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Name:_____ Class:_____ Date:_____

Chapter 02: Why We Trade

1. A simplified examination of a specific process or phenomenon is provided by:
   a. an outline.
   b. policies.
   c. economic models.
   d. a GPS view.

ANSWER: c

2. A key characteristic of economic models is their:
   a. variables.
   b. equations.
   c. simplicity.
   d. detail.

ANSWER: c

3. The opportunity cost of an economic model is known as the:
   a. measurement of time.
   b. variables that can be included.
   c. measurement of money and time.
   d. exclusion of real-world complications.

ANSWER: d

4. Which model represents how households and businesses interact with each other?
   a. production possibilities
   b. global flow
   c. economic flow
   d. circular flow

ANSWER: d

5. The resource market is comprised of:
   a. labor and business.
   b. labor and natural resources.
   c. business and natural resources.
   d. business and government.

ANSWER: b

6. In the circular flow model, people usually work for _____ in the _____ market.
   a. goods and services; resource
   b. goods and services; product
   c. money; product
   d. money; resource

ANSWER: d

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7. In the circular flow model, people usually use money for _____ in the _____ market.
   a. goods and services; resource
   b. goods and services; product
   c. money; product
   d. money; resource

ANSWER: b

8. Jeff Bezos, founder and CEO of Amazon, participates in the _____ market as he makes decisions regarding the use of factors of production used by Amazon.
   a. technology
   b. economic
   c. resource
   d. digital

ANSWER: c

9. Galina participates in the _____ market when she buys clothes in her local Macy's.
   a. product
   b. economic
   c. resource
   d. digital

ANSWER: a

10. Goods and services are found in the _____ market.
   a. resource
   b. product
   c. digital
   d. government

ANSWER: b

11. Regarding the circular flow model, _____ is income to households and _____ to businesses.
   a. revenue; money
   b. spending; revenue
   c. revenue; an expense
   d. money; an expense

ANSWER: d

12. A simplified model that shows how households and businesses interact with one another in the product market and resource market is known as the:
   a. basic economic model.
   b. production possibilities model.
   c. free trade model.
   d. circular flow model.

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ANSWER: d

13. The economic model that depicts the maximum output that can be produced in an economy when resources are used efficiently is known as the:

a. circular flow model.
b. production possibilities frontier model.
c. opportunity cost model.
d. law of increasing costs.

ANSWER: b

14. The _____ is an economic model that shows the limit of what an economy can produce when all resources are used efficiently.

a. circular flow model
b. production possibilities frontier model
c. opportunity cost model
d. law of increasing costs

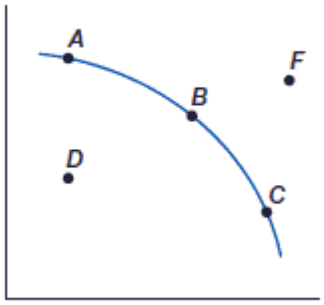
ANSWER: b

15. The limits to what an economy can produce result from:

a. scarcity.
b. income.
c. production.
d. costs.

ANSWER: a

16. (Figure: Production Possibilities Frontier, PPF)



Point B represents:

a. an inefficient use of resources.
b. an unattainable goal based on current resources.
c. the maximum use of resources.
d. a probable use of resources.

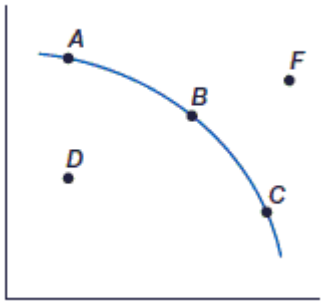
ANSWER: c

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17. (Figure: Production Possibilities Frontier, PPF)

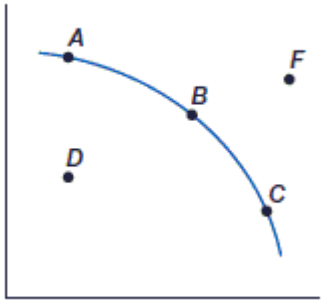


Point D represents:

a. an inefficient use of resources.
b. an unattainable goal based on current resources.
c. the maximum use of resources.
d. a probable use of resources.

