c. higher levels of education
d. a decrease in trade

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ANSWER: c

155. The two basic determinants of economic growth are _____ and _____.
a. expanding resources; improving technologies
b. tariffs; trading with weaker countries
c. income taxes; human capital
d. government spending; labor productivity

ANSWER: a

156. If a nation selects a product mix focused on _____ goods, the production possibilities frontier will expand at a greater rate than if the nation produced mostly _____ goods.
a. labor-intensive; capital-intensive
b. consumption; capital
c. labor-intensive; consumption
d. capital; consumption

ANSWER: d

157. Investment in human capital refers to
a. education, on-the-job training, and professional training activities.
b. increasing the machinery and equipment that firms use.
c. increasing the number of people working at companies.
d. increasing the financial capital in the economy.

ANSWER: a

158. Which action will NOT shift a production possibilities frontier curve outward?
a. increasing the number of workers
b. increasing worker productivity
c. shifting preferences of consumers to cheaper products
d. technological change

ANSWER: c

159. An increase in technology
a. shifts the production possibilities frontier curve outward.
b. shifts the production possibilities frontier curve inward.
c. creates unemployment.
d. decreases inflation.

ANSWER: a

160. Which does NOT represent an increase in the level of human resources available to an economy?
a. decrease in the unemployment rate
b. immigration

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c. more people entering the labor force
d. higher birth rate

ANSWER: a

161. Which scenario shifts the production possibilities frontier outward?
a. decreasing population
b. capital accumulation
c. increasing prices
d. increasing consumption

ANSWER: b

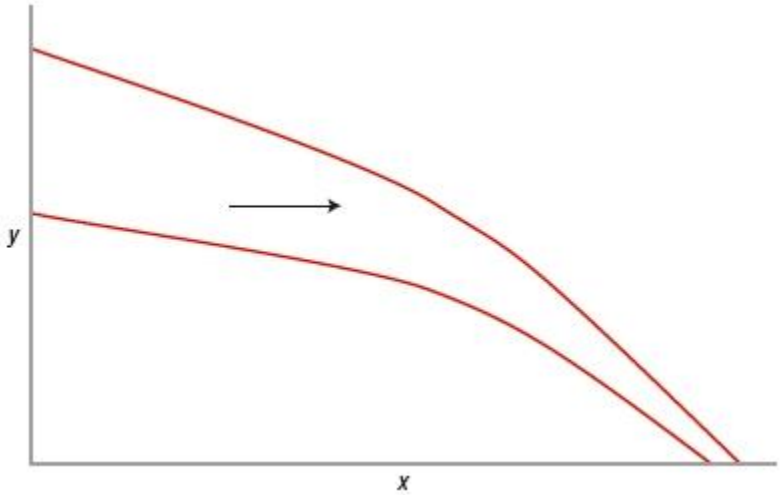
162. The introduction of the tablet computer to the U.S. economy would BEST be represented on a production possibilities frontier (PPF) as a(n) _____ the PPF.
a. outward shift of
b. inward shift of
c. movement from inside the PPF onto
d. movement from a point on the PPF to a point inside

ANSWER: a

163. Increased illegal immigration into the United States would best be represented with a production possibilities frontier (PPF) as a(n) _____ the PPF.
a. outward shift of
b. inward shift of
c. movement from inside the PPF onto
d. movement from a point on the PPF to a point inside

ANSWER: a

164. (Figure: Interpreting PFF Shifts 4) The graph depicts the effects of an improvement in technology. One can conclude from the graph that the technology



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a. provided minimal benefit to this society.
b. affected the production of *x* more than the production of *y*.
c. reduced unemployment.
d. affected the production of *y* more than the production of *x*.

ANSWER: d

165. Technological improvements in the U.S. economy have
a. reduced the costs of production for U.S. companies.
b. increased production levels in the United States.
c. shifted the U.S. production possibilities frontier to the right.
d. resulted in all of these.

ANSWER: d

166. Which of these is NOT a factor of economic growth?
a. decrease in the savings rate
b. increase in the size of the labor force
c. investment in human capital
d. increase in the capital stock

ANSWER: a

167. Economic growth is
a. unaffected by increases in average education levels.
b. positively affected by increased tax burdens.
c. negatively affected by higher levels of research and development.
d. positively affected by increasing physical capital.

ANSWER: d

168. Drivers of economic growth include
a. specialization but not international trade.
b. consumption but not specialization.
c. international trade but not consumption.
d. specialization, consumption, and international trade.

ANSWER: d

169. For a country to experience economic growth, the country must
a. reduce output.
b. increase inputs.
c. be productively efficient.
d. be more allocatively efficient.

ANSWER: b

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Chapter 02: Production, Economic Growth, and Trade

170. Which scenario will lead to increased economic growth?
a. more trade barriers
b. higher taxes
c. higher prices
d. increases in business investment
ANSWER: d

171. Which factor encourages economic growth?
a. taxes on imports
b. inflation
c. education
d. taxes on income
ANSWER: c

172. Economic growth is driven by
a. an increase in trade.
b. higher levels of inflation.
c. a decrease in spending on graduate schools.
d. a decrease in business investment.
ANSWER: a

173. Which of these results in a higher standard of living?
a. higher inflation rate
b. greater tax burden
c. free trade
d. smaller level of international trade
ANSWER: c

174. An increase in which of these would lead to a lower rate of economic growth?
a. business investment
b. research and development
c. greater tax burden
d. trade
ANSWER: c

175. The government can make owning a business easier or more profitable by doing all of these EXCEPT
a. reducing regulations.
b. offering low-interest loans.
c. offering favorable tax treatment.
d. asking individual investors to take additional risks.
ANSWER: d

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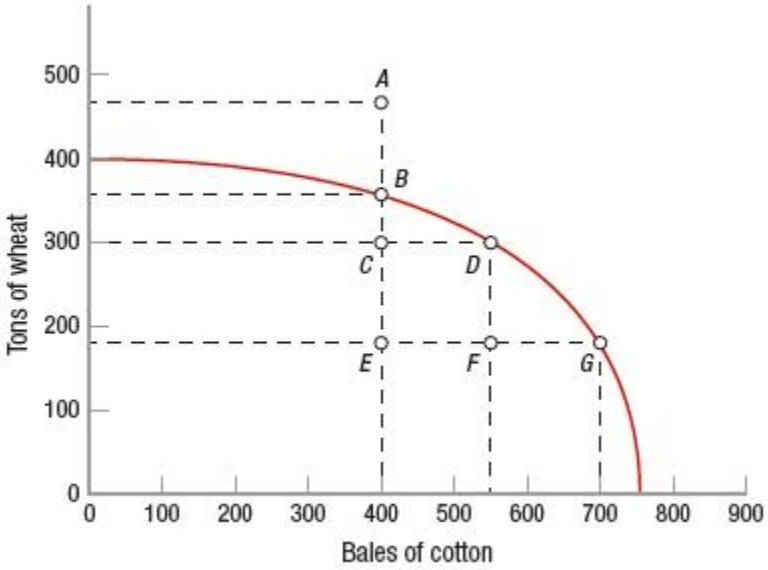
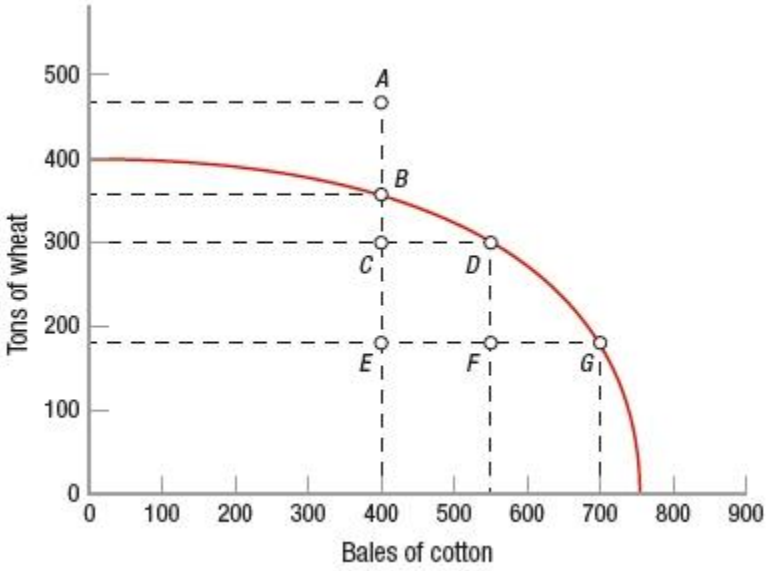
176. (Figure: PPF of Econia (a small nation)) Looking at the production possibilities frontier (PPF) of Econia, which changes in production would leave the citizens of Econia with a lower level of welfare or satisfaction?



a. movement from *C* to *B*
b. movement from *D* to *E*
c. movement from *F* to *G*
d. movement from *B* to *G*

ANSWER: b

177. (Figure: PPF of Econia (a small nation)) Looking at the production possibilities frontier (PPF) of Econia, assume that the country is producing at point *D*. All of the 300 bales of wheat are eaten but some people remain hungry. Over 100 of the 520 bales of cotton remain unused. Which statement is correct regarding efficiency in Econia?



a. Econia is producing wheat and cotton in amounts that are as efficient as possible.

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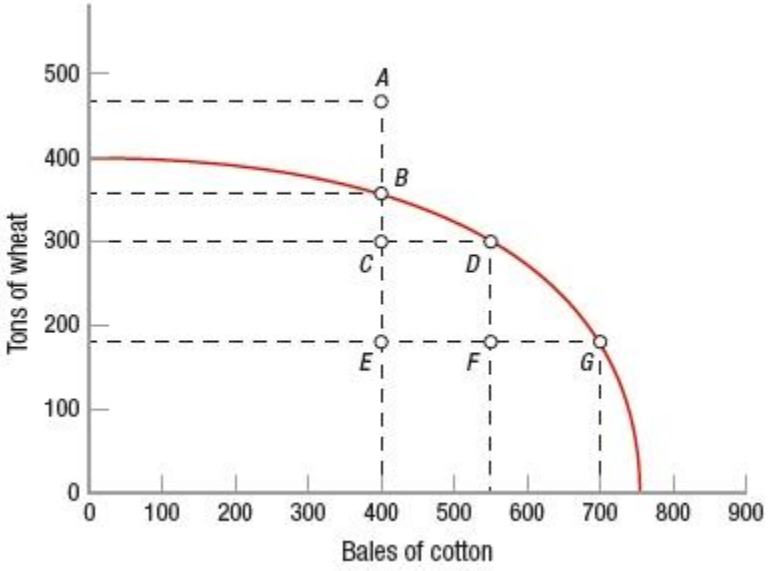
b. Econia would have greater production efficiency if it moved from *D* to *B*.

c. Econia is neither productively nor technically efficient.

d. Econia would have greater allocative efficiency if it moved from *D* to *B*.

ANSWER: d

178. (Figure: PPF of Econia (a small nation)) Looking at the production possibilities frontier (PPF) of Econia, what is the opportunity cost of moving production from point *B* (350 tons of wheat and 400 bales of cotton) to point *G* (190 tons of wheat and 700 bales of cotton)?



a. 0.53 ton of wheat per bale of cotton

b. 1.875 tons of wheat per bale of cotton

c. 300 tons of wheat per 160 bales of cotton

d. 700 bales of cotton per 400 tons of wheat

ANSWER: a

179. (Figure: PPF of Econia (a small nation)) Looking at the production possibilities frontier (PPF) of Econia, which attainable point would be productively efficient but might be allocatively inefficient?

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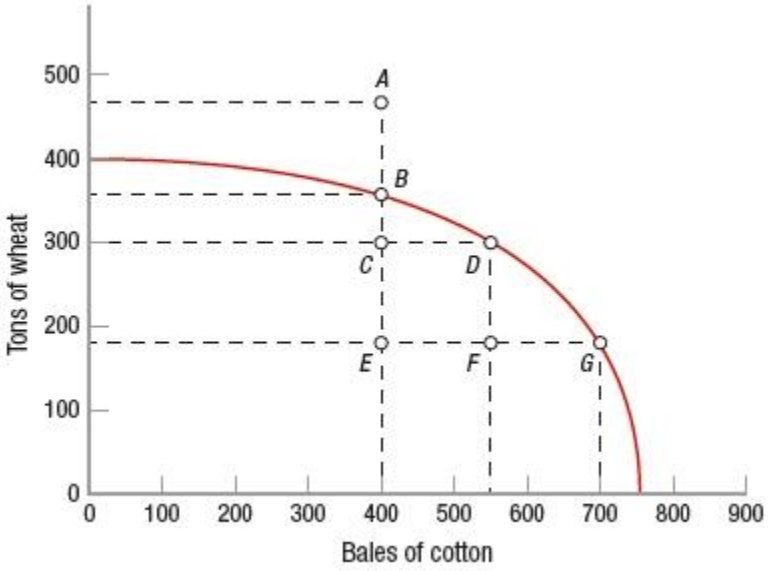
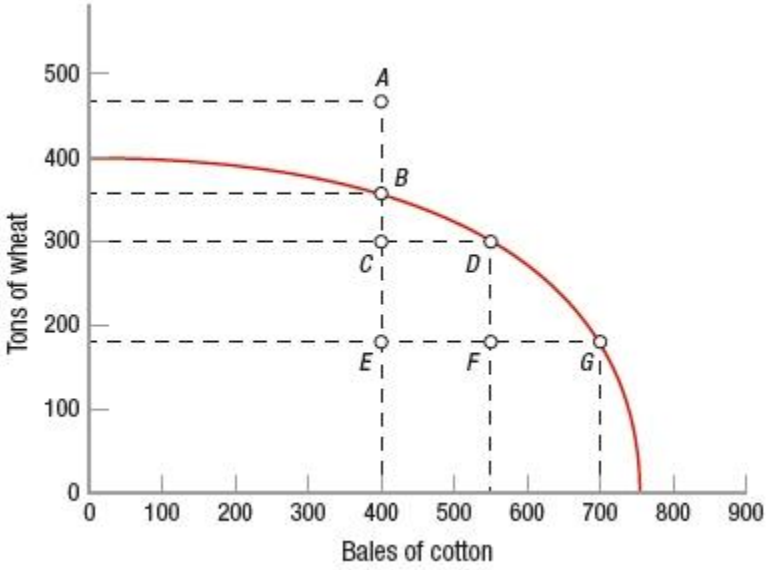


a. *A*
b. *E*
c. *C*
d. *D*

ANSWER: d

180. (Figure: PPF of Econia (a small nation)) Looking at the production possibilities frontier (PPF) of Econia, which point would have the greatest level of production inefficiency?



