Chapter 2—Economic Tools and Economics Systems

MULTIPLE CHOICE

1. Opportunity cost exists because
   a. technology is fixed at any point in time
   b. the law of comparative advantage is working
   c. resources are scarce but wants are unlimited
   d. the value of lost opportunities varies from person to person
   e. efficiency is measured by the monetary cost of an activity

   ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

2. Opportunity cost is the difference between the benefits and the costs of a choice.
   a. True
   b. False

   ANS: B PTS: 1 DIF: Moderate NAT: Analytic
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

3. Opportunity cost is always measured in dollar terms, rather than in terms of real goods and services.
   a. True
   b. False

   ANS: B PTS: 1 DIF: Moderate NAT: Analytic
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

4. A rational decision maker engages in an activity if that activity is more attractive than the best alternative.
   a. True
   b. False

   ANS: A PTS: 1 DIF: Moderate NAT: Analytic
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

5. The Sultan of Brunei, one of the world's richest people, does not face the problem of scarcity.
   a. True
   b. False

   ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

6. Opportunity cost is defined
   a. only in terms of money spent
   b. as the value of all alternatives not chosen
   c. as the value of the best alternative not chosen
   d. as the difference between the benefits from a choice and the benefits from the next best alternative
   e. as the difference between the benefits from a choice and the costs of that choice

   ANS: C PTS: 1 DIF: Moderate NAT: Analytic
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

7. Suppose you have an hour before your next class starts. You can either read a book, get something to eat, or take a nap. The opportunity cost of getting something to eat is
   a. the cost of what you eat
   b. the value of reading and sleeping
   c. the loss of value from not reading or sleeping
   d. the net benefit of sleeping for another hour
   e. impossible to determine because the most preferred alternative is not known

   ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

8. The opportunity cost of an activity is
   a. zero if you choose the activity voluntarily
   b. the amount of money spent on the activity
   c. the value of the best alternative not chosen
   d. the sum of benefits from all of the sacrificed alternatives
   e. the difference between the benefits and the costs of that activity

   ANS: C PTS: 1 DIF: Moderate NAT: Analytic
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

9. The opportunity cost of an activity
   a. depends on the individual's subjective values and opinions
   b. is the same for everyone
   c. must be calculated and known before undertaking that activity
   d. is irrelevant to decision making
   e. is not related to time

   ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

10. Your opportunity cost of choosing a particular activity
    a. can be easily and accurately calculated
    b. cannot even be estimated
    c. does not change over time
    d. varies, depending on time and circumstances
    e. is measured by the money you spend on the activity

    ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

11. Opportunity cost is objective; therefore, its value does not change as circumstances change.
    a. True
    b. False

    ANS: B PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

12. Which economic concept does the expression "time is money" reflect?
    a. opportunity cost
    b. specialization
    c. market exchange
    d. comparative advantage
    e. efficiency

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity Cost Is Subjective

13. A test was scheduled for Monday morning, but you went to a party on Saturday night. If you hadn't attended the party, you could have studied for the test or gone to a movie. Which of the following is true?
    a. The opportunity cost of going to the movie is studying for the test.
    b. The opportunity cost of going to the party is the movie.
    c. The opportunity cost of going to the party is both the movie and the study time.
    d. Because you could go to the party only that night but could go to a movie any time, the opportunity cost of the party is the study time.
    e. From the above information, it's not possible to determine the opportunity cost of attending the party.

    ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

14. The term opportunity cost suggests that
    a. in any exchange situation where one person gains, someone else must lose
    b. not all individuals make the most of life's opportunities
    c. executives do not always recognize opportunities for profit as quickly as they should
    d. the only factor that is important in decision making is cost
    e. because goods are scarce, in order to get some good you must give up some other good in return

    ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

15. If you enjoy playing golf, the opportunity cost of cleaning your room
    a. is the same on sunny days as it is on rainy days
    b. is greater on sunny days than it is on rainy days
    c. is smaller on sunny days than it is on rainy days
    d. does not change with the weather conditions
    e. is equal to the opportunity cost of any other chore you have to do that day

    ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

16. Melissa is a self-employed lawyer who chooses a higher-priced restaurant 2 miles from home over a cheaper restaurant 15 miles from home. Which of the following is the most likely explanation for her behavior?
    a. The opportunity cost of her time is very low.
    b. She doesn't take travel time into consideration.
    c. She doesn't like to cook or doesn't know how.
    d. The prices at the more expensive restaurant understate the opportunity cost of eating there.
    e. The higher monetary cost of the more expensive restaurant is offset by the higher opportunity cost of the lower-priced restaurant.

    ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

17. The opportunity cost of a particular activity
    a. must be the same for everyone
    b. is the value of all alternative activities that are forgone
    c. has a maximum value equal to the minimum wage
    d. varies from person to person
    e. can usually be known with certainty

    ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

18. The opportunity cost of an activity is best measured
    a. only by the monetary costs
    b. by the number of alternative activities that were forgone
    c. by the cost difference between the chosen activity and the next best alternative
    d. by the value expected from the best alternative that is forgone
    e. as the time wasted choosing among various activities

    ANS: D PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

19. Congratulations, you have been admitted to the Blue-and-Blue College. Your annual expenses are as follows: $19,000 for tuition, $1,000 for fees and books, and $4,000 for room and board. You are also receiving a scholarship of $7,500. The next best alternative to going to college is to get a full-time job that pays $24,000 a year (after taxes). What is your opportunity cost of going to college?
    a. $40,500
    b. $44,000
    c. $32,500
    d. $36,500
    e. I don't have enough information to calculate the opportunity cost of going to college.

    ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

20. You can either go to see a movie with your friends or go to the library and study for tomorrow's Economics test. Usually, you enjoy going at the movies just as much as you enjoy studying for Economics. However, tomorrow's test will determine your final grade and you need an A for the class, otherwise you'll be losing your scholarship. Which of the following is correct?
    a. The opportunity cost of studying is high because if you study you'll get an A for the class.
    b. The opportunity cost of going to see the movie is high because if you don't study you'll fail the class and lose your scholarship.
    c. The opportunity cost of studying is low because you like going at the movies.
    d. The opportunity cost of going to see the movie is low because if you don't study you'll fail the class and lose your scholarship.
    e. The opportunity cost of studying is low because if you don't study you'll fail the class and lose your scholarship.

    ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost
    TOP: Opportunity Cost Is Subjective

21. You can either spend your summer working for $10,800 or go in a European vacation. If you work, your expenses will be about $1,500. If you go to Europe, the airfare, hotel, food and miscellaneous expenses will total about $10,000. What's your opportunity cost of visiting Europe?
    a. $19,300
    b. $20,800
    c. $12,300
    d. $8,500
    e. $22,300

    ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Opportunity Cost

22. A university should not disband its football team if it has already paid for the stadium.
    a. True
    b. False

    ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Sunk Cost and Choice

23. Suppose you have purchased a non-refundable plane ticket and, at the last moment, you cannot take the trip. You can, however, sell the ticket. If you paid $700 for the ticket, the cost of sending the ticket to someone through overnight mail is $20, and you spend $10 on a courier to get the ticket to the post office for overnight delivery, what is the minimum you should accept for the ticket?
    a. $700 because that is what the ticket cost.
    b. $720 because that is the cost of the ticket and of getting it to the buyer.
    c. $730 because that is the total cost of the ticket and getting it to the buyer.
    d. More than $730, so that you can make a profit.
    e. $30 because the $700 is a sunk cost.

    ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Sunk Cost and Choice

24. Jim spent $165 on concert tickets for Saturday night. One day before the concert, Jim finds out he cannot go to the concert. Since he cannot return the tickets, he tries to sell them on e-Bay. Jim has to pay $30 to send the ticket to someone through overnight mail. What is the minimum Jim should accept for the tickets?
    a. $165 because that's how much he paid for them
    b. $30 because the $165 is a sunk cost
    c. $195 because that it the cost of the ticket and getting it to the buyer
    d. More than $165 because Jim wants to make a profit
    e. More than $195 to cover all the costs and make a profit

    ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Sunk Cost and Choice

25. Sunk costs
    a. can only be measured in monetary terms
    b. are opportunity costs
    c. should influence a person's choice if that person is a marginal decision maker
    d. lower the efficiency of production
    e. should not be considered when making economic decisions

    ANS: E PTS: 1 DIF: Easy NAT: Analytic
    LOC: Scarcity, tradeoffs, and opportunity cost TOP: Sunk Cost and Choice

26. If people specialize in producing those goods for which they possess a comparative advantage, then the economy as a whole can produce a greater quantity of goods.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: The Law of Comparative Advantage