ANSWER: a

18. (Figure: Production Possibilities Frontier, PPF)



Point F represents:

a. an inefficient use of resources.
b. an unattainable goal based on current resources.
c. the maximum use of resources.
d. a probable use of resources.

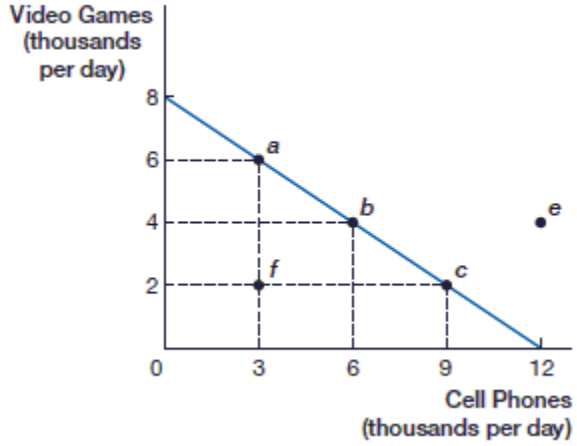
ANSWER: b

19. (Figure: Video Games and Cell Phones PPF)

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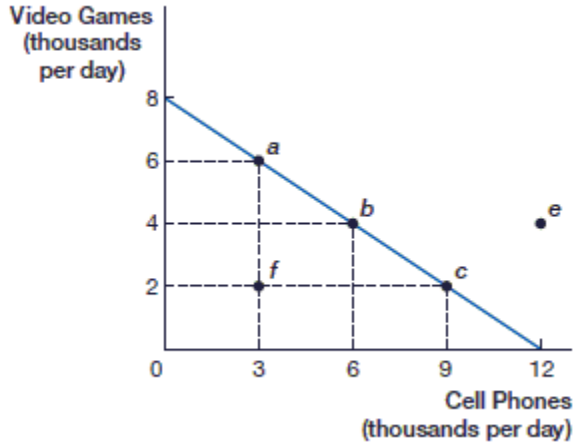


If this economy is producing 4,000 video games, what is the opportunity cost of 2,000 more video games?

a. 1,000 cell phones
b. 3,000 cell phones
c. 6,000 cell phones
d. 9,000 cell phones

ANSWER: b

20. **(**Figure: Video Games and Cell Phones PPF)



If this economy is producing 2,000 video games, what is the opportunity cost of 2,000 more video games?

a. 1,000 cell phones
b. 2,000 cell phones
c. 3,000 cell phones
d. 9,000 cell phones

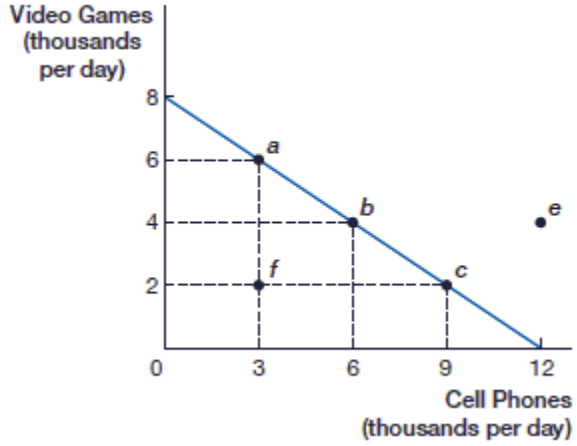
ANSWER: c

21. (Figure: Video Games and Cell Phones PPF)