a. *A*
b. *E*
c. *C*
d. *F*

ANSWER: b

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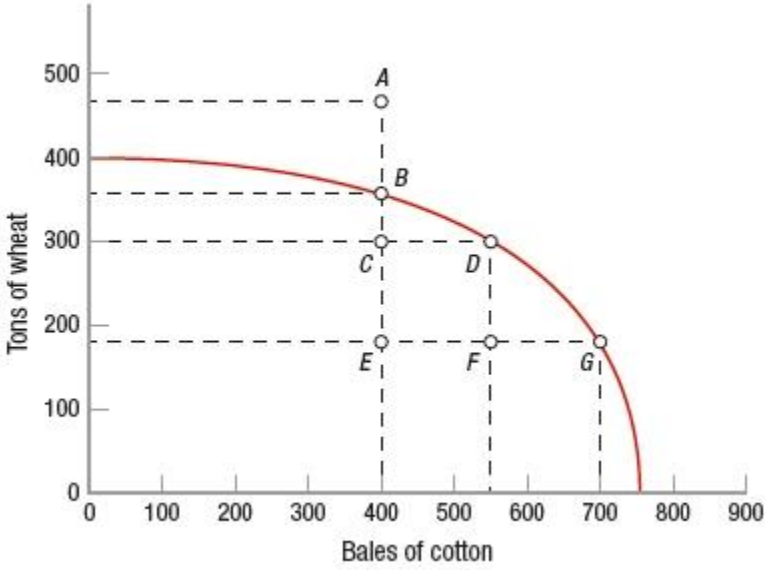
181. (Figure: PPF of Econia (a small nation)) Looking at the production possibilities frontier (PPF) of Econia, imagine that research develops a new hybrid variety of cotton that increases Econia's ability to produce cotton. Which statement would be true?



a. Point *A* is now attainable because there would be an outward parallel shift of the PPF.
b. Point *G* remains on Econia's PPF.
c. Points *C*, *D*, and *F* move from being unattainable to attainable.
d. Point *A* remains unattainable because the ability to produce wheat is unaffected.

ANSWER: d

182. The government sets regulations to improve safety for factory workers. This relates to which basic economic question?

a. How much should the government pay?
b. What mix of goods and services should be produced?
c. How should goods and services be produced?
d. Who will receive the goods and services?

ANSWER: c

183. The government increases taxes on high-income workers to provide welfare to people with physical disabilities who are unable to work. This relates to which basic economic question?

a. What prices should the government pay?
b. What mix of goods and services should be produced?
c. How should goods and services be produced?
d. Who will receive the goods and services?

ANSWER: d

184. The government bans a toy because it has been associated with injuries to children. This relates to which basic economic question?

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a. How much should the government decide?
b. What mix of goods and services should be produced?
c. How should goods and services be produced?
d. Who will receive the goods and services?

ANSWER: b

185. Society has more influence over the amount and characteristics of _____ than it has over any other resource.
a. land
b. labor
c. capital
d. entrepreneurial ability

ANSWER: c

186. Why does society have more influence over the amount and characteristics of capital than it has over any other resource?
a. There is more capital than any other resource, so all or part of it can be used.
b. Capital is money; more money (currency) can be printed in any denomination.
c. Capital is the only resource that is manufactured.
d. Capital never wears out or loses its productivity.

ANSWER: c

187. The concepts of absolute and comparative advantage were developed by
a. Friedrich von Hayek.
b. David Ricardo.
c. Gunnar Myrdal.
d. Paul Samuelson.

ANSWER: b

188. Which economist is known for first describing "comparative advantage"?
a. Thomas Malthus
b. John Stuart Mill
c. David Ricardo
d. Adam Smith

ANSWER: c

189. The theory that suggested countries would mutually benefit from trade by specializing in export goods they could produce at lower opportunity costs than another country is called
a. marginal utility.
b. labor specialization theory.
c. absolute advantage.

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d. comparative advantage.

ANSWER: d

190. Who developed the theory of comparative advantage?

a. John Stuart Mill
b. Adam Smith
c. David Ricardo
d. Karl Marx

ANSWER: c

191. David Ricardo would be MOST likely to agree with which statement?

a. High tariffs on grain are needed to protect the living standards of farmers.
b. Free trade benefits both trading countries.
c. If you have an absolute advantage in producing both trousers and beer, you should not trade with other countries.
d. If you have a comparative advantage in producing both trousers and beer, you should not trade with other countries.

ANSWER: b

192. David Ricardo

a. suggested that increasing wages for workers would increase their consumption and lead to economic growth.
b. wanted to protect textile markets in England.
c. suggested that countries would benefit from trade.
d. suggested that goods were exchanged based on the value of those in use.

ANSWER: c

193. Free trade is known as a _____ game because ____.

a. positive-sum; one trader's gain is another's loss
b. positive-sum; both parties to a transaction can achieve positive gains
c. zero-sum; one trader's gain is another's loss
d. zero-sum; both parties to a transaction can achieve positive gains

ANSWER: b

194. Voluntary trade between nations

a. has an outcome with even tradeoffs between players.
b. is a positive-sum game.
c. is a zero-sum game.
d. is a negative-sum game.

ANSWER: b

195. "The economic wealth of this country was built primarily by some individuals profiting from a transaction,

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whereas others were harmed by that transaction." This statement indicates that its author

a. fails to understand the fallacy of composition.
b. fails to understand that all voluntary trades benefit both parties involved.
c. fails to understand the significance of the production possibilities frontier.
d. uses sound economic thinking—the statement is essentially correct.

ANSWER: b

196. _____ advantage exists when one country can produce more of a good than another country.

a. Comparative
b. Absolute
c. Unfair
d. Home country

ANSWER: b

197. If one country has a(n) _____ advantage in the production of one item, it can always produce more of the same item than another nation, given the same resources.

a. comparative
b. absolute
c. special
d. trade

ANSWER: b

198. Which statement defines absolute advantage?

a. Goods and services that are produced at their lowest resource (opportunity) cost.
b. The mix of goods and services produced is just what the society desires.
c. One country has a lower opportunity cost of producing a good than another country.
d. One country can produce more of a good than another country if both work with identical resources.

ANSWER: d

199. Most trade is based on specialization, according to _____ advantage.

a. brand recognition
b. location
c. comparative
d. absolute

ANSWER: c

200. The theory of comparative advantage says that countries

a. should restrict trade by cutting off all imports.
b. should import those goods they can produce at a lower opportunity cost than another country.
c. can never benefit from specialization in trade.
d. should export those goods they can produce at a lower opportunity cost than another country.

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ANSWER: d

201. The key to computing comparative advantage is
a. calculating the value of the absolute advantage.
b. a measurement of the opportunity cost.
c. calculating the cost of production.
d. computing consumer choice.

ANSWER: b

202. If a producer has a comparative advantage, then she has selected the activity that
a. has the lowest resource cost.
b. is outside of the production possibilities frontier.
c. has the lowest opportunity cost.
d. does not require specialization.

ANSWER: c

203. Jason produces more jeans than Jasmine. Why would Jason and Jasmine want Jasmine to produce the jeans even when they both know that he can produce more than she can at a faster rate?
a. Jasmine has a lower opportunity cost of producing the jeans than Jason.
b. Jason has a lower opportunity cost of producing the jeans than Jasmine.
c. Jason has an absolute advantage in producing the jeans.
d. Jasmine has an absolute advantage of producing the jeans.

ANSWER: a

204. Paolo can walk three dogs or mow two lawns in two hours. Ashanti can walk six dogs or mow three lawns in two hours. One can conclude that
a. Ashanti has absolute advantage in lawn-mowing, and Paolo has comparative advantage in dog-walking.
b. Ashanti has absolute advantage in dog-walking, and Paolo has comparative advantage in lawn-mowing.
c. Paolo has absolute advantage in lawn-mowing, and Ashanti has comparative advantage in dog-walking.
d. Paolo has absolute advantage in dog-walking, and Ashanti has comparative advantage in lawn-mowing.

ANSWER: b

205. Paolo can walk three dogs or mow two lawns in two hours. Ashanti can walk six dogs or mow three lawns in two hours. Ashanti's opportunity cost for each additional dog walked is _____ lawn(s) mowed.
a. 0.5
b. 1.5
c. 2.0
d. 2.5

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ANSWER: a

206. Paolo can walk three dogs or mow two lawns in two hours. Ashanti can walk six dogs or mow three lawns in two hours. According to trade theory, _____ should walk dogs because ____.

a. Ashanti; she produces more than Paolo does in a two-hour period
b. Ashanti; she enjoys a comparative advantage in dog-walking
c. Paolo; he faces a lower opportunity cost for walking dogs
d. Paolo; he enjoys an absolute advantage in dog-walking

ANSWER: b

207. The law of comparative advantage suggests that

a. each country should strive to produce roughly equal amounts of all goods.
b. nations can benefit if they trade with each other.
c. free trade among nations is generally harmful to an economy.
d. each country should strive to be self-sufficient.

ANSWER: b

208. Comparative advantage arises because

a. all resources are equally effective in the production of goods.
b. the division of labor increases efficiency.
c. the division of labor helps markets function effectively.
d. not all resources are equally effective in the production of goods.

ANSWER: d

209. Suppose the country of Alphaland can produce more cars than Omegaland can produce, given the same resources. An economist would conclude that Alphaland has a(n) _____ in producing cars.

a. absolute advantage
b. comparative advantage
c. higher opportunity cost
d. higher resource cost

ANSWER: a

210. Suppose that if the United States produced only oil, it could produce 25 million barrels; and if it produced only microchips, it could produce 20 million chips. Suppose that if Mexico produced only oil, it could produce 16 million barrels; and if it produced only microchips, it could produce 8 million chips. Which statement is then correct?

a. Mexico has a comparative advantage in producing both goods.
b. The United States has an absolute advantage over Mexico in producing both goods.
c. Mexico has an absolute advantage over the United States in producing both goods.
d. The United States has a comparative advantage in producing both goods.

ANSWER: b

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211. Which situation would MOST likely lead to an import of copper into a certain country?
a. a tariff placed on copper
b. an absolute disadvantage in the production of copper compared to other nations
c. an absolute advantage in the production of copper by other nations
d. a comparative advantage in the production of copper by other nations
ANSWER: d

212. Comparative advantage exists when one country can produce _____ another country.
a. more of a good than can
b. less of a good than can
c. a good at a higher opportunity cost than
d. a good at a lower opportunity cost than
ANSWER: d

213. To gain from trade, a country should
a. always try to get a favorable tariff.
b. specialize in the commodity for which it has a comparative advantage.
c. always specialize in the commodity for which it has an absolute advantage.
d. trade only with its political allies.
ANSWER: b

214. If a country has few resources
a. trade will never occur.
b. trade will not increase the GDP.
c. it will still have a comparative advantage in a good or service.
d. specialization would be useless.
ANSWER: c

215. International trade
a. increases consumer prices.
b. increases consumption possibilities.
c. reduces production possibilities.
d. reduces resource consumption.
ANSWER: b

216. (Table) If Germany decided to produce skirts, what is Germany's opportunity cost?

	Sweaters	Skirts
Germany	6	12
Greece	4	20

a. 2 sweaters
b. 0.5 sweater
c. 1 sweater

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d. 0.25 sweater

ANSWER: b

217. (Table) Germany has a comparative advantage in producing

	Sweaters	Skirts
Germany	6	12
Greece	4	20

a. sweaters and skirts.

b. sweaters only.

c. skirts only.

d. neither good.

ANSWER: b

218. (Table) Greece has a comparative advantage in

	Sweaters	Skirts
Germany	6	12
Greece	4	20

a. sweaters and skirts.

b. sweaters only.

c. skirts only.

d. neither good.

ANSWER: c

219. Two countries will benefit from trade if

a. each country has a higher opportunity cost of producing the traded good.

b. each country has a lower opportunity cost of producing the traded good.

c. each country has an absolute advantage of producing the good.

d. one country does not produce the traded good.

ANSWER: b

220. The United States can grow a greater total quantity of wheat than can Japan. The United States has a(n) _____ in wheat production.

a. higher opportunity cost

b. comparative advantage

c. absolute disadvantage

d. absolute advantage

ANSWER: d

221. (Figure: Ships and Autos in Countries A and B) Two countries manufacture autos and ships. Based on the graphs, which statement is correct?