27. It is possible for one person to have a comparative advantage in the production of all products?
    a. True
    b. False

    ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: The Law of Comparative Advantage

28. Comparative advantage is based on opportunity costs.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade
    TOP: The Law of Comparative Advantage

29. The law of comparative advantage says that a person should produce a good if she
    a. has the greatest desire to consume that good
    b. has the lowest opportunity cost of producing that good
    c. has an absolute advantage in a related activity
    d. has a comparative advantage in a related activity
    e. is equally good at producing this good as someone else is

    ANS: B PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade
    TOP: The Law of Comparative Advantage

30. The law of comparative advantage says that
    a. the individual with the lowest opportunity cost of producing a particular good should produce it
    b. comparative advantage exists only when one person has an absolute advantage in the production of two goods
    c. whoever has a comparative advantage in producing a good also has an absolute advantage in producing that good
    d. whoever has an absolute advantage in producing a good also has a comparative advantage in producing that good
    e. gains from trade are possible only when one person has the comparative advantage in producing both goods

    ANS: A PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Gains from trade, specialization and trade
    TOP: The Law of Comparative Advantage

31. Comparative advantage is
    a. the ability of an individual to specialize and produce a greater amount of some good than can another individual

b. the number of units of one good given up in order to acquire something
c. the ability of an individual to produce a good at a lower opportunity cost than some other individual can
d. an expression for the amount of labor a particular individual needs to produce a fixed amount of capital goods
e. a reference to an individual having the greatest opportunity cost of producing the good and produces it with the fewest resources

ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: The Law of Comparative Advantage

32. If you and I agree to exchange four ginger snaps for one chocolate chip cookie, then it must be true that
a. we are both at least as well off as we were before
b. I am better off than I was before, but you are not
c. you are better off than you were before, but I am not
d. we are both better off than before
e. we are both worse off than before

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: The Law of Comparative Advantage

33. The law of comparative advantage states that the person who should produce a good is the person who
a. has the lowest opportunity cost of producing that good
b. can produce that good using the fewest resources
c. will produce that good using the most expensive resources
d. has the most desire for that good
e. has produced that good in the past

ANS: A PTS: 1 DIF: Hard NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: The Law of Comparative Advantage

34. A person who can produce more of a good than another person is said to possess a comparative advantage.
a. True
b. False

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

35. John can clean the house in 3 hours and paint the basement in 3 hours, whereas Mike can clean the house in 5 hours and paint the basement in 2 hours. Which of the following statements are correct?
a. John has absolute advantage in cleaning the house
b. John has absolute advantage in painting the basement.
c. Mike has absolute advantage in cleaning the house
d. Mike has absolute advantage in both cleaning the house and painting the basement
e. John has absolute advantage in both cleaning the house and painting the basement

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

36. John can clean the house in 3 hours and paint the basement in 3 hours, whereas Mike can clean the house in 5 hours and paint the basement in 4 hours. Which of the following statements are correct?
    a. John has absolute advantage only in painting the basement.
    b. John has absolute advantage only in cleaning the house
    c. Mike has absolute advantage in cleaning the house
    d. Mike has absolute advantage in both cleaning the house and painting the basement
    e. John has absolute advantage in both cleaning the house and painting the basement

    ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

37. It is impossible for one person to have a comparative advantage in all tasks.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

38. It is possible for one person to have an absolute advantage in two tasks and a comparative advantage in only one.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

39. It is possible for one person to have an absolute advantage in something even if she has no comparative advantage in anything.
    a. True
    b. False

    ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

40. Absolute advantage is based on opportunity cost.
    a. True
    b. False

    ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

41. John takes 10 minutes to iron a shirt and 20 minutes to type a paper. Harry takes 10 minutes to iron a shirt and 30 minutes to type a paper. Which of the following statements is correct?
    a. Harry has a comparative advantage in ironing.
    b. Harry has a comparative advantage in typing.
    c. Harry has an absolute advantage in typing.
    d. Harry has an absolute advantage in ironing.
    e. Neither can gain from specialization and exchange.

    ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking

LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

42. Don can produce 10 pens or 20 pencils in one hour while Bob can produce 5 pencils or 15 pens in one hour. Which of the following statements is correct?
    a. Don has an absolute advantage over Bob in the production of pencils and Bob in the production of pens
    b. Bob has an absolute advantage over Don in the production of pencils
    c. Bob has a comparative advantage over Don in the production of pens
    d. Don has a comparative advantage over Bob in the production of pens
    e. Don does not have a comparative advantage in the production of either good

    ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

43. If Jason can wash a car in 20 minutes and wash a dog in 10 minutes, and Megan can wash a car in 15 minutes and wash a dog in 15 minutes, which of the following statements is true?
    a. The opportunity cost of washing a car is greater for Megan.
    b. The opportunity cost of washing a car is one dog bath for Jason.
    c. Megan could wash two cars in the time it takes to wash a dog.
    d. Jason has both a comparative and an absolute advantage in washing a dog.
    e. The opportunity cost of washing a dog is greater for Jason.

    ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

44. Janis mows the lawn in 1 hour and types a paper in 1 hour. Kristen mows the lawn in 2 hours and types a paper in 1 hour. Which of the following statements is true?
    a. Kristen has an absolute advantage in typing and a comparative advantage in mowing.
    b. Janis has an absolute advantage in both activities and a comparative advantage in typing.
    c. Janis has an absolute advantage in both activities and a comparative advantage in mowing.
    d. The opportunity cost of mowing the lawn is greater for Kristen than it is for Janis.
    e. Neither Janis nor Kristen would gain from specialization.

    ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

45. If Monica has a comparative advantage in baking and George has a comparative advantage in sewing, then
    a. Monica must have an absolute advantage in baking
    b. Monica must have an absolute advantage in sewing
    c. George must have an absolute advantage in baking
    d. George must have an absolute advantage in sewing
    e. we can conclude nothing about absolute advantage

    ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

46. If Evan has an absolute advantage in cleaning and bookkeeping when compared to Gloria, then
    a. Evan must also have a comparative advantage in cleaning and bookkeeping
    b. Evan must have a comparative advantage in cleaning

c. Evan must have a comparative advantage in bookkeeping
d. Gloria has a comparative advantage in neither activity
e. we can conclude nothing about comparative advantage

ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

47. Dacians and Romans are at war and they are both producing bows and arrows. The Dacian weapon-smith can make 10 arrows or 2 bows in one hour, whereas the Roman weapon-smith needs two hours to make 10 arrows, but he can make 3 bows in two hours. Which of the following is correct?
a. The Romans have absolute advantage in making bows
b. The Romans have absolute advantage in making arrows
c. The Dacians have comparative advantage in making bows
d. The Dacians have comparative advantage in making both arrows and bows
e. The Dacians have absolute advantage in making both arrows and bows

ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: The Law of Comparative Advantage

48. If Jeremy has an absolute advantage in cooking and Margaret has an absolute advantage in cleaning, then
a. Jeremy has a comparative advantage in cooking, and Margaret has a comparative advantage in cleaning
b. Jeremy has a comparative advantage in cleaning, and Margaret has a comparative advantage in cooking
c. we can conclude nothing about comparative advantage
d. Jeremy has a comparative advantage in cooking, but we can conclude nothing about Margaret
e. Margaret has a comparative advantage in cleaning, but we can conclude nothing about Jeremy

ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

49. If Robin has an absolute advantage in both gardening and baking when compared to Robert, then
a. Robin cannot benefit by trading with Robert
b. Robin can benefit by specializing in gardening if Robert specializes in baking
c. Robin can benefit by specializing in baking if Robert specializes in gardening
d. Robin and Robert may benefit from trading, but there is insufficient information to determine who should specialize in what
e. neither Robin nor Robert can benefit from trading with the other

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

50. If one person has the absolute advantage in producing both of two goods, then that person
a. must also have a comparative advantage in both goods
b. cannot benefit from trade
c. cannot have a comparative advantage in either good
d. will have the comparative advantage in only one good
e. should specialize in the production of both goods

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

51. A country has an absolute advantage in the production of a good if that country
    a. can produce the good using fewer resources than another country would require
    b. has the lowest opportunity cost of producing the good and can produce it with the fewest resources
    c. has the lowest opportunity cost of producing the good regardless of whether it is produced with the fewest resources
    d. has the greatest opportunity cost of producing the good regardless of whether it is produced with the fewest resources
    e. has the greatest opportunity cost of producing the good and produces it with the fewest resources