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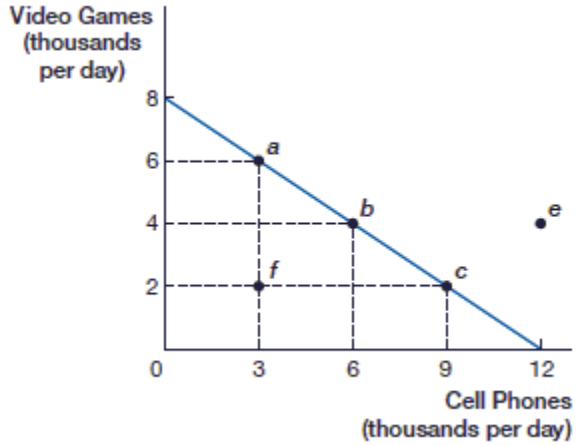


If this economy is producing at point f, how many cell phones are being produced?

a. 1,000
b. 3,000
c. 6,000
d. 9,000

ANSWER: b

22. (Figure: Video Games and Cell Phones PPF)



If this economy is producing at point f, how many video games are being produced?

a. 2,000
b. 3,000
c. 6,000
d. 9,000

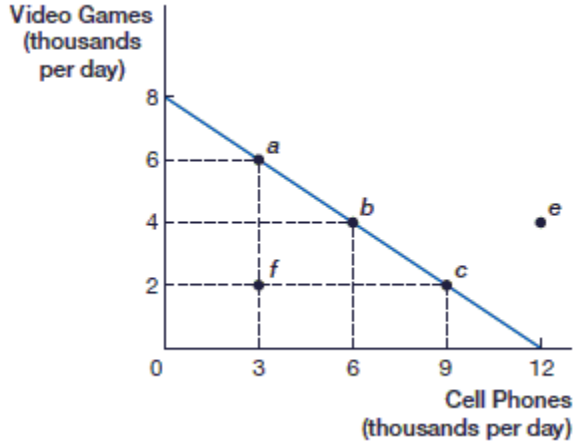
ANSWER: a

23. (Figure: Video Games and Cell Phones PPF)

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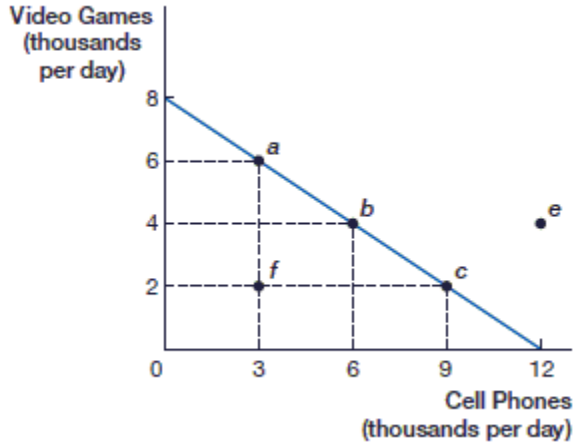


If this economy is specializing in cell phones, how many video games are being produced?

a. 8,000
b. 6,000
c. 4,000
d. 0

ANSWER: d

24. (Figure: Video Games and Cell Phones PPF)



At point b, this economy is producing _____ video games and _____ cell phones.

a. 2,000; 3,000
b. 3,000; 4,000
c. 4,000; 6,000
d. 8,000; 7,000

ANSWER: c

25. _____ cost is what is given up in order to acquire or do something else.

a. Opportunity

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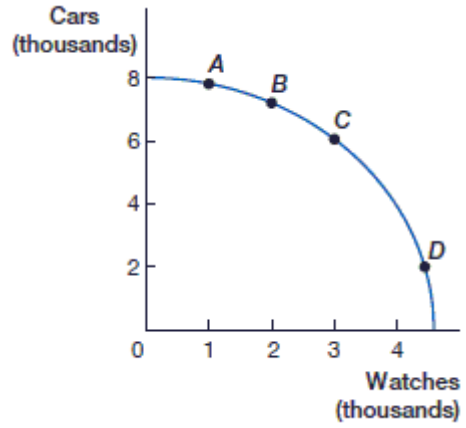
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b. Marginal
c. Maximum
d. Minimum