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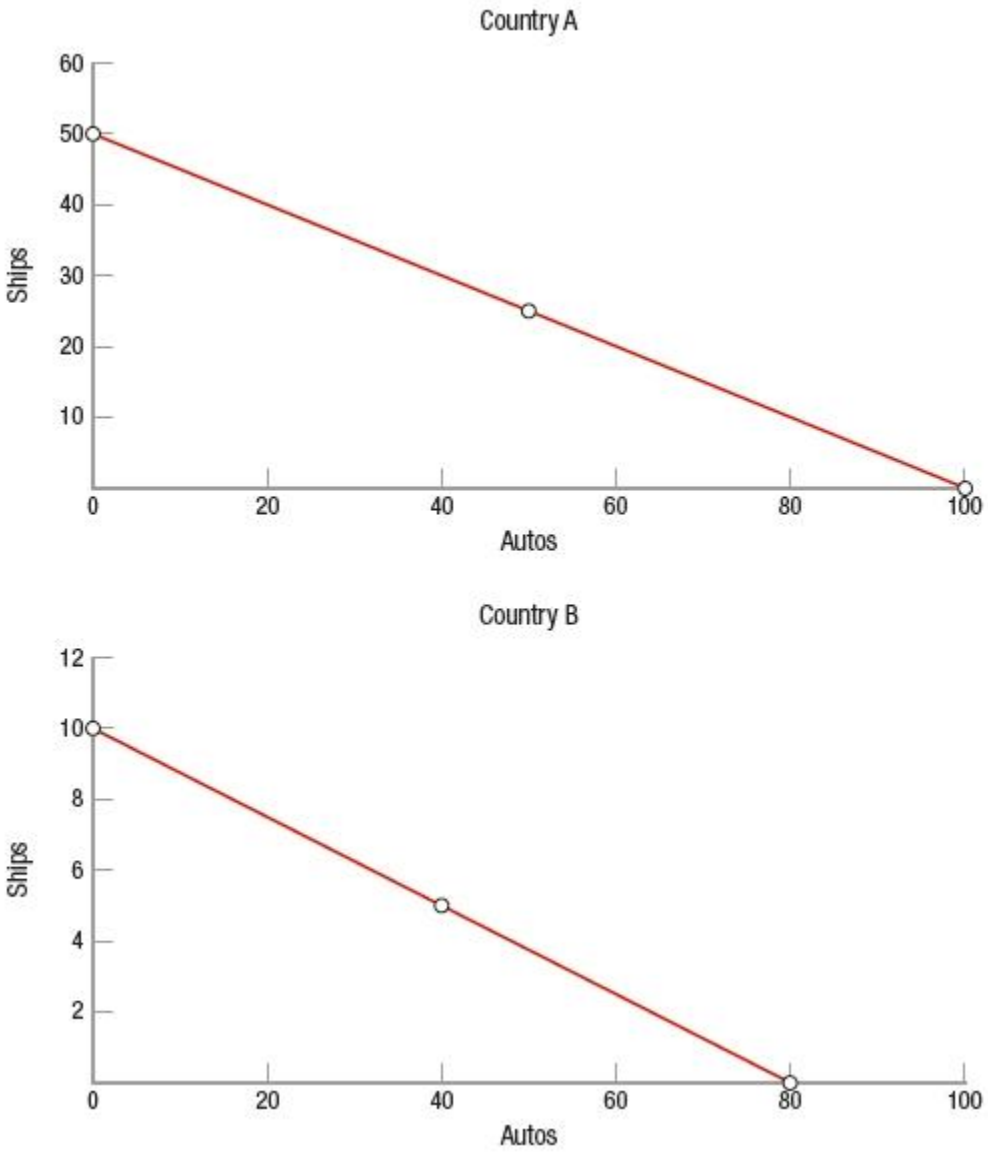

a. The opportunity cost in country A of producing 1 ship is 2 cars.
b. The opportunity cost in country B of producing 1 ship is 10 cars.
c. Country B is more efficient in the production of ships.
d. Both countries are equally efficient in the production of ships because the PPFs are linear.

ANSWER: a

222. (Figure: Ships and Autos in Countries A and B) Two countries manufacture autos and ships. Based on the graphs, which statement is correct?

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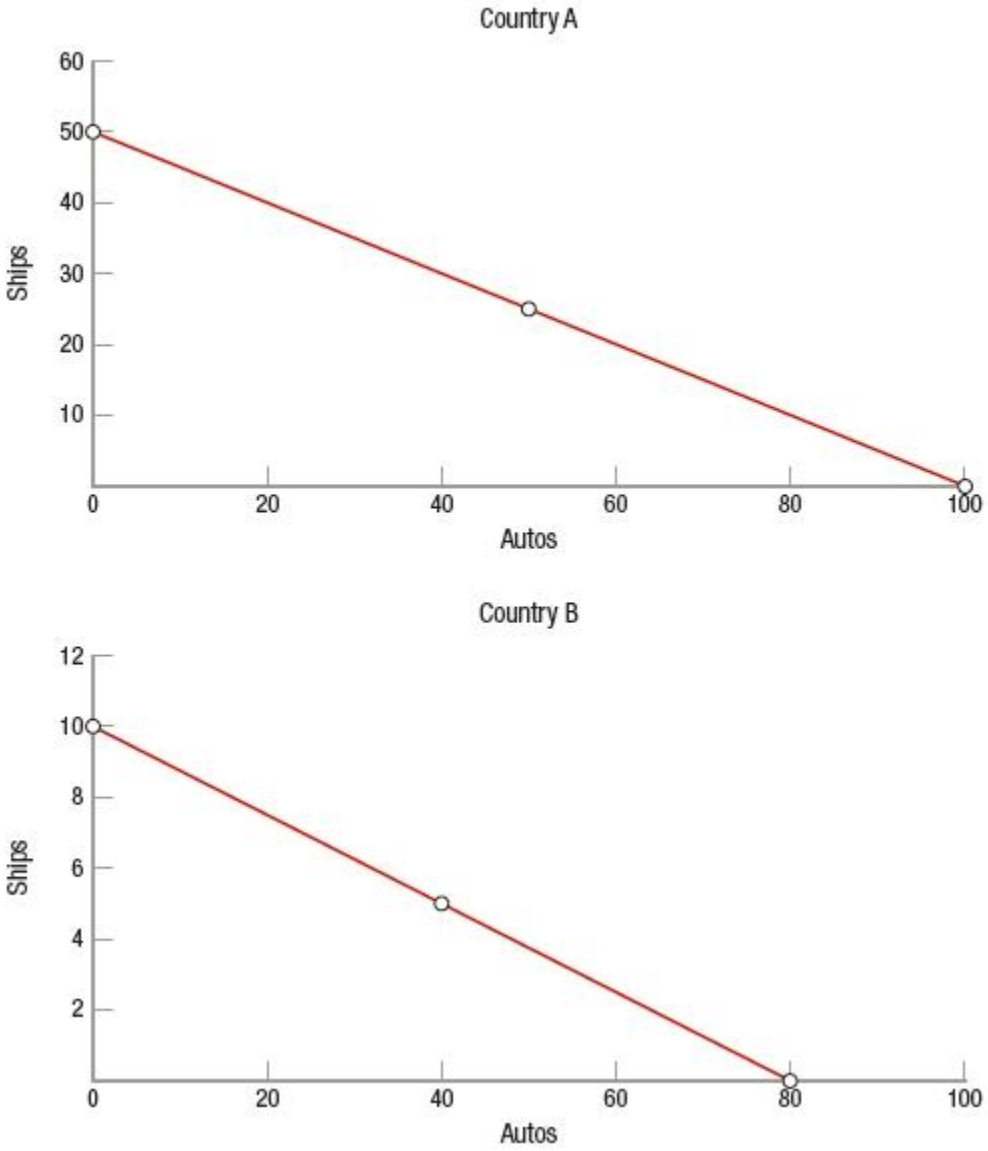

a. Country A has a comparative disadvantage in producing ships.
b. The two countries should not trade with each other because both can produce both goods.
c. Country B has an absolute advantage in both goods because the line is closer to the origin.
d. Country A has an absolute advantage in producing ships.

ANSWER: d

223. (Figure: Ships and Autos in Countries A and B) Two countries manufacture autos and ships. Based on the graphs

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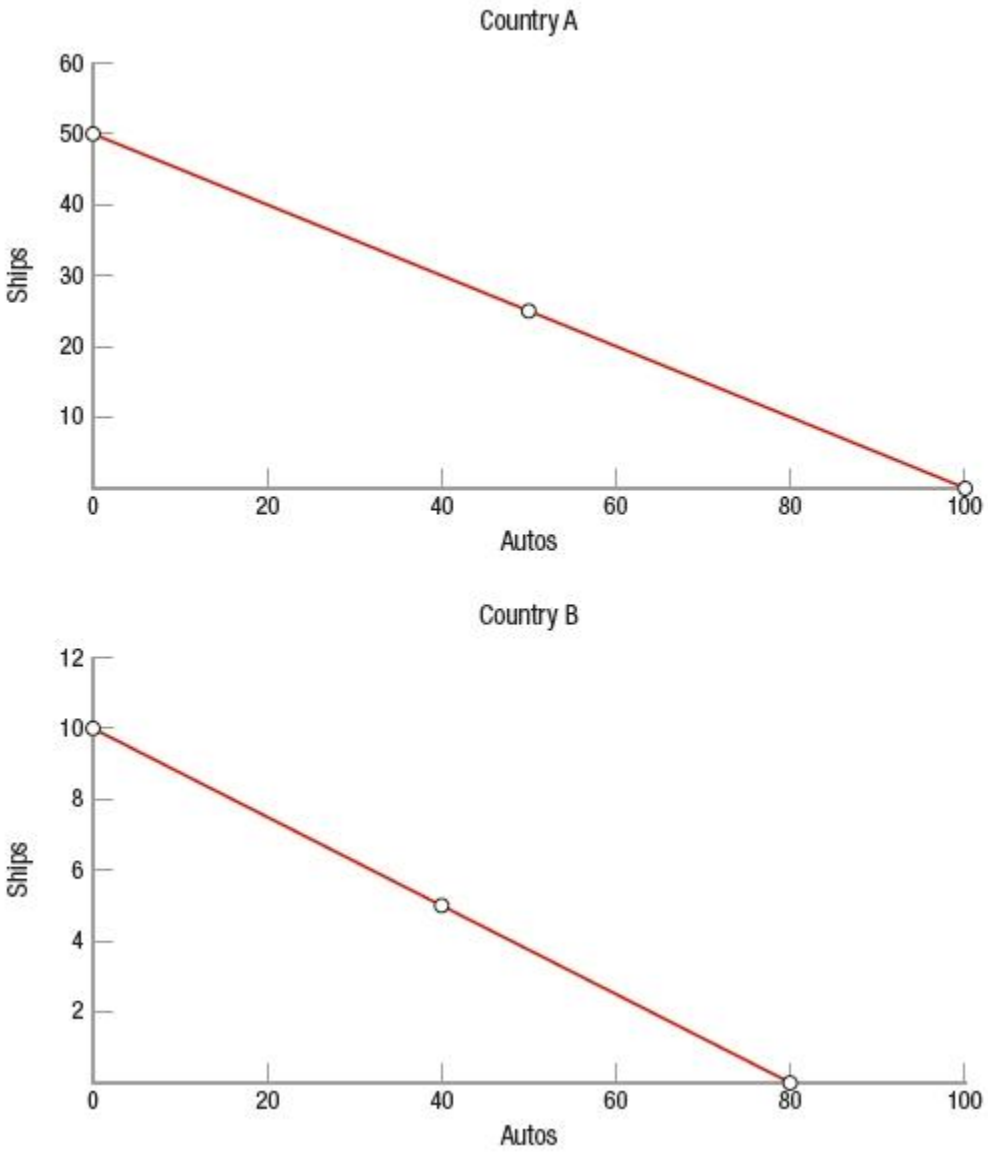

a. Country A should specialize in automotive manufacturing and country B should specialize in ship building.

b. There are no advantages to trade because country A can produce more of both goods.

c. There are no advantages to trade because the lines are downward sloping.

d. Country A should specialize in ship building and country B should specialize in automotive manufacturing.

ANSWER: d

224. (Figure: Corn and Oil in the United States and the United Kingdom) Refer to the graphs for the United States and the United Kingdom. If the starting point is *a*, what is the opportunity cost of the United Kingdom producing one more barrel of oil?

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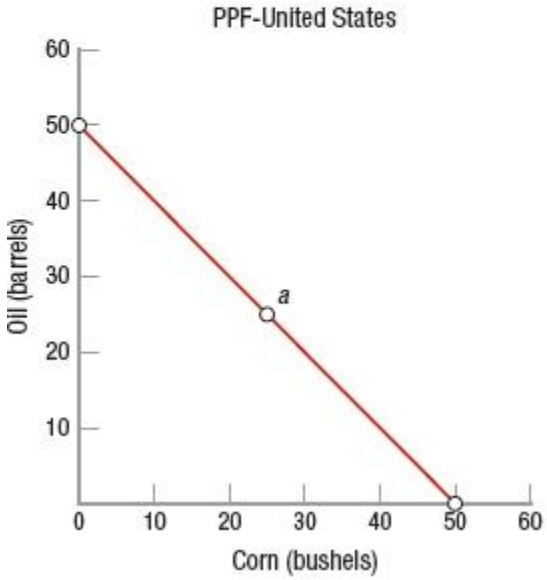
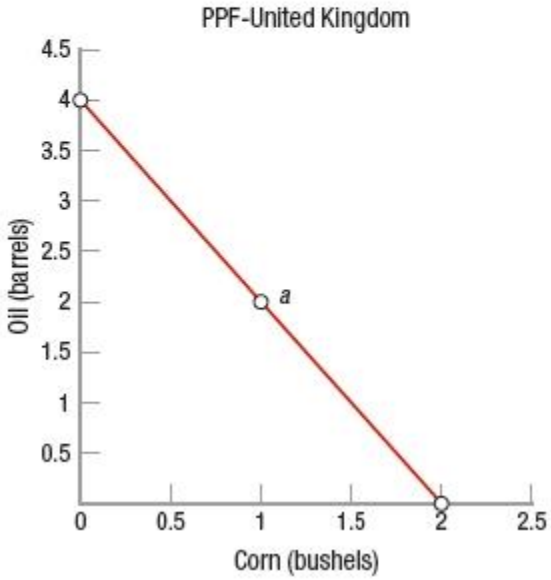
United States

Corn	Oil
50	0
0	50
25	25

United Kingdom

Corn	Oil
0	4
2	0
1	2





a. 0.5 bushel of corn
b. 1 bushel of corn
c. 1.5 bushels of corn
d. 2 bushels of corn

ANSWER: a

225. (Figure: Corn and Oil in the United States and the United Kingdom) Refer to the graphs for the United States and the United Kingdom. If the starting point is *a*, what is the opportunity cost of the United States producing 15 more barrels of oil?