    ANS: A PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

52. If Sam can chop up more carrots per minute than Joe can, then
    a. Joe has an absolute advantage in carrot chopping
    b. Joe must have a comparative advantage in carrot chopping
    c. Sam has an absolute advantage in carrot chopping
    d. Sam must have a comparative advantage in carrot chopping
    e. we can conclude nothing about absolute advantage

    ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

53. Eileen has a comparative advantage over Jan in piano tuning but not in shoe polishing. Therefore,
    a. Jan must have an absolute advantage in piano tuning
    b. Eileen must have an absolute advantage in shoe polishing
    c. Jan must have a lower opportunity cost of shoe polishing
    d. Eileen must have an absolute advantage in shoe polishing and in piano tuning
    e. Eileen must have an absolute advantage in piano tuning

    ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

54. If Helen gives up the opportunity to bake 40 cakes for each room she paints and Josh can paint one room in the time it takes him to bake 60 cakes, which of the following is true?
    a. The opportunity cost of painting is higher for Helen.
    b. The opportunity cost of baking cakes is lower for Josh.
    c. The opportunity cost of painting one room is 1/40 of a cake for Helen.
    d. The opportunity cost of baking one cake is 60 rooms painted for Josh.
    e. The opportunity cost of cakes cannot be computed.

    ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

55. Helen gives up the opportunity to bake 40 cakes for each room she paints; Josh can paint one room in the time it takes him to bake 60 cakes. The opportunity cost of a cake for Helen is
    a. painting one room
    b. painting 1/40 of a room
    c. painting 1/60 of a room
    d. painting 2/3 of a room
    e. painting 3/2 of a room

    ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

56. Helen gives up the opportunity to bake 40 cakes for each room she paints; Josh can paint one room in the time it takes him to bake 60 cakes. The opportunity cost of a cake for Josh is
    a. painting one room
    b. painting 1/40 of a room
    c. painting 1/60 of a room
    d. painting 2/3 of a room
    e. painting 3/2 of a room

    ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

57. If Daniel produces one pair of shoes in 4 hours and Sarah produces one pair of shoes in 3 hours, then
    a. Sarah has a comparative advantage in shoemaking
    b. Daniel has a comparative advantage in shoemaking
    c. Sarah has an absolute and a comparative advantage in shoemaking
    d. Daniel has an absolute and a comparative advantage in shoemaking
    e. Sarah has an absolute advantage in shoemaking

    ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

Exhibit 2-1

	Hans	Maria
Loads of laundry per hour	4	12
Pages typed per hour	6	8

58. According to Exhibit 2-1, Hans' opportunity cost of doing a load of laundry is
    a. 12 papers
    b. 8 papers
    c. 1 1/2 pages
    d. 2/3 of a page
    e. impossible to compute

    ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

59. According to Exhibit 2-1, Hans' opportunity cost of typing one page is
    a. 12 loads of laundry
    b. 8 loads of laundry

c. 3/2 of a load of laundry
d. 2/3 of a load of laundry
e. impossible to compute

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

60. According to Exhibit 2-1, Maria's opportunity cost of typing a page is
a. 4 loads of laundry
b. 6 loads of laundry
c. 2/3 of a load of laundry
d. 3/2 of a load of laundry
e. impossible to compute

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

61. According to Exhibit 2-1, Maria's opportunity cost of doing a load of laundry is
a. 4 pages
b. 6 pages
c. 2/3 of a page
d. 3/2 of a page
e. impossible to compute

ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

62. According to Exhibit 2-1, if Hans types one fewer page, how many loads of laundry can he do in the time saved on typing?
a. 12 loads
b. 8 loads
c. 3/2 of a load
d. 2/3 of a load
e. it cannot be determined

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

63. According to Exhibit 2-1, if Hans does one fewer load of laundry, how many pages can he type in the time saved on laundry?
a. 12 pages
b. 8 pages
c. 3/2 of a page
d. 2/3 of a page
e. it cannot be determined

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

64. According to Exhibit 2-1, if Maria does one fewer load of laundry, how many pages can she type in the time saved on laundry?
    a. 4 pages
    b. 6 pages
    c. 2/3 of a page
    d. 3/2 of a page
    e. it cannot be determined

    ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

65. According to Exhibit 2-1, if Maria types one fewer page, how many loads of laundry can she do in the time saved on typing?
    a. 4 loads
    b. 6 loads
    c. 2/3 of a load
    d. 3/2 of a load
    e. it cannot be determined

    ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

66. According to Exhibit 2-1, in any given amount of time,
    a. Maria has an absolute and a comparative advantage in typing
    b. Maria has an absolute and a comparative advantage in doing laundry
    c. Maria has a comparative advantage in both typing and doing laundry
    d. Hans has an absolute and a comparative advantage in typing
    e. Hans has an absolute advantage in doing laundry

    ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

67. According to Exhibit 2-1, Hans and Maria would be better off if
    a. Hans specialized in typing and Maria in doing laundry
    b. Hans specialized in doing laundry and Maria in typing
    c. each did their own laundry and typing
    d. Maria did all of the typing and all of the laundry
    e. Hans did all of the typing and all of the laundry

    ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

68. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Tetah can knit 15 sweaters or bake 480 cookies. In this example,
    a. Mohammed has the absolute and comparative advantage in both tasks
    b. Tetah has the absolute and comparative advantage in both tasks
    c. Mohammed has the absolute advantage in both tasks and the comparative advantage in knitting sweaters
    d. Tetah has the absolute advantage in both tasks and the comparative advantage in knitting sweaters
    e. Mohammed has the absolute advantage in both tasks and the comparative advantage in

baking cookies

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

69. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. The opportunity cost per sweater for Mohammed is
    a. $240
    b. 240 cookies
    c. 48 sweaters
    d. 1/48 of a cookie
    e. 48 cookies

ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

70. Dacians and Romans are at war and they are both producing bows and arrows. The Dacian weapon-smith can make 10 arrows or 2 bows in one hour, whereas the Roman weapon-smith needs two hours to make 10 arrows, but he can make 3 bows in two hours. Which of the following is correct?
    a. The Dacians have comparative advantage in making both arrows and bows
    b. The Romans have comparative advantage in making both arrows and bows
    c. The Dacians have comparative advantage in making bows
    d. The Romans have comparative advantage in making bows
    e. The Romans have comparative advantage in making arrows

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: The Law of Comparative Advantage

71. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. The opportunity cost per cookie for Mohammed is
    a. $5
    b. 5 sweaters
    c. 48 sweaters
    d. 1/48 of a sweater
    e. 48 cookies

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

72. In one week, Mohammed can knit 5 sweaters or bake 240 cookies. In one week, Tetah can knit 15 sweaters or bake 480 cookies. Mohammed and Tetah would produce the maximum quantities of cookies and sweaters if
    a. Mohammed knitted and baked and Tetah did nothing
    b. Tetah knitted and baked and Mohammed did nothing
    c. Mohammed knitted and Tetah baked
    d. Tetah knitted and Mohammed baked
    e. Mohammed knitted and baked and Tetah just knitted

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

73. In one week, Tetah can knit 15 sweaters or bake 480 cookies. The opportunity cost per sweater for Tetah is
    a. $480
    b. 480 cookies
    c. 32 cookies
    d. 1/32 of a cookie
    e. 15 cookies

    ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

74. In one week, Tetah can knit 15 sweaters or bake 480 cookies. The opportunity cost per cookie for Tetah is
    a. $15
    b. 15 sweaters
    c. 32 sweaters
    d. 1/32 of a sweater
    e. 480 sweaters

    ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

Exhibit 2-2

	Robinson Crusoe	Friday
Fishhooks per day	30	60
Fishing poles per day	2	10

75. Given the information in Exhibit 2-2, which product should Friday (an individual) make?
    a. fishhooks because he can make 30 more per day than Crusoe but only 8 more fishing poles
    b. both because he is better at both
    c. fishing poles because that is where his comparative advantage lies
    d. neither because Crusoe is better at both
    e. we cannot tell from the given information

    ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Absolute Advantage versus Comparative Advantage

76. Specialization can sometimes create problems such as boredom and repetitive motion injuries.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

77. Specialization often leads to gains in productivity for society as a whole.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

78. Barter occurs when
    a. two people share everything
    b. one product is exchanged directly for another product
    c. money is used to buy goods
    d. money is exchanged directly for other money
    e. goods are used to buy money

    ANS: B PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

79. If I trade a ginger snap for a chocolate chip cookie, I am engaging in
    a. barter
    b. comparative advantage
    c. absolute advantage
    d. privatization
    e. division of labor

    ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

80. Money facilitates trade because
    a. it eliminates the need for specialization
    b. it prevents people from taking advantage of each other
    c. it serves as a medium of exchange
    d. division of labor allows money to be produced at a lower cost
    e. people do not benefit from barter unless money is used