ANSWER: a

26. (Figure: Cars and Watches PPF)

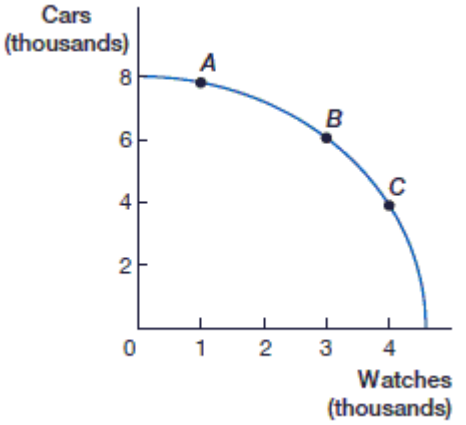


What is the opportunity cost of moving from point C to point D?

a. 1,000 watches
b. 2,000 watches
c. 3,000 cars
d. 4,000 cars

ANSWER: d

27. (Figure: Cars and Watches PPF 2)



What is the opportunity cost of moving from point B to point C?

a. 1,000 cars
b. 2,000 cars
c. 1,000 watches

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d. 2,000 watches

ANSWER: b

28. The bowed-out, concave shape of the production possibilities frontier is explained by the:
a. circular flow model.
b. law of increasing costs.
c. theory of marginal cost.
d. maximization model.

ANSWER: b

29. When operating on the production possibilities frontier, producing more of one good generally results in less of the other good due to the:
a. opportunity cost.
b. changing technology.
c. theory of marginal cost.
d. maximization model.

ANSWER: a

30. Obtaining the maximum possible output with a given set of resources or obtaining output for the lowest possible cost is known as:
a. allocative efficiency.
b. allocative effectiveness.
c. productive efficiency.
d. productive effectiveness.

ANSWER: c

31. Minimizing production costs per unit is also known as:
a. allocative efficiency.
b. allocative effectiveness.
c. productive efficiency.
d. productive effectiveness.

ANSWER: c

32. Obtaining the maximum well-being from producing the right set of goods and services is known as:
a. allocative efficiency.
b. allocative effectiveness.
c. productive efficiency.
d. productive effectiveness.

ANSWER: a

33. Efficiency in the distribution and allotment of goods and services is known as:
a. allocative efficiency.

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b. allocative effectiveness.
c. productive efficiency.
d. productive effectiveness.

ANSWER: a

34. Ensuring that the optimal mix of goods and services is produced is known as:
a. allocative efficiency.
b. allocative effectiveness.
c. productive efficiency.
d. productive effectiveness.

ANSWER: a

35. Maximizing output or minimizing waste is known as:
a. allocative efficiency.
b. allocative effectiveness.
c. productive efficiency.
d. productive effectiveness.

ANSWER: c

36. A sustained increase in the amount of goods and services produced is known as:
a. allocative efficiency.
b. productive efficiency.
c. minimizing opportunity costs.
d. economic growth.

ANSWER: d

37. Sources of economic growth include:
a. innovation, investments in physical capital, and improvements in human capital.
b. new technology, changes in the unemployment rate, and changes in the exchange rate.
c. investments in physical capital, changes in the unemployment rate, and changes in the exchange rate.
d. changes in the exchange rate, improvements in human capital, and changes in the unemployment rate.

ANSWER: a

38. The introduction of the Apple iPhone in 2007 was an example of:
a. investment in physical capital.
b. innovation and technology.
c. investment in human capital.
d. innovation in manufacturing.