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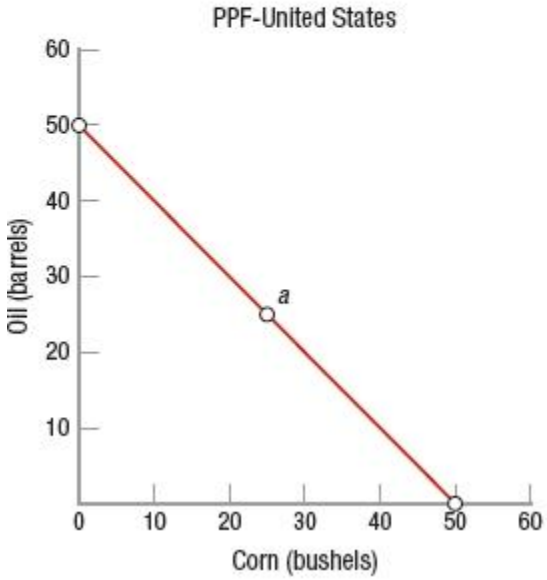
Chapter 02: Production, Economic Growth, and Trade

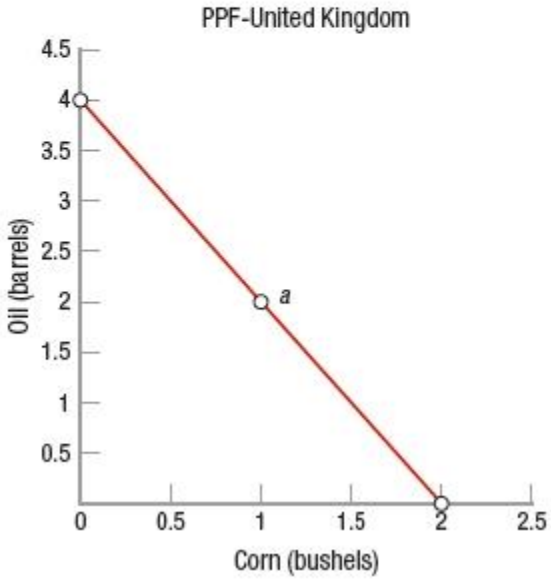
United States

Corn	Oil
50	0
0	50
25	25

United Kingdom

Corn	Oil
0	4
2	0
1	2





a. 5 bushels of corn
b. 10 bushels of corn
c. 15 bushels of corn
d. 20 bushels of corn

ANSWER: c

226. (Table) Based on the table

Canada's Production Possibilities

Tons of Steel	Airplanes
15	0
10	4
5	8
0	12

Mexico's Production Possibilities

Tons of Steel	Airplanes
6	0
4	2
2	4
0	6

a. Canada faces increasing opportunity costs.
b. Mexico faces increasing opportunity costs.

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c. both Canada and Mexico face constant opportunity costs.
d. both Canada and Mexico face increasing opportunity costs.

ANSWER: c

227. (Table) Based on the table

Canada's Production Possibilities

Tons of Steel	Airplanes
15	0
10	4
5	8
0	12

Mexico's Production Possibilities

Tons of Steel	Airplanes
6	0
4	2
2	4
0	6

a. Mexico has an absolute advantage over Canada in producing both steel and airplanes.
b. Canada has an absolute advantage over Mexico in producing both steel and airplanes.
c. Mexico has a comparative advantage in producing steel.
d. Canada has a comparative advantage in producing airplanes.

ANSWER: b

228. (Table) Based on the table

Canada's Production Possibilities

Tons of Steel	Airplanes
15	0
10	4
5	8
0	12

Mexico's Production Possibilities

Tons of Steel	Airplanes
6	0
4	2
2	4
0	6

a. Canada has a comparative advantage in producing steel.
b. Mexico has a comparative advantage in producing steel.
c. Mexico has an absolute advantage over Canada in producing both steel and airplanes.
d. Canada has a comparative advantage in producing airplanes.

ANSWER: a

229. (Table) Based on the table

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Canada's Production Possibilities

Tons of Steel	Airplanes
15	0
10	4
5	8
0	12

Mexico's Production Possibilities

Tons of Steel	Airplanes
6	0
4	2
2	4
0	6

a. Canada has a comparative advantage in producing airplanes.
b. Mexico has an absolute advantage over Canada in producing both steel and airplanes.
c. Mexico has a comparative advantage in producing airplanes.
d. Mexico has a comparative advantage in producing steel.

ANSWER: c

230. (Table) Based on the table

Canada's Production Possibilities

Tons of Steel	Airplanes
15	0
10	4
5	8
0	12

Mexico's Production Possibilities

Tons of Steel	Airplanes
6	0
4	2
2	4
0	6

a. only Mexico would gain from trade between the two countries.
b. only Canada would gain from trade between the two countries.
c. neither country would gain from trade between the two countries.
d. both countries can gain from trade.

ANSWER: d

231. (Table) From the table, assume that Canada can produce both timber and oil at an absolute advantage compared to Mexico, yet Canada is willing to trade its timber for Mexican oil. Why might Canada be willing to focus on timber and allow Mexico to produce oil?

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Canada's Production Possibilities

Tons of Steel	Airplanes
15	0
10	4
5	8
0	12

Mexico's Production Possibilities

Tons of Steel	Airplanes
6	0
4	2
2	4
0	6

a. Mexico has better trade routes north to Canada.

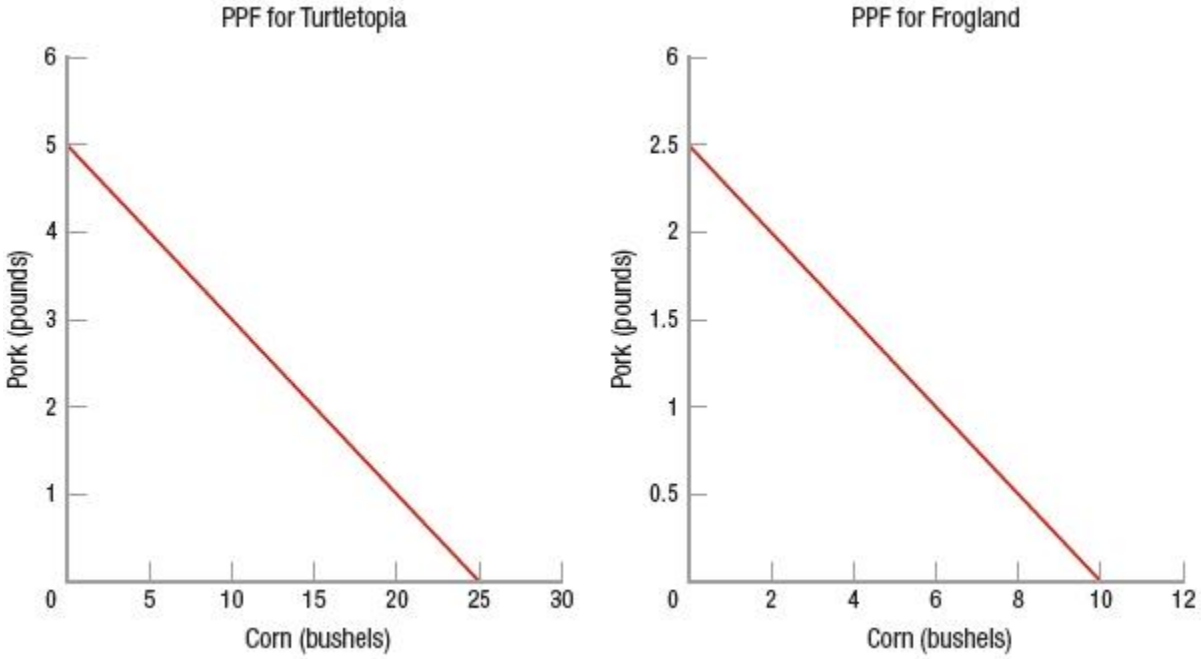
b. Canada sees this tradeoff as a form of charity.

c. Comparative advantage allows both countries to specialize in the items for which they have the lowest opportunity cost and allows for mutual benefits.

d. Canada is hoping to tax the oil heavily as it is imported.

ANSWER: c

232. (Figure: Turtletopia and Frogland PPFs) _____ has the absolute advantage for producing corn; and _____ has the absolute advantage for producing pork.



a. Turtletopia; Turtletopia

b. Frogland; Frogland

c. Turtletopia; Frogland

d. Frogland; Turtletopia

ANSWER: a

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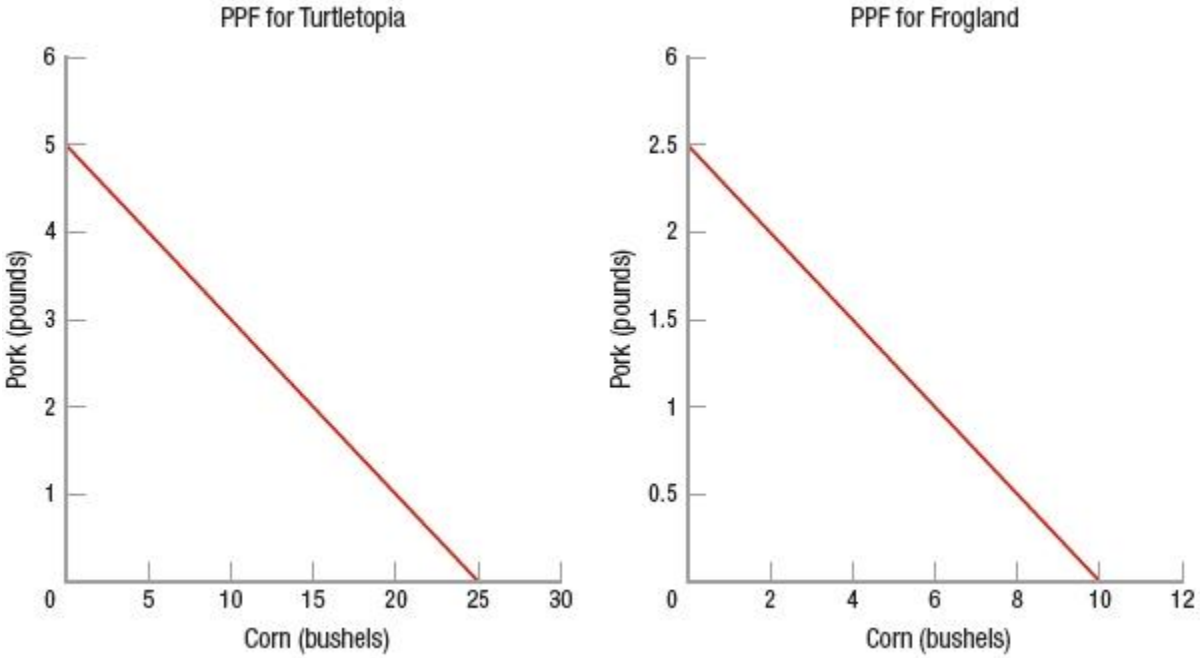
233. (Figure: Turtletopia and Frogland PPFs) _____ has the comparative advantage for producing corn; and _____ has the comparative advantage for producing pork.



a. Turtletopia; Turtletopia
b. Frogland; Frogland
c. Turtletopia; Frogland
d. Frogland; Turtletopia

ANSWER: c

234. (Figure: Turtletopia and Frogland PPFs) We see that the two countries _____ benefit from trade, and that Frogland should specialize in producing _____, while Turtletopia should specialize in producing _____.

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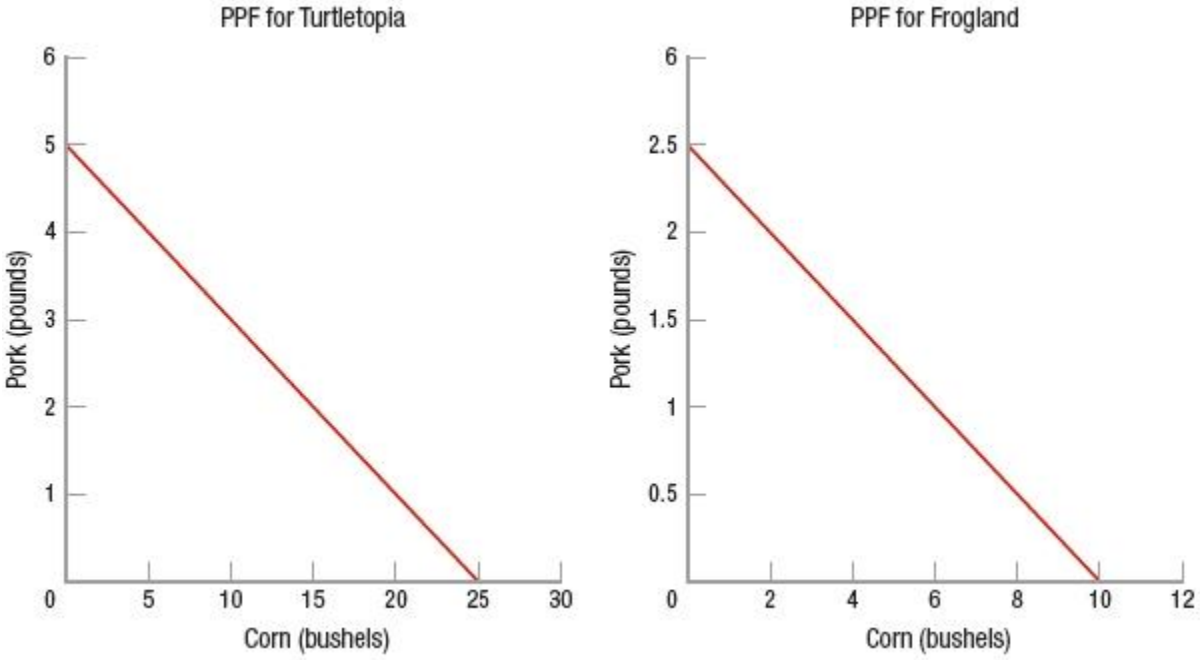

a. would not; both products for their own use; both products for their own use

b. would; neither good; both goods

c. would; corn; pork

d. would; pork; corn

ANSWER: d

235. (Table) Given the production possibilities schedules for the United States and Chile, which product should Chile produce if it is to produce the good for which it has a comparative advantage?