    ANS: C PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

81. Barter is
    a. illegal in the United States
    b. an efficient system of exchange
    c. most useful when there is much specialization and international trade
    d. only possible if money is used as a medium of exchange
    e. the direct exchange of goods, without the use of money

    ANS: E PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

82. Dacians and Romans are at war and they are both producing bows and arrows. The Dacian weapon-smith can make 10 arrows or 2 bows in one hour, whereas the Roman weapon-smith needs two hours to make 10 arrows, but he can make 3 bows in two hours. Who should specialize in the production of arrows and why?
    a. The Romans – because they have absolute advantage in the production of arrows
    b. The Dacians – because they have absolute advantage in the production of arrows
    c. The Romans – because they have comparative advantage in the production of arrows
    d. The Dacians – because they have comparative advantage in the production of arrows
    e. Neither – because each are better off without specialization and exchange

    ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

83. A medium of exchange must be
    a. approved by the government
    b. socially acceptable in exchange for goods and services
    c. easy to reproduce
    d. used to eliminate specialization and the division of labor
    e. used when a system of barter exists

    ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

84. Division of labor allows people to do tasks for which they have greater natural ability.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade
    TOP: Division of Labor and Gains from Specialization

85. Which of the following provide the best evidence of specialization?
    a. a firm that produces a line of related products, such as eight kinds of breakfast cereal
    b. an architect who is willing to practice in only one geographic area
    c. a physician that practices in a specialty area such as cardiology or orthopedic surgery
    d. a family that eats at Wendy's every Thursday night
    e. a retailer that sells goods but provides no services

    ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

86. The division of labor
    a. allows more people to be employed
    b. allows tasks to be performed more efficiently
    c. makes people happier on the job
    d. means that less management is required
    e. means that less equipment will be used

    ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Division of Labor and Gains from Specialization

87. The division of labor facilitates productivity increases for all of the following reasons, *except* one. Which is the exception?
    a. It allows people to do those tasks for which they have the greatest natural ability.
    b. Workers get better at tasks, the more they repeat them.
    c. The more experience workers gain by specializing in a task, the more likely they will enjoy that task.
    d. More sophisticated production techniques are introduced.
    e. The division of labor often permits the introduction of labor-saving machinery.

    ANS: C PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Division of Labor and Gains from Specialization

88. Which of the following is not a gain from division of labor?
    a. Workers' abilities are matched to tasks.
    b. Workers gain experience from the repetition of the tasks.

c. Workers save time by not moving to different tasks.
d. Workers' morale increases as tasks become more specialized.
e. The introduction of labor-saving machinery is possible.

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Division of Labor and Gains from Specialization

89. Division of labor increases productivity because
a. tasks can be assigned according to individual tastes and abilities
b. workers who repeatedly perform the same tasks become bored
c. each worker must learn each of the numerous tasks in the total production process
d. specialization of labor allows for the introduction of cheaper, less sophisticated production techniques
e. managers can force workers to produce goods that are valued more highly than the costs of producing them.

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Division of Labor and Gains from Specialization

90. Because of specialization and comparative advantage, most people
a. consume only what they produce themselves
b. consume the products produced by their family and friends
c. consume the products of many other specialists
d. do not use money as a medium of exchange
e. share whatever they produce

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Division of Labor and Gains from Specialization

91. Fast food is faster and cheaper than a similar meal you could prepare for yourself. Which of the following does *not* explain that fact?
a. meal preparation has been divided into many separate tasks
b. larger-scale production allows the introduction of more efficient machines
c. workers gain productivity at a task over time
d. there is less time lost moving from one task to another
e. workers are more productive when they are being paid

ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Division of Labor and Gains from Specialization

92. The "division of labor" refers to
a. discrimination in labor markets
b. separating a job into smaller tasks completed by different people
c. one worker who divides his time among different jobs and duties
d. defining a job according to the appropriate sex
e. the fact that two 20-year-olds are more productive than one 40-year-old

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Gains from trade, specialization and trade
TOP: Division of Labor and Gains from Specialization

93. Specialization of labor
    a. increases productivity without creating any problems
    b. reduces productivity, and is usually eliminated by business firms
    c. can create problems of boredom and repetitive motion injuries
    d. prevents the introduction of more sophisticated and efficient production techniques
    e. ignores individual preferences and natural abilities