ANSWER: b

39. A firm is considering opening a manufacturing plant in rural West Virginia. In analyzing costs, the firm has

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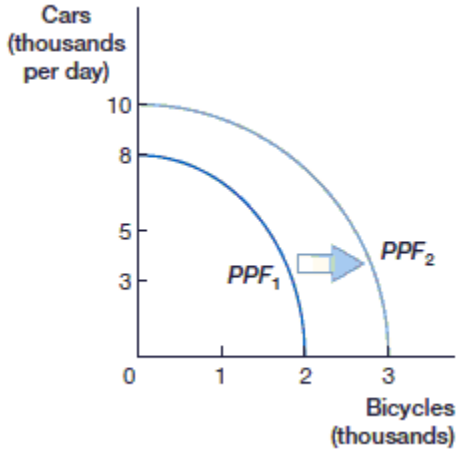
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determined that labor in the area does not have the skill set to enable the firm to operate effectively. If it selects the West Virginia site, the firm will be faced with the additional cost of training employees. This is an example of:

a. investments in physical capital.
b. innovation and technology.
c. investments in human capital.
d. innovation in manufacturing.

ANSWER: c

40. (Figure: Cars and Bicycles PPF 1)



This figure shows:

a. economic stagnation.
b. economic growth.
c. a stagnant economy.
d. a reduction in economic efficiency.

ANSWER: b

41. Which of the following may cause an economy's production possibilities frontier (PPF) to shift to the left?

a. The country's workforce increases its training and education.
b. Businesses in the country increase their investment in machinery and equipment.
c. Income taxes are reduced.
d. A massive earthquake and tsunami damage much of the country's infrastructure.

ANSWER: d

42. Which of the following may cause an economy's production possibilities frontier (PPF) to shift to the right?

a. The government is overthrown in a coup.
b. Businesses in the country increase their investment in machinery and equipment.
c. Income taxes are raised.
d. A massive earthquake and tsunami damage much of the country's infrastructure.

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ANSWER: b

43. _____ is the concentration on the production of a single good.
   a. Efficiency
   b. Opportunity
   c. Comparative advantage
   d. Specialization

ANSWER: d

44. _____ is the ability to produce a product at a lower opportunity cost than a trading partner can.
   a. Efficiency
   b. Absolute advantage
   c. Comparative advantage
   d. Specialization

ANSWER: c

45. Comparative advantage is defined in terms of:
   a. efficiency.
   b. absolute advantage.
   c. opportunity cost.
   d. specialization.

ANSWER: c

46. (Exhibit: Opportunity Cost)

Cell phones	50,000	40,000	30,000	20,000	10,000
Video games	15,000	20,000	35,000	45,000	50,000

Video game production increases from 15,000 games to 20,000 games. In this economy, what is the opportunity cost?
   a. 5,000 video games
   b. 10,000 video games
   c. 5,000 cell phones
   d. 10,000 cell phones

ANSWER: d

47. (Exhibit: Opportunity Cost)

Cell phones	50,000	40,000	30,000	20,000	10,000
Video games	15,000	20,000	35,000	45,000	50,000

Video game production increases from 35,000 games to 50,000 games. In this economy, what is the opportunity cost?
   a. 20,000 video games

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b. 150,000 video games
c. 20,000 cell phones
d. 15,000 cell phones

ANSWER: c

48. David can wash four cars in one hour or cut two lawns. Ralph can wash three cars in one hour or cut two lawns. David's opportunity cost for cutting one lawn is _____ car washes, and Ralph's opportunity cost for cutting one lawn is _____ car washes.

a. 2; 1.5
b. 4; 3.5
c. 1.5; 2
d. 3.5; 4

ANSWER: a

49. (Exhibit: Determining Comparative Advantage)

	Opportunity Cost of 1 Bread	Opportunity Cost of 1 Cake
Eric (4 loaves of bread = 2 cakes)	1/2 of a cake	2 loaves of bread
Daisy (5 loaves of bread = 3 cakes)	3/5 of a cake	1 2/3 loaves of bread

Eric has a lower opportunity cost for:

a. baking bread.
b. baking a cake.
c. neither bread nor cake.
d. both bread and cake.