U.S. Production Possibilities

Bread (loaves)	Avocados (bushels)
100	0
80	10
60	20
40	30
20	40
0	50

Chile Production Possibilities

Bread (loaves)	Avocados (bushels)
15	0
12	12
9	24
6	36
3	48
0	60

a. bread

b. avocados

c. neither bread nor avocados

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d. both bread and avocados

ANSWER: b

236. (Table) Given the production possibilities schedules for the United States and Chile, which product should the United States produce if it is to produce the good for which it has a comparative advantage?

U.S. Production Possibilities

Bread (loaves)	Avocados (bushels)
100	0
80	10
60	20
40	30
20	40
0	50

Chile Production Possibilities

Bread (loaves)	Avocados (bushels)
15	0
12	12
9	24
6	36
3	48
0	60

a. bread

b. avocados

c. neither bread nor avocados

d. both bread and avocados

ANSWER: a

237. (Table) Allow the United States to produce at point *C* and Chile to produce at point *K* on the production possibilities schedules. Now, let the United States trade away 6 loaves of bread in return for 20 bushels of avocados. Which statement is TRUE?

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U.S. Production Possibilities

Bread (loaves)	Avocados (bushels)
100	0
80	10
60	20
40	30
20	40
0	50

Chile Production Possibilities

Bread (loaves)	Avocados (bushels)
15	0
12	12
9	24
6	36
3	48
0	60

a. Both countries are better off from this trade because they both consume outside their production possibilities frontier (PPF).
b. Both countries are better off from this trade because they both produce outside their PPF.
c. Only the United States is better off from this trade.
d. Only Chile is better off from this trade.

ANSWER: a

238. Suppose the United States must give up the production of 1 gallon of paint to produce one pair of shoes. Mexico must give up 2 gallons of paint to produce one pair of shoes. According to the principle of comparative advantage

a. there are no benefits to specialization and trade.
b. Mexico should specialize in producing paint, and the United States should specialize in producing shoes.
c. Mexico should specialize in producing shoes, and the United States should specialize in producing paint.
d. the United States should produce both goods because it has an absolute advantage in both products.

ANSWER: b

239. (Figure: Wheat and Autos in the United States and South Korea) According to the graph, for every extra

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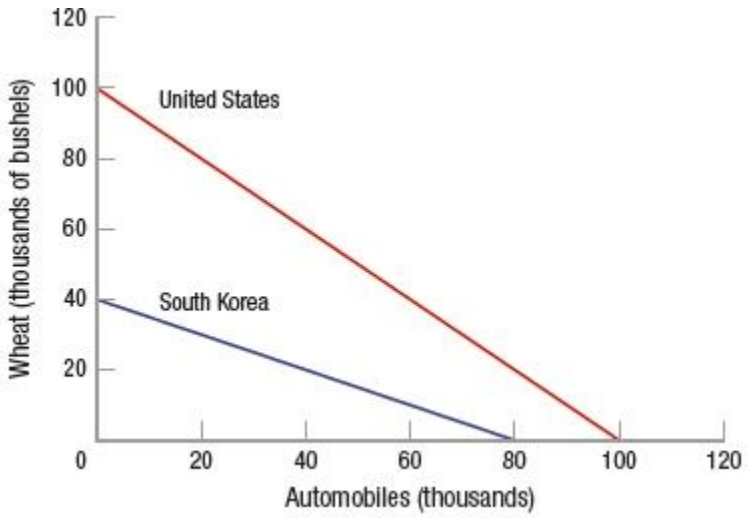
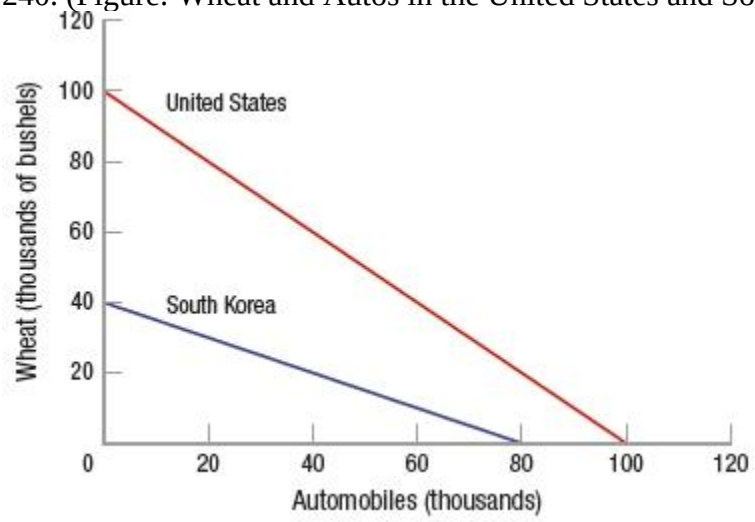


a. bushel of wheat the United States wants to produce, it must give up 100 automobiles.
b. automobile South Korea wants to produce, it must give up 40,000 bushels of wheat.
c. automobile the United States wants to produce, it must give up 100 bushels of wheat.
d. automobile South Korea wants to produce, it must give up half a bushel of wheat.

ANSWER: d

240. (Figure: Wheat and Autos in the United States and South Korea) According to the graph



a. the United States should import automobiles and export wheat.
b. the United States should produce both products because it has an absolute advantage in both.
c. the United States should export automobiles and import wheat.
d. South Korea should produce neither product because it does not possess an absolute advantage in either.

ANSWER: a

241. (Figure: Biscuits and Cookies PPFs) Looking at Greg and Melissa's production possibilities frontiers (PPFs), what production and trade situation would allow *both* Greg and Melissa to consume a combination of biscuits and cookies outside their PPF?

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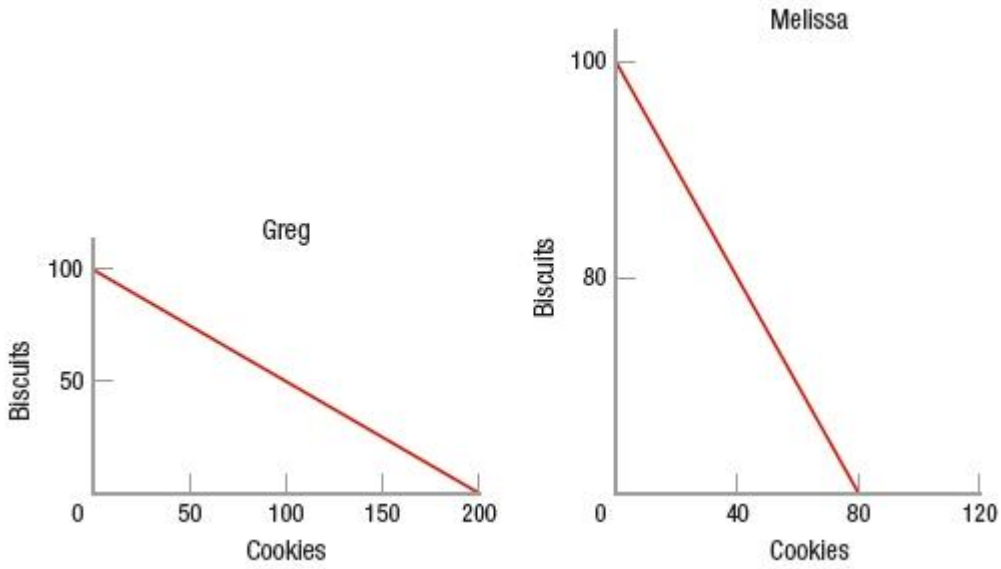


a. Greg produces 200 cookies, Melissa produces 160 biscuits, and Greg trades 100 cookies in exchange for 30 biscuits.

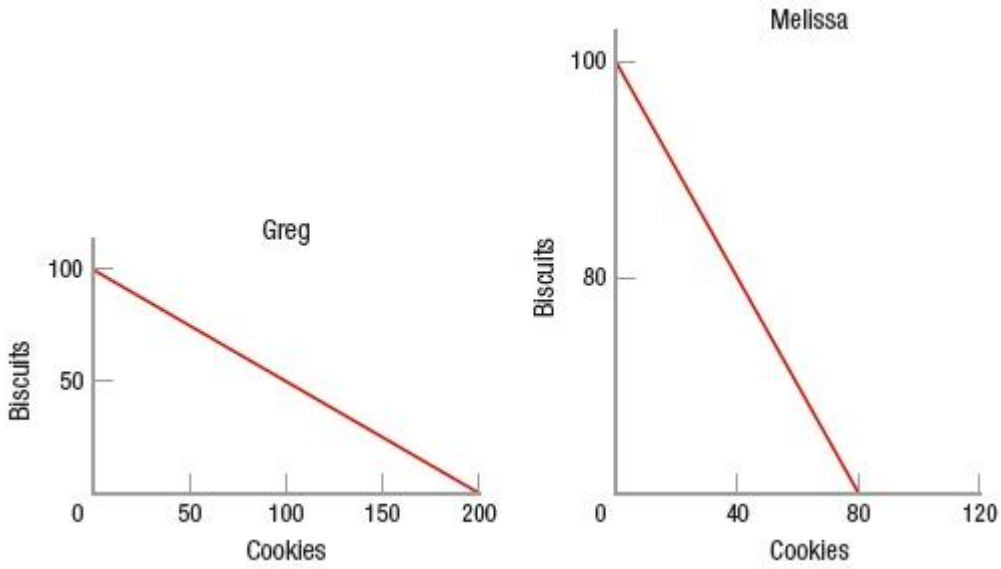
b. Greg produces 200 cookies, Melissa produces 160 biscuits, and Greg trades 100 cookies in exchange for 60 biscuits.

c. Greg produces 100 biscuits, Melissa produces 80 cookies, and Greg trades 50 biscuits in exchange for 40 cookies.

d. Greg produces 100 biscuits, Melissa produces 80 cookies, and Greg trades 50 biscuits in exchange for 70 cookies.

ANSWER: b

242. (Figure: Biscuits and Cookies PPFs) Greg and Melissa face the production possibilities frontiers shown for biscuits and cookies. When Greg completely specializes in producing the good he has a comparative advantage in, he produces



a. 100 biscuits and 200 cookies.

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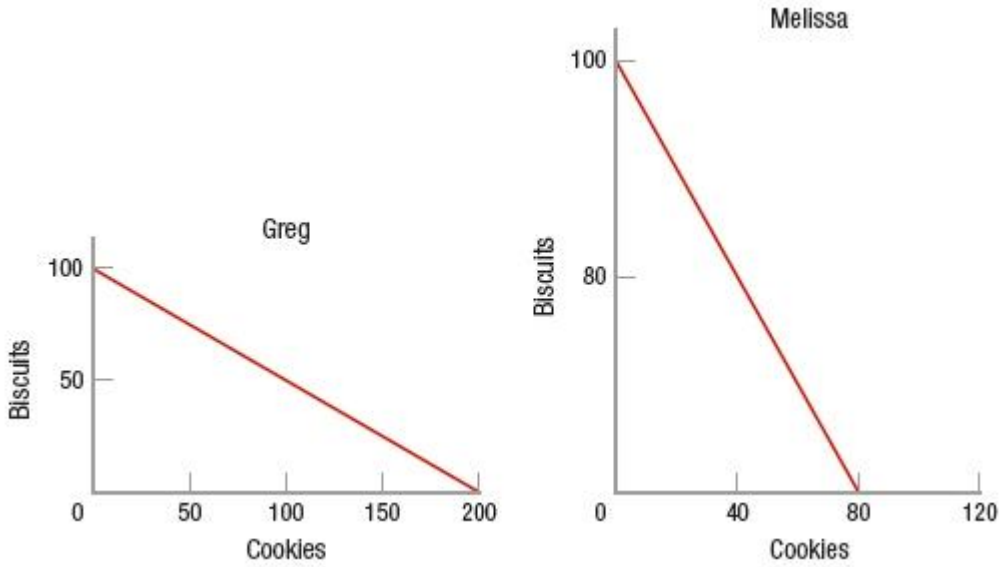
b. 0 biscuits and 200 cookies.
c. 50 biscuits and 100 cookies.
d. 100 biscuits and 0 cookies.

ANSWER: b

243. (Figure: Biscuits and Cookies PPFs) Greg and Melissa face the production possibilities frontiers shown for biscuits and cookies. When Melissa completely specializes in producing the good she has a comparative advantage in, she produces



a. 160 biscuits and 80 cookies.
b. 0 biscuits and 80 cookies.
c. 80 biscuits and 40 cookies.
d. 160 biscuits and 0 cookies

ANSWER: d

244. (Figure: Biscuit and Cookies PPFs) Greg and Melissa face the production possibilities frontiers shown for biscuits and cookies. Assume that Greg and Melissa trade 60 biscuits for 60 cookies after they have completely specialized in producing the good in which they have a comparative advantage. We know that Greg and Melissa are each made better off with specialization and trade than acting alone because _____ production possibilities frontier.