    ANS: C PTS: 1 DIF: Easy NAT: Analytic
    LOC: Gains from trade, specialization and trade
    TOP: Division of Labor and Gains from Specialization

94. In economics, specialization means
    a. producing something using only one type of resource, such as labor
    b. producing something using only one type of labor
    c. focusing efforts on a particular product or a single task
    d. producing only one unit of output
    e. producing something using only one unit of a variable resource

    ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Division of Labor and Gains from Specialization

95. Which of the following is an example of division of labor?
    a. an author writing a book one chapter at a time
    b. a firm trying to get rid of a labor union
    c. separating resources into four categories: land, labor, capital, and entrepreneurial ability
    d. allocating revenue among a firm's resource suppliers
    e. dividing an assembly process into separate steps

    ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Gains from trade, specialization and trade
    TOP: Division of Labor and Gains from Specialization

96. Each point on a production possibilities frontier requires full employment of resources.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

97. The production possibilities frontier represents all desirable combinations of outputs.
    a. True
    b. False

    ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

98. Each point along a nation's production possibilities frontier represents efficient use of all resources.
    a. True
    b. False

    ANS: A PTS: 1 DIF: Easy NAT: Analytic
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

99. On a given production possibilities frontier, which of the following is *not* assumed to be fixed?
    a. the amount of labor available
    b. the amount of capital available
    c. the level of technology
    d. the amount of land and natural resources available
    e. production of each item

    ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

100. At various points along the production possibilities frontier,
    a. the greatest achievable output levels are illustrated
    b. resources are not fully employed
    c. more of one good can be obtained without giving up more of the other
    d. more efficient output levels are possible
    e. society is equally well off

    ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

101. When drawing a production possibilities frontier, all of the following are usually assumed *except one*. Which is the exception?
    a. The quantity of resources is rapidly growing.
    b. Technology is fixed.
    c. Resources can be shifted between production of the two goods.
    d. The production possibilities frontier is drawn for a particular time period.
    e. Resources are fully and efficiently employed.

    ANS: A PTS: 1 DIF: Moderate NAT: Analytic
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

102. Society's production possibilities frontier
    a. helps explain the immense complexity of the real economy
    b. demonstrates that, although resources are scarce for individuals, there is no problem of scarcity for society as a whole
    c. is based on unrealistic assumptions and therefore has no value as an economic tool
    d. is based on simplifying assumptions, but is still useful for illustrating scarcity, opportunity cost, and economic growth
    e. is based on the assumption that technology is constantly changing

    ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
    LOC: Understanding and applying economic models
    TOP: Efficiency and the Production Possibilities Frontier

103. Which of the following is most appropriately measured along one axis of the production possibilities frontier diagram?
    a. the quantity of a produced good
    b. the price of a produced good
    c. the quantity of natural resources
    d. the state of technology
    e. society's welfare and satisfaction

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: Efficiency and the Production Possibilities Frontier

104. "Efficiency" refers to
a. producing output using the least amount of labor
b. producing output using the least amount of capital
c. producing as far inside the production possibilities frontier as possible
d. producing only one out of many possible commodities
e. getting the maximum possible output from available resources

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models
TOP: Efficiency and the Production Possibilities Frontier

105. If all resources are used efficiently to produce goods and services, a nation will find itself producing
a. inside its production possibilities frontier
b. somewhere on its production possibilities frontier
c. outside of its production possibilities frontier
d. at one extreme end of its production possibilities frontier
e. more of one product with no decrease in the production of any other product

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: Efficiency and the Production Possibilities Frontier

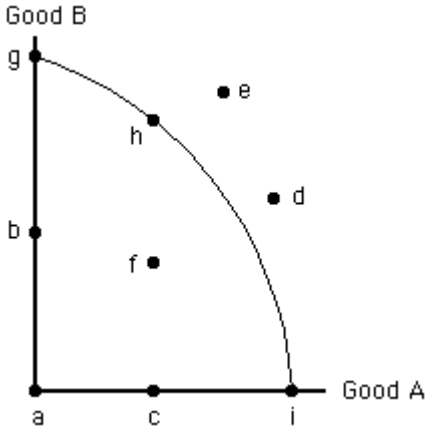
106. The production possibilities frontier represents the boundary between attainable and unattainable prices of commodities.
a. True
b. False

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: Efficiency