ANSWER: a

50. (Exhibit: Determining Comparative Advantage)

	Opportunity Cost of 1 Bread	Opportunity Cost of 1 Cake
Eric (4 loaves of bread = 2 cakes)	1/2 of a cake	2 loaves of bread
Daisy (5 loaves of bread = 3 cakes)	3/5 of a cake	1 2/3 loaves of bread

Daisy has a lower opportunity cost for:

a. baking bread.
b. baking a cake.
c. neither bread nor cake.
d. both bread and cake.

ANSWER: b

51. (Exhibit: Determining Comparative Advantage)

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	Opportunity Cost of 1 Bread	Opportunity Cost of 1 Cake
Eric (4 loaves of bread = 2 cakes)	1/2 of a cake	2 loaves of bread
Daisy (5 loaves of bread = 3 cakes)	3/5 of a cake	1 2/3 loaves of bread

Who has a comparative advantage in baking bread?

a. Eric
b. Daisy
c. neither Eric nor Daisy
d. both Eric and Daisy

ANSWER: a

52. (Exhibit: Determining Comparative Advantage)

	Opportunity Cost of 1 Bread	Opportunity Cost of 1 Cake
Eric (4 loaves of bread = 2 cakes)	1/2 of a cake	2 loaves of bread
Daisy (5 loaves of bread = 3 cakes)	3/5 of a cake	1 2/3 loaves of bread

Who has a comparative advantage in baking cakes?

a. Eric
b. Daisy
c. neither Eric nor Daisy
d. both Eric and Daisy

ANSWER: b

53. _____ is the ability to produce more of a product than a trading partner can.

a. Efficiency
b. Absolute advantage
c. Comparative advantage
d. Specialization

ANSWER: b

54. (Exhibit: Determining Comparative Advantage)

	Opportunity Cost of 1 Bread	Opportunity Cost of 1 Cake
Eric (4 loaves of bread = 2 cakes)	1/2 of a cake	2 loaves of bread
Daisy (5 loaves of bread = 3 cakes)	3/5 of a cake	1 2/3 loaves of bread

Who has an absolute advantage in baking cakes?

a. Eric
b. Daisy
c. neither Eric nor Daisy
d. both Eric and Daisy

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ANSWER: b

55. (Exhibit: Determining Comparative Advantage)

	Opportunity Cost of 1 Bread	Opportunity Cost of 1 Cake
Eric (4 loaves of bread = 2 cakes)	1/2 of a cake	2 loaves of bread
Daisy (5 loaves of bread = 3 cakes)	3/5 of a cake	1 2/3 loaves of bread

Who has an absolute advantage in baking bread?

a. Eric
b. Daisy
c. neither Eric nor Daisy
d. both Eric and Daisy

ANSWER: b

56. Gains from trade are based on _____ rather than:

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

ANSWER: b

57. Gains from trade are based on:

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

ANSWER: b

58. When trade occurs on the basis of ____, both sides win.

a. comparative advantage
b. absolute advantage
c. price
d. revenue

ANSWER: a

59. What enables an economy to consume beyond the production possibilities frontier (PPF)?

a. comparative advantage
b. absolute advantage
c. trade
d. growth

ANSWER: c

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60. The opening of markets to foreign trade that leads to an increasing interdependence of world economies is known as:
a. globalization.
b. internationalism.
c. protectionism.
d. growth.
ANSWER: a

61. McDonald's has locations in more than 100 countries. This is an example of:
a. globalization.
b. internationalism.
c. trade.
d. growth.
ANSWER: a

62. Boeing, a U.S. aircraft manufacturing company, has suppliers from countries such as Germany, Japan, and Italy. This is an example of:
a. globalization.
b. internationalism.
c. trade.
d. growth.
ANSWER: a

63. Goods and services that are produced domestically and sold in a foreign country are:
a. high-value goods only.
b. exports.
c. imports.
d. low-value goods only.
ANSWER: b

64. Goods and services that are produced in a foreign country but sold domestically are:
a. high-value goods only.
b. exports.
c. imports.
d. low-value goods only.
ANSWER: c

65. Suzy purchases shoes in Boise, Idaho, that were made in Italy. These shoes are:
a. a high-value good.
b. an export.
c. an import.
d. a low-value good.