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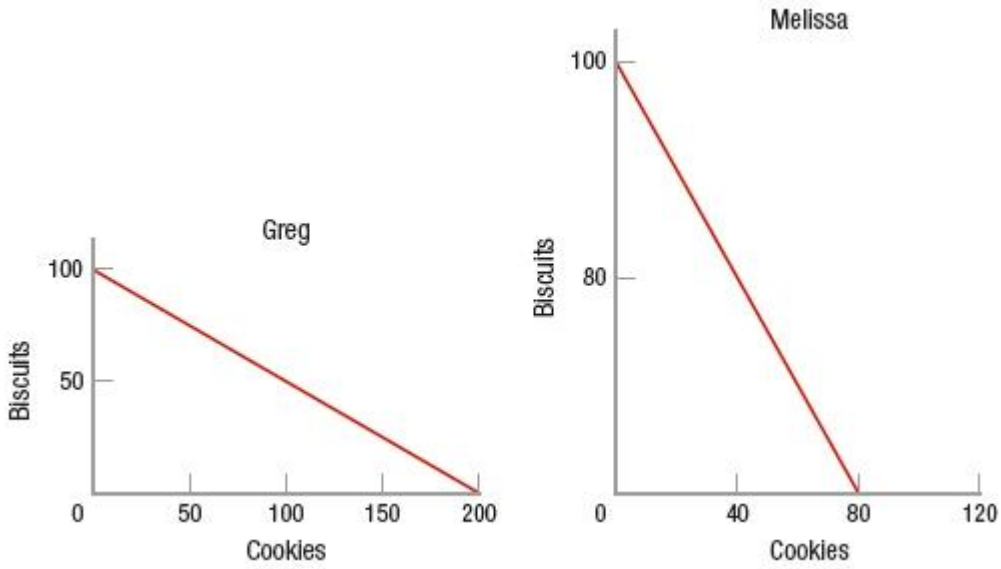

a. they are both producing outside of their
b. they are both consuming outside of their
c. Greg is producing outside of his
d. Melissa is producing outside of her

ANSWER: b

245. The key benefit of countries engaging in trade based on comparative advantage is that
a. both countries will be able to consume more than they would with no trade.
b. it allows countries to produce efficiently inside of their individual production possibilities frontiers.
c. it allows both countries to maximize their opportunity cost.
d. None of these is a key benefit.

ANSWER: a

246. According to the law of comparative advantage, when one country sells goods for which it has the comparative advantage in production and buys goods for which it does not have the comparative advantage in production
a. total output will fall.
b. buyers of goods will win and sellers of goods will lose.
c. total output to each person can be expanded.
d. sellers of goods will win and buyers of goods will lose.

ANSWER: c

247. If a country wants to maximize its GDP, it should always
a. export goods in which it has an absolute advantage.
b. import goods in which it has an absolute advantage.
c. export goods in which it has a comparative advantage.
d. import goods in which it has a comparative advantage.

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ANSWER: c

248. Trade can be beneficial to society as a whole because it allows
a. for a more efficient use of resources.
b. for goods to be obtained at a lower opportunity cost.
c. people to specialize in activities in which they have a comparative advantage.
d. All of these make trade beneficial to society as a whole.

ANSWER: d

249. When two countries gain from trade
a. one country must have an absolute advantage over the other in producing all goods.
b. both countries can consume beyond their domestic production possibilities frontiers.
c. one country must have a comparative advantage over the other in producing all goods.
d. both countries must be equal in size.

ANSWER: b

250. Which of these does NOT impose a limit on the amount of international trade?
a. transportation costs
b. some industries losing their domestic markets
c. the danger of overreliance on a small number of products for exports
d. high level of comparative advantage

ANSWER: d

251. One of the major limits to trade is
a. transaction costs.
b. comparative advantage.
c. opportunity costs.
d. absolute advantage.

ANSWER: a

252. The practical constraints on trade include all of these EXCEPT
a. every international transaction involves costs.
b. production possibilities frontiers for nations are linear.
c. production possibilities frontiers exhibit increasing costs and diminishing returns.
d. some industries and individuals in a country may be hurt by an expansion of trade.

ANSWER: b

253. The limits on international trade include all of these EXCEPT
a. transportation and communication costs.
b. increasing opportunity costs and diminishing returns.
c. decreasing opportunity costs and increasing returns.

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d. Trade may hurt some industries and individuals within each country.

ANSWER: c

254. What is a risk involved in complete specialization?

a. Economic growth fosters poor moral standards.
b. Specialization in agricultural products can lead to devastation due to rapid fluctuations in the weather.
c. Educational opportunities may be narrowed.
d. Living standards may decrease.

ANSWER: b

255. _____ is among the top five U.S. exports to China.

a. Furniture
b. Toys
c. Soybeans
d. Accounting services

ANSWER: c

256. _____ is one of China's top five exports to the United States.

a. Furniture
b. Cars
c. Soybeans
d. Accounting services

ANSWER: a

257. (Table) According to the data in the table, who has an absolute advantage in the production of shirts?

	Hours to Produce a Shirt	Hours to Produce a Cake
Tom	5	3
Joe	6	4

a. Tom, because he can produce more shirts in a week than Joe can
b. Joe, because he can produce more shirts in a week than Tom can
c. Tom, because he cannot produce as many shirts as Joe can
d. Joe, because he cannot produce as many shirts as Tom can

ANSWER: a

258. (Table) According to the data in the table, which statement explains who has a comparative advantage in the production of shirts?

	Hours to Produce a Shirt	Hours to Produce a Cake
Tom	5	3
Joe	6	4

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a. Tom, because he can produce a shirt in fewer hours than Joe can
b. Joe, because he uses more hours than Tom to produce a shirt
c. Tom, because he gives up production of 1.67 cakes for every shirt he produces
d. Joe, because he gives up production of 1.5 cakes for every shirt he produces

ANSWER: d

259. (Table) Looking at the data for Tom and Joe, what specialization pattern will exist if trade is based on comparative advantage?

	Hours to Produce a Shirt	Hours to Produce a Cake
Tom	5	3
Joe	6	4

a. Tom will specialize in shirts, and Joe will specialize in cakes.
b. Tom will specialize in cakes, and Joe will specialize in shirts.
c. Tom will specialize in both cakes and shirts.
d. Joe will specialize in both cakes and shirts.

ANSWER: b

260. Can a country have a comparative advantage in producing a good without also having an absolute advantage in producing that good?

a. No, it can't because comparative advantage grows out of absolute advantage.
b. No, it can't because they are different terms for the same concept.
c. Yes, it can because comparative advantage is based upon being able to produce more and absolute advantage is not.
d. Yes, it can because each type of advantage has a different basis.

ANSWER: d

261. Imagine two countries with identical endowments of resources. Using all its resources, Broland can produce 5,000 books or 8,000 forks. Using the same resources, Nomia can produce 4,000 books or 7,000 forks. Which country has a comparative advantage producing books?

a. Broland, because it gives up 0.63 fork for each book produced
b. Nomia, because it gives up 0.57 fork for each book produced
c. Broland, because it gives up 1.6 forks for each book produced
d. Nomia, because it gives up 1.75 forks for each book produced

ANSWER: c

262. Imagine two countries with identical endowments of resources. Using all its resources, Broland can produce 5,000 books or 8,000 forks. Using the same resources, Nomia could produce 4,000 books or 7,000 forks. Which country has a comparative advantage producing forks?

a. Broland, because it gives up 0.63 book for each fork produced
b. Nomia, because it gives up 0.57 book for each fork produced
c. Broland, because it gives up 1.6 books for each fork produced

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d. Nomia, because it gives up 1.75 books for each fork produced

ANSWER: b

263. Assume that Australia has a comparative advantage over France in the production of pencils, and that France has a comparative advantage over Australia in the production of haircuts. What is a practical reason why Australia and France might NOT trade?

a. The high transportation costs for travel between the countries might discourage trade in haircuts.
b. Given current communication technologies, it is unlikely that people in one country could learn of the hairstyles available in the other country.
c. Pencils are very fragile and are likely to be damaged during shipment.
d. Australian pencil makers might resist the import of pencils into Australia even though comparative advantage indicates Australia should import pencils.

ANSWER: a

264. “How goods and services are advertised” is one of the three basic economic questions that each society must answer.

a. True
b. False

ANSWER: b

265. The "what" question of the three basic questions is "What price should be charged for a good?"

a. True
b. False

ANSWER: b

266. Distribution refers to the way an economy allocates to consumers the goods and services it produces.

a. True
b. False

ANSWER: a

267. In a capitalist society, consumers signal what products they want by their demands.

a. True
b. False

ANSWER: a

268. Another term for "market economy" is "capitalist economy."

a. True
b. False

ANSWER: a

269. Only capitalist economies must answer the three basic economic questions.

a. True

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b. False

ANSWER: b

270. Natural resources, such as water, are included in capital resources.

a. True

b. False

ANSWER: b

271. As used by economists, the term "capital" includes the human talent one is born with.

a. True

b. False

ANSWER: b

272. Economists include mineral deposits, oil, natural gas, and water in their definition of land.

a. True

b. False

ANSWER: a

273. Natural resources in the production process are called land, and their payment is called interest.

a. True

b. False

ANSWER: b

274. Labor as a factor of production includes the mental but not physical talents of people.

a. True

b. False

ANSWER: b

275. Capital, as a factor of production, includes all manufactured products that are used to produce other goods.

a. True

b. False

ANSWER: a

276. Entrepreneurs combine land, labor, and capital to produce goods and services.

a. True

b. False

ANSWER: a

277. In economics, "capital" refers to a company's money resources.

a. True

b. False

ANSWER: b

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278. Capital refers to the total amount of money in hedge and "venture capital" funds.
a. True
b. False
ANSWER: b

279. Water is included in the definition of land.
a. True
b. False
ANSWER: a

280. Allocative efficiency ensures that the goods and services demanded by society are produced.
a. True
b. False
ANSWER: a

281. If a firm produces its mix of output at the lowest possible cost, it is said to have achieved production efficiency.
a. True
b. False
ANSWER: a

282. Production efficiency is defined as producing the mix of goods and services most desired by society.
a. True
b. False
ANSWER: b

283. When the mix of goods and services produced is the mix most desired by society, the result is called allocative efficiency.
a. True
b. False
ANSWER: a

284. The production possibilities frontier graphically represents the combinations of two goods that are possible for a society to produce at full employment.
a. True
b. False
ANSWER: a

285. The production possibilities frontier shows the combinations of output that are both attainable and unattainable.
a. True
b. False

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ANSWER: b

286. An increase in the unemployment rate will shift the production possibilities frontier to the right.
a. True
b. False
ANSWER: b

287. Any point inside the production possibilities frontier represents an output combination produced at full employment.
a. True
b. False
ANSWER: b

288. All output combinations on the production possibilities frontier are attainable.
a. True
b. False
ANSWER: a

289. Opportunity cost applies only to personal purchasing decisions.
a. True
b. False
ANSWER: b

290. An example of the application of opportunity cost occurs when a government makes the choice between health care spending and military spending.
a. True
b. False
ANSWER: a

291. Employing resources that are not as well suited to making a particular product decreases the opportunity cost of producing that product as opposed to other products.
a. True
b. False
ANSWER: b

292. A production possibilities frontier will have a curved, or "bowed out," shape if opportunity costs are increasing.
a. True
b. False
ANSWER: a

293. (Figure: Tanks and Health Care) At point *f*, in order to produce more tanks, society must give up a certain amount of health care services.

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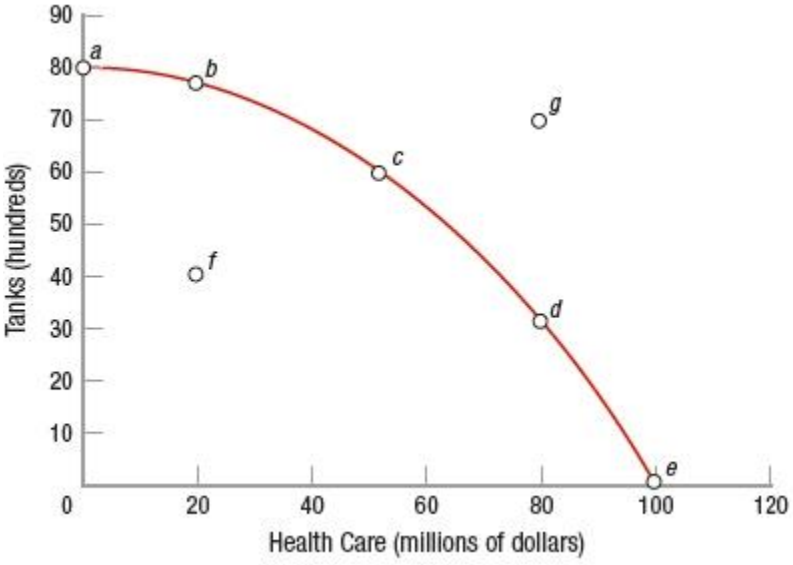
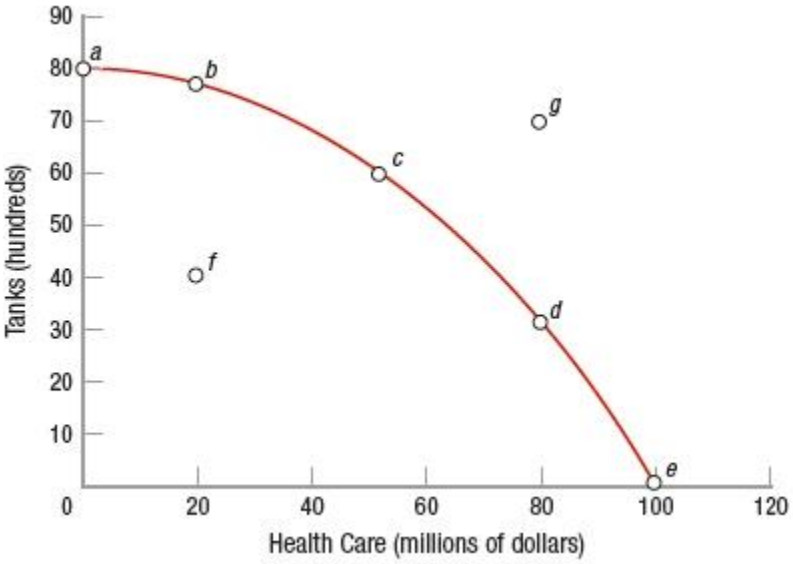


a. True

b. False

ANSWER: b

294. (Figure: Tanks and Health Care) The tradeoff in moving from point *a* to point *c* is represented by a gain of $50 million in health care services and a loss of 2,000 tanks.



a. True

b. False

ANSWER: a

295. (Figure: Tanks and Health Care) The opportunity cost of moving from point *c* to point *b* is about $50 million in health care services.

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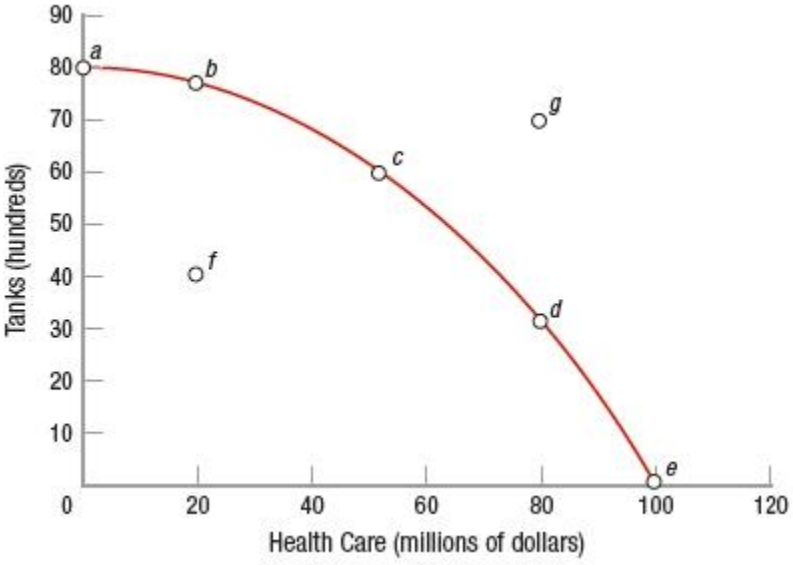


a. True

b. False

ANSWER: b

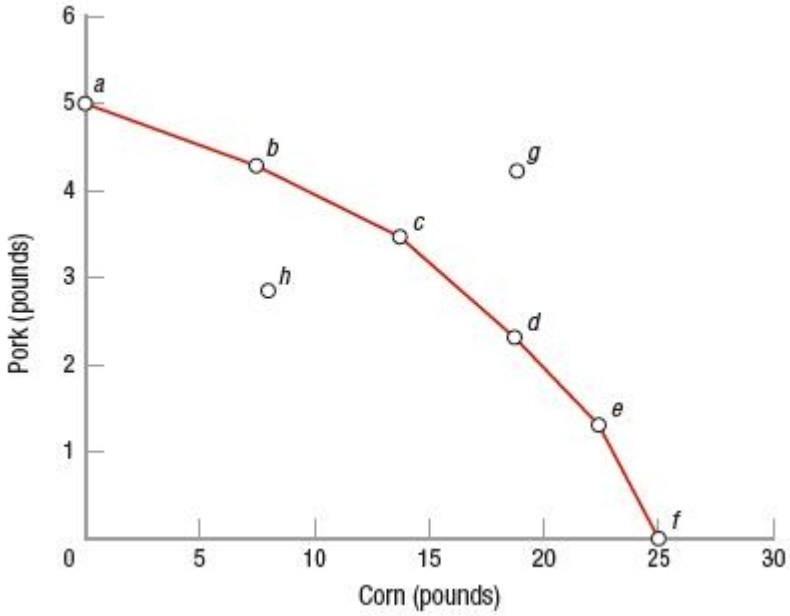
296. As it relates to the production possibilities frontier, an increase in technology for one good while holding all else constant will cause a complete outward shift of the production possibilities frontier.

a. True

b. False

ANSWER: b

297. (Figure: Pork and Corn PPF) It is possible to produce 15 units of corn and 4 units of pork at the same time.



a. True

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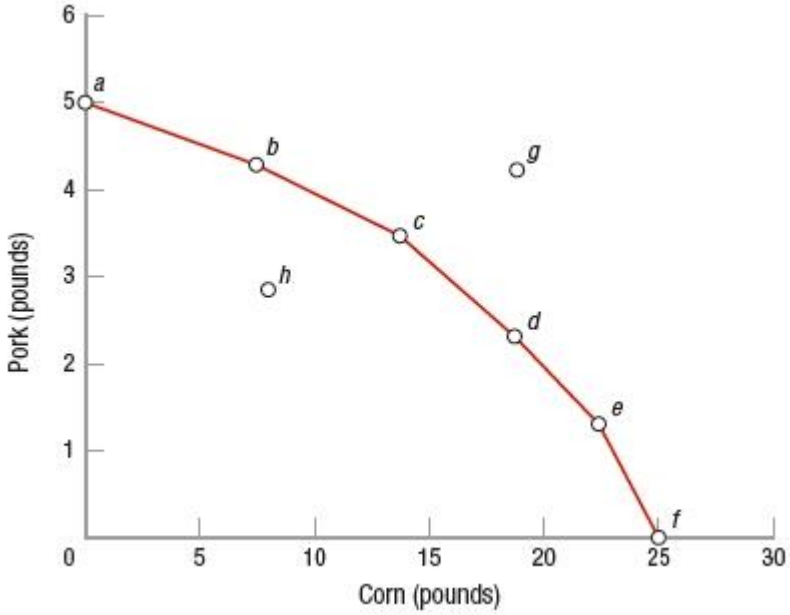
b. False

ANSWER: b

298. (Figure: Pork and Corn PPF) Economists can unequivocally tell which point of production is ideal.



a. True

b. False

ANSWER: b

299. The production possibilities frontier is bowed outward as a result of increasing costs.

a. True

b. False

ANSWER: a

300. The choice to attend a free college lecture involves no opportunity cost.

a. True

b. False

ANSWER: b

301. There is no opportunity cost involved when the government decides to cut federal taxes.

a. True

b. False

ANSWER: b

302. The idea that resources are specialized is the reason for increasing opportunity costs.

a. True

b. False

ANSWER: a

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303. Immigration, both legal and illegal, is a component of U.S. economic growth.
a. True
b. False
ANSWER: a

304. A nation that consumes most of what it produces will have a lower growth rate than another nation that focuses more on the production of capital goods.
a. True
b. False
ANSWER: a

305. If a society's production possibilities frontier shifts to the right, the society's standard of living will likely increase.
a. True
b. False
ANSWER: a

306. Labor and entrepreneurial ability are the principal resources that can be changed through government action.
a. True
b. False
ANSWER: b

307. Technological improvements in one industry never allow other industries to increase their production with existing resources.
a. True
b. False
ANSWER: b

308. Adam Smith is credited with being the first to define the concept of comparative advantage.
a. True
b. False
ANSWER: b

309. Free trade is known as a positive-sum game because both parties to a transaction can receive positive gains.
a. True
b. False
ANSWER: a

310. A country has to be able to produce both goods at a faster rate in order to have an absolute advantage.
a. True

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b. False

ANSWER: b

311. "Absolute advantage" is defined as when goods and services are produced at their lowest resource (opportunity) cost.

a. True

b. False

ANSWER: b

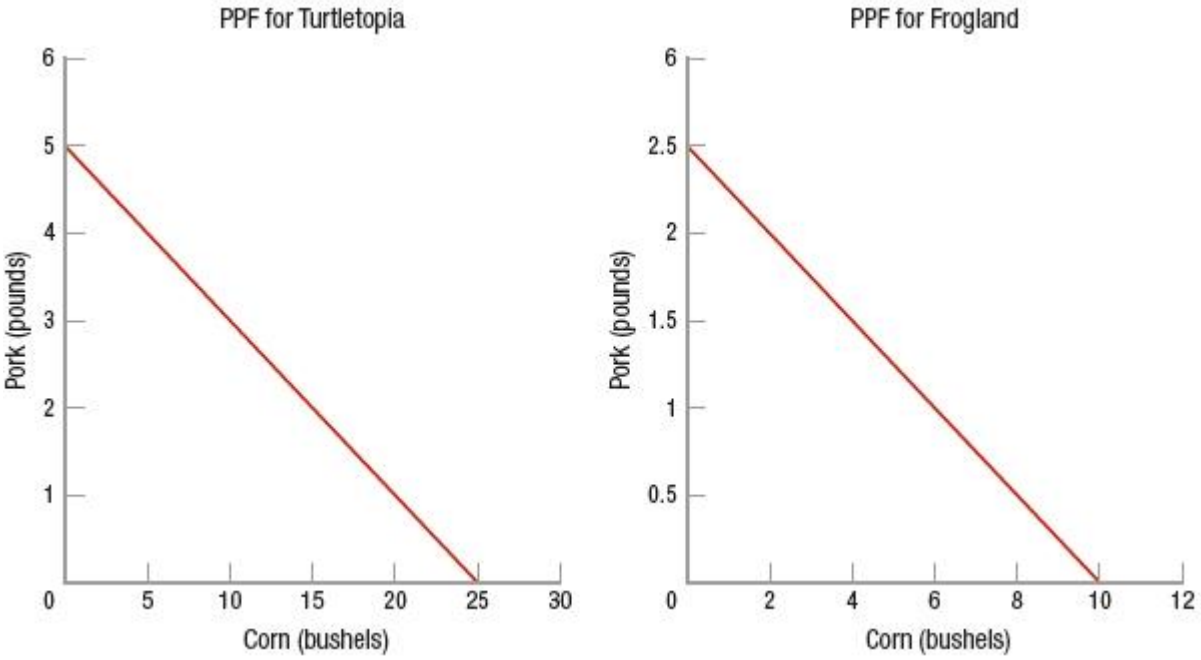
312. If one country has an absolute advantage over another country in producing all goods, the countries will not gain from trading.

a. True

b. False

ANSWER: b

313. (Figure: Turtletopia and Frogland PPFs) Turtletopia has the absolute advantage in producing both corn and pork.



a. True

b. False

ANSWER: a

314. A country is said to have an absolute advantage if it can produce more of a good than another country can.

a. True

b. False

ANSWER: a

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315. One country has a comparative advantage in producing a good if its opportunity cost to produce that good is lower than that of another country.

a. True

b. False

ANSWER: a

316. A country should always produce the items in which it has an absolute advantage.

a. True

b. False

ANSWER: b

317. If there are two goods and two countries, then one country can have both an absolute and a comparative advantage in both goods.

a. True

b. False

ANSWER: b

318. If countries specialized and then traded, world production would increase.

a. True

b. False

ANSWER: a

319. Comparative advantage stems from differences in the relative costs of producing goods and services.

a. True

b. False

ANSWER: a

320. If the United States has a comparative advantage over France in producing corn, the opportunity cost of the United States producing corn is lower than France's opportunity cost of producing corn.

a. True

b. False

ANSWER: a

321. If the United States has absolute advantages in producing wheat and automobiles, it should never trade with other countries that produce wheat and automobiles.

a. True

b. False

ANSWER: b

322. Every industry in all countries benefit from increased international trade.

a. True

b. False

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ANSWER: b

323. The effects of past trade agreements between the United States, Mexico, and Canada have proven that opening up to free trade will hurt domestic workers in every industry in the United States.

a. True

b. False

ANSWER: b

324. Free trade and the law of comparative advantage increase the standard of living for each person in a country.

a. True

b. False

ANSWER: b

325. If two countries can benefit by trading with each other, no industries in either country may suffer.

a. True

b. False

ANSWER: b

326. Industries at a comparative disadvantage may find it necessary to decrease their workforce.

a. True

b. False

ANSWER: a

327. Much of the economic growth we have seen over the past century has been due to population growth.

a. True

b. False

ANSWER: b

328. The United States imports more electrical goods from China than it exports to China.

a. True

b. False

ANSWER: a

329. Describe the three basic questions that must be answered for any economy, and provide explanations for each question for both capitalist and more government-controlled economies.

ANSWER: *The three basic economic questions that each society must answer are (1) What goods and services are to be produced? (2) How are the goods and services to be produced? and (3) Who will receive the goods and services? The response an economy makes to the first question—what to produce—depends on the goods and services a society wants. In a communist state, the government decides what a society wants, but in a capitalist economy, consumers are allowed to signal what products they want by way of their demands for specific commodities. Once an economy knows the goods a society wants, the next question the economic system must answer is how the goods and services are*

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to be produced. In the end, this problem comes down to the simple question of how labor, capital, and land should be combined to produce the desired products. Once an economy has determined what goods and services to produce and how to produce them, it is faced with the distribution question: Who will get the resulting products? Distribution refers to the way an economy allocates the goods and services it produces to consumers. In a capitalist economy, most products are distributed through private markets. In a socialist economy, many goods are produced in state-owned facilities. Theoretically, governments in socialist economies use tax monies to subsidize producers, while governments in capitalist economies leave producers free to survive or perish on the basis of their efficiency and the quality of their products.

330. Explain how a free-market economy decides what to produce.

ANSWER: A free-market economy is both consumer driven and profit driven. In other words, producers see what goods and services buyers wish to purchase. If there is a strong demand for a particular product, then sellers will see an opportunity and try to fill the demand.