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ANSWER: c

66. Ford Motor Company, a U.S. firm, sells cars in Europe that were made in the United States. This is NOT an example of:
a. imports to the U.S.
b. imports to Europe.
c. exports from the U.S.
d. globalization.

ANSWER: a

67. The main export of Canada is:
a. transport equipment.
b. clothing and shoes.
c. motor vehicles and parts.
d. capital goods.

ANSWER: c

68. The main export of Mexico is:
a. transport equipment.
b. clothing and shoes.
c. motor vehicles and parts.
d. capital goods.

ANSWER: b

69. A country's exports minus its imports is known as:
a. international trade.
b. a trade surplus.
c. its net exports.
d. its net imports.

ANSWER: c

70. Another name for net exports is:
a. international trade.
b. trade surplus.
c. trade balance.
d. net imports.

ANSWER: c

71. _____ occurs when a country imports more than it exports.
a. No international trade
b. A trade surplus
c. Positive trade

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d. A trade deficit

ANSWER: d

72. _____ occurs when a country exports more than it imports.
a. No international trade
b. A trade surplus
c. Positive trade
d. A trade deficit

ANSWER: b

73. The country of Davilena exported $900,000 in goods and services and imported $680,000 in goods and services. The country has a _____ of:
a. net trade; $1,580,000.
b. trade surplus; $220,000.
c. trade balance; $680,000.
d. trade deficit; $900,000.

ANSWER: b

74. If a country exports more than it imports, it has a _____ trade balance.
a. negative
b. positive
c. zero
d. unattainable

ANSWER: b

75. The rate at which one country's currency can be converted into another country's currency is known as the:
a. interest rate.
b. surplus rate.
c. exchange rate.
d. deficit rate.

ANSWER: c

76. In the _____ market, currencies are traded.
a. resource
b. foreign exchange
c. product
d. barter

ANSWER: b

77. The rate at which one country's currency can be converted to another country's currency is known as the _____ rate.
a. interest

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b. exchange
c. savings
d. mortgage

ANSWER: b

78. Maurice is traveling from the United States to China. He will need to exchange his _____ for _____.
a. dollars; yuan
b. yuan; pesos
c. pesos; yen
d. yen; dollars

ANSWER: a

79. Exchange rates determined by economic or market conditions are _____ rates.
a. fixed
b. pegged
c. currency
d. flexible

ANSWER: d

80. An adjustment in the exchange rate that makes one country's currency more valuable relative to another country's currency is known as:
a. an appreciation of the currency.
b. a depreciation of the currency.
c. a parity of the currency.
d. a devaluation of the currency.

ANSWER: a

81. An adjustment in the exchange rate that make one country's currency less valuable relative to another country's currency is known as:
a. an appreciation of the currency.
b. a depreciation of the currency.
c. a parity of the currency.
d. a devaluation of the currency.

ANSWER: b

82. Appreciation occurs when:
a. two currencies are pegged to each other.
b. two currencies are equal to each other.
c. that currency increases in value relative to another.
d. that currency decreases in value relative to another.

ANSWER: c

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83. Depreciation occurs when:
a. two currencies are pegged to each other.
b. two currencies are equal to each other.
c. that currency increases in value relative to another.
d. that currency decreases in value relative to another.

ANSWER: d

84. Yesterday, the exchange rate for the U.S dollar and the euro was 1 euro for every $1.10. Today, it is 1 euro for every $1.20. Which currency is appreciating?
a. the euro
b. the U.S. dollar
c. both
d. neither

ANSWER: a

85. Yesterday, the exchange rate for the U.S dollar and the euro was 1 euro for every $1.10. Today, it is 1 euro for every $1.20. Which currency is depreciating?
a. the euro
b. the U.S. dollar
c. both
d. neither

ANSWER: b

86. When the U.S. dollar appreciates relative to the Brazilian currency, the real, products that are produced by U.S. companies and exported to Brazil:
a. become less expensive in Brazil.
b. become more expensive in Brazil.
c. are not impacted by price changes.
d. do not affect purchasing power in Brazil.

ANSWER: b

87. When the U.S. dollar depreciates relative to the Japanese currency, the yen, products that are produced by U.S. companies and exported to Japan:
a. become less expensive in Japan.
b. become more expensive in Japan.
c. are not impacted by price changes.
d. do not affect purchasing power in Japan.

ANSWER: a

88. Discuss points inside and outside the production possibilities frontier (PPF). Are they attainable? Why or why not?

ANSWER: Points inside the production possibilities frontier (PPF) are attainable, but the economy is operating

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inefficiently because not all of its resources are being used. Points outside the curve are not attainable based on the current situation. The curve is the limit of what the economy can produce, so points outside the curve are unattainable given the current resources of the economy.

89. What happens when the production possibilities frontier (PPF) shifts inward? Give a real-world example.

ANSWER: A production possibilities frontier (PPF) curve shifts inward in situations where something negative has happened in the country and affected production and growth. One example is the earthquake and tsunami that hit Japan in 2011 and destroyed infrastructure and physical capital. As a result, Japan's PPF shifted inward.

90. If a country is operating at maximum capacity, what must happen to increase production in one category?

ANSWER: This question presents the concept of opportunity cost. To increase production in one category implies that production will fall in another category. The economy will move from one point to another on the production possibilities frontier curve (PPF). Another way to increase production is to increase one or more of the factors of production, which causes a shift in the PPF.

91. What explains the bowed-out or concave shape of the production possibilities frontier (PPF)?

ANSWER: The concave shape in the production possibilities frontier (PPF) is explained by the law of increasing cost. As more of one good is produced, the opportunity cost of producing an additional item is higher than the opportunity cost of the preceding good because not all resources are equally adaptable in the production of both goods.

92. Define economic growth, and discuss what is associated with it and why we care.

ANSWER: Economic growth is a sustained increase in the quantity of goods and services produced that occurs over time. Increases in real GDP are associated with economic growth. We care because economic growth leads to higher standards of living.

93. Why is economic growth a long-term process?

ANSWER: Economic growth is a long-term process because it takes time for adjustments to change to take place. The economy cannot immediately reap the benefits of new technology, greater physical capital, and a workforce with improved skills.

94. Comparative advantage, not absolute advantage, is the basis for trade. Why?

ANSWER: There is an expansion in trade when trade is based on what product or service can be produced with the lowest opportunity cost. By taking advantage of comparative advantage and trade, people are able to consume beyond the production possibilities frontier (PPF).

95. Markets enable individuals to specialize and trade. Discuss why this is important.

ANSWER: Individuals who specialize and trade are able to consume more than they produce and live better than if they remained self-sufficient.

96. If one U.S. dollar is equal to 109 Japanese yen, who would have the greater purchasing power—an American tourist in Japan or a Japanese tourist in the United States? Why?

ANSWER: In this situation, the American tourist's home currency buys more of the Japanese currency. Thus, the American tourist would have greater purchasing power because each dollar can buy 109 yen.

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Chapter 02: Why We Trade

97. Describe how a currency market aids international trade.

ANSWER: When products are bought and sold across borders, different currencies are often involved. A currency market helps determine the comparative value of each currency. In addition, sellers usually prefer to be paid in their home currency. The currency market provides a means of exchanging one currency for another.

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