331. Briefly describe the four types of resources used in production.

ANSWER: The four resources are land, labor, capital, and entrepreneurial ability. "Land" is a broad term that includes natural resources—in other words, it includes factor or gifts of nature below, on, and above the land. Human resources are called labor, while human-made resources such as tools and machinery are called capital. The ability to combine and manage these resources is called entrepreneurial ability.

332. In a movie theater, what product is produced? Give an example of capital used in the production process.

ANSWER: A product that is produced is entertainment or the showing of movies. An example of capital used is the projector, building, film reels, chairs, and so forth.

333. Suppose you are a restaurant owner. What is your output? What resources do you need and how would you classify them under the four categories?

ANSWER: Students may offer various answers for output, from prepared meals to satisfied diners. The food itself comes from land, since it is produced by nature. The work provided by the staff is labor. Capital would include things such as the stove and refrigerator. The knowledge of the chef in how to prepare the meals would be human capital. The owner, who is ultimately responsible for the smooth running of the restaurant, is the entrepreneur.

334. Compare and contrast the two types of capital discussed in the chapter. When economists refer to capital, which type do they mean?

ANSWER: Capital includes all manufactured products that are used to produce other goods and services—equipment such as drill presses, blast furnaces for making steel, and other tools used in the production process. It also includes trucks and automobiles used by businesses as well as office equipment, such as copiers, computers, and telephones. Any manufactured product that is used to produce other products is included in the category of capital. Note that the term "capital" as used by economists refers to real capital—actual manufactured products used in the production process—not money or financial capital. Money and financial capital are important in that they are used to purchase the real capital that is used to create products.

335. Describe the role entrepreneurs play in a capitalistic economy.

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ANSWER: Entrepreneurs combine land, labor, and capital to produce goods and services and assume the risks associated with running the business. Entrepreneurs combine and manage the inputs of production and manage the day-to-day marketing, finance, and production decisions.

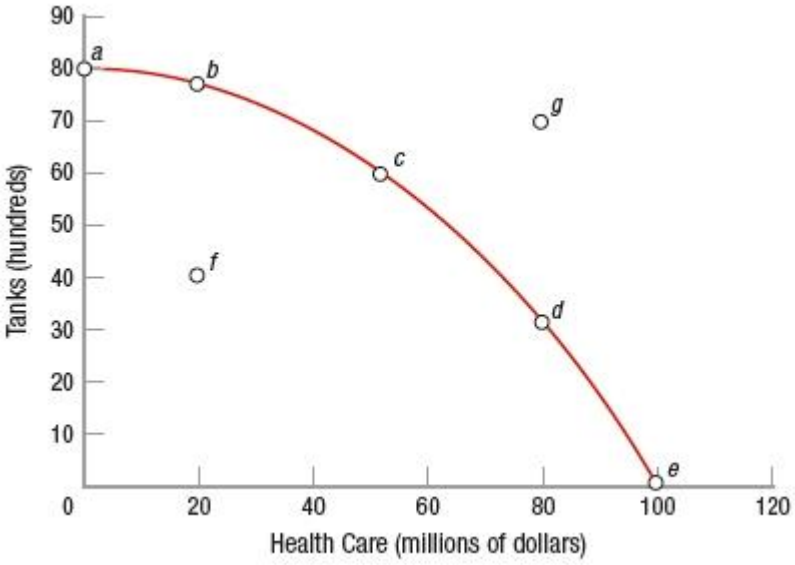
336. Can a productively efficient economy be allocatively inefficient? Explain.

ANSWER: Yes, a productively efficient economy can be allocatively inefficient if it produces goods and services that consumers do not want.

337. Explain the differences between production and allocative efficiency.

ANSWER: Production efficiency occurs when the mix of goods and services society produces is produced at the lowest possible resource or opportunity cost. Furthermore, production efficiency occurs when as much output as possible is produced with a given amount of resources. Firms use the best technology available and combine the other resources to produce products at the lowest cost to society. Allocative efficiency occurs when the mix of goods and services produced are the most desired by society. In capitalist countries, this is determined by consumers and businesses and their interaction through markets. Hence, production efficiency focuses on lowest costs, and allocative efficiency focuses on the best mix of goods and services.

338. (Figure: Tanks and Health Care) Refer to the graph and table and calculate the opportunity costs of moving from points *a* to *b*, *b* to *c*, and *c* to *d*.



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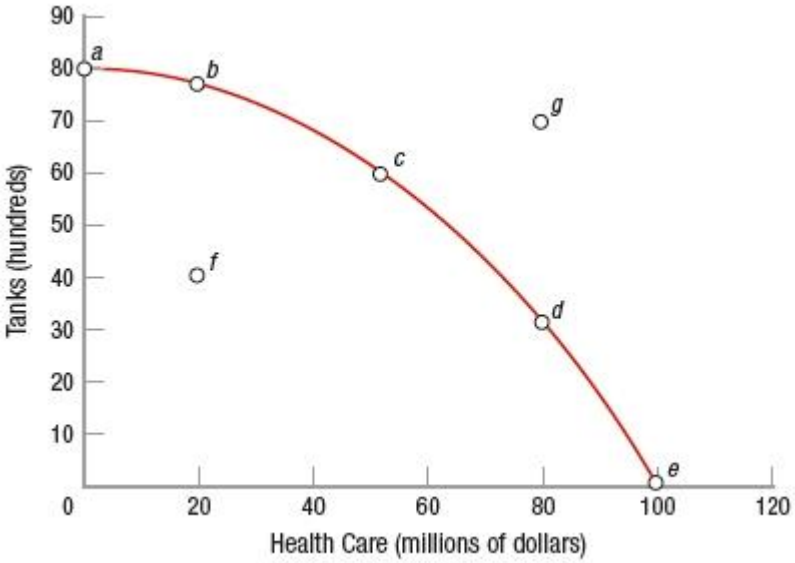
Point	Health Care (millions of dollars)	Tank (hundreds of dollars)
a	0	80
b	20	75
c	50	60
d	80	30
e	100	0
f	20	40
g	80	70

ANSWER: Moving from a *to* b *results in giving up 500 tanks (80 to 75) to get $20 million (0 to 20) more in health care (or 100 tanks for $4 million in health care, or 1 tank for $40,000). Moving from* b *to* c *results in giving up 1,500 tanks (75 to 60) to get $30 million (20 to 50) more in health care (or 100 tanks for $2 million in health care, or 1 tank for $20,000 in health care). Moving from* c *to* d *results in giving up 3,000 tanks (60 to 30) to get $30 million (50 to 80) more in health care (or 100 tanks for $1 million in health care, or 1 tank for $10,000).*

339. (Figure: Tanks and Health Care) Which points in the graph and table are considered attainable and why?



Point	Health Care (millions of dollars)	Tank (hundreds of dollars)
a	0	80
b	20	75
c	50	60
d	80	30
e	100	0
f	20	40
g	80	70

ANSWER: All points on the production possibilities frontier (PPF) curve (points a, b, c, d, e*) are considered*

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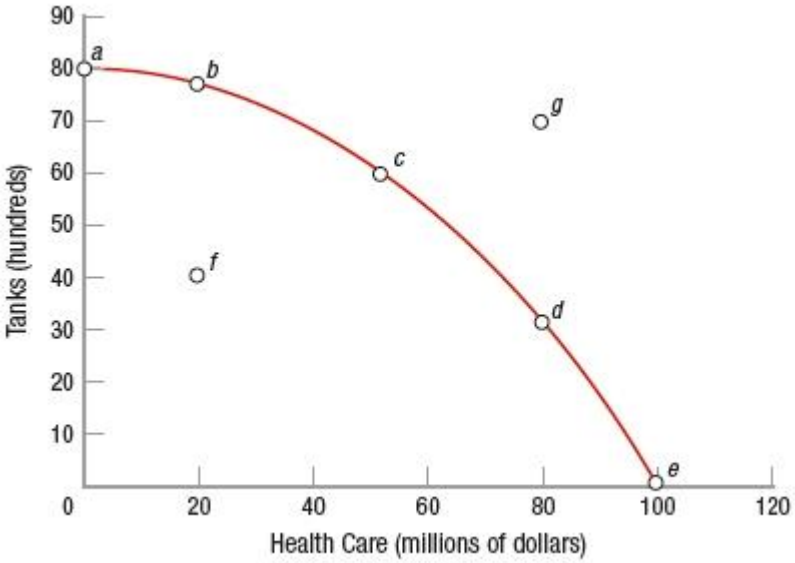
attainable by our economy. Everything to the left of the PPF curve (point f*) is also attainable but is an inefficient use of resources—the economy can always do better. Everything to the right of the curve (point* g*) is considered unattainable. Therefore, the PPF maps out the economy's limits; it is impossible for the economy to produce at levels beyond the PPF.*

340. (Figure: Tanks and Health Care) Why is the "bowed out" curve shown in the figure a more realistic depiction of the production possibilities frontier (PPF) than a straight line?



Point	Health Care (millions of dollars)	Tank (hundreds of dollars)
a	0	80
b	20	75
c	50	60
d	80	30
e	100	0
f	20	40
g	80	70

ANSWER: This PPF curve is bowed out from the origin, since opportunity costs rise as more factors are used to produce increasing quantities of one product. To describe what has happened in plain terms, when the economy was producing 8,000 tanks, all of its resources went into tank production. The members of the labor force who are doctors and nurses were probably not well suited to producing tanks. As the economy decreased its production of tanks to start producing health care services, the opportunity cost of health care services was low, since the resources first shifted, including workers, were likely to be the ones most suited to health services and least suited to tank manufacture. Eventually, however, as health care services became the dominant product, providing more health care required shifting tank-manufacturing workers to the health care industry. Employing these less-suitable resources drives up the opportunity costs of health care.

341. Describe how expansion of resources and technological improvements can cause economic growth.

ANSWER: The expansion of resources allows producers to increase their production of all goods and services

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in an economy. Specific technological improvements, however, often affect only one industry directly. The development of a new color printing process, for instance, will directly affect only the printing industry. Nevertheless, the ripples from technological improvements can spread throughout an entire economy, just like ripples in a pond. Specifically, improvements in technology can lead to new products, improved goods and services, and increased productivity.

342. Describe how technological improvements in communication lead to increased growth in other industries without additional resources.

ANSWER: Sometimes technological improvements in one industry allow other industries to increase their production with existing resources: Producers can produce more output without using added labor or other resources. Alternatively, they can get the same production levels as before while using fewer resources than before, freeing resources in the economy for use in other industries. Better communication with the use of cell phones or the Internet, for example, allows insurance agents to file claims instantly from disaster sites, and deals to be closed while one is stuck in traffic; and communications in general have been revolutionized. Thus, this new technology has ultimately expanded time, the most finite of our resources. The Internet has profoundly changed how many products are bought, sold, and delivered, and it has expanded communications and the flow of information.

343. Explain one strategy that a government can follow to promote economic growth.

ANSWER: Increasing business investment (physical capital), increasing average education levels (human capital), increasing research and development, reducing both the level and variability of inflation, reducing the tax burden, increasing the level of international trade.

344. What can governments do to increase economic growth?

ANSWER: Greater investment by business (physical capital), higher levels of education (human capital), higher levels of research and development, lower inflation rates, reduced tax burdens, and greater levels of international trade all result in higher standards of living (per capita GDP). Trying to discover why some countries grow and others do not is a complex undertaking that has occupied economists for several centuries. A country can also achieve greater economic growth and raise its standard of living by expanding trade with other countries.

345. There is much debate regarding immigration into the United States. Using a production possibilities frontier graph, show what would happen if all immigration were halted.

ANSWER: Resources can be used to produce either consumption goods (goods that will be used up in a short period of time) or capital (goods that are used to produce other goods). If resources are used to build factories and other forms of capital, then more could be produced in the future. However, the opportunity cost of building future production capabilities is current consumption goods.

346. Compare and contrast absolute and comparative advantages.

ANSWER: An absolute advantage exists when one country can produce more of a good than can another country. One country has a comparative advantage in producing a good if its opportunity cost to produce that good is lower than the other country's.

347. Isabel can bake 6 cakes or 240 muffins in an eight-hour day. Pawel can bake 12 cakes or 360 muffins in an eight-hour day. Who has a comparative advantage in cakes, and what is his or her opportunity cost of producing

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one additional cake?

ANSWER: Pawel has a comparative advantage—a single cake costs him 30 muffins. In contrast, one cake costs Isabel 40 muffins.

348. Explain why country 1, which has an absolute advantage over country 2 in producing two products (e.g., corn and clothing), would trade with country 2.

ANSWER: Even though country 1 has an absolute advantage over country 2 in producing corn and clothing, country 2 may have a comparative advantage in producing corn if its opportunity cost to produce corn is lower than the opportunity cost of country 1 to produce corn. Hence, both countries could still benefit from trading with each other.

349. Why would it be risky for Haiti to specialize in sugar cane production even if it has a comparative advantage in this area over most other countries?

ANSWER: First, every transaction involves costs, including transportation, communications, and the general costs of doing business. Even so, over the past several decades, transportation and communication costs have been declining all over the world, resulting in growing global trade. Second, the production possibilities frontiers for nations are not linear but rather are governed by increasing costs and diminishing returns. Therefore, it is difficult for countries to specialize in the production of one product. Complete specialization would be risky, moreover, since the market for a product can always decline, perhaps because the product becomes technologically obsolete. Alternately, changing weather patterns can wreak havoc on specialized agriculture products, adding further instability to incomes and exports in developing countries. Finally, although two countries may benefit from trading with one another, expanding trade may hurt some industries and individuals in each country. Notably, industries finding themselves at a comparative disadvantage may be forced to scale back production and lay off workers. In such instances, the government may need to provide workers with retraining, relocation, and other help to ensure a smooth transition to the new production mix.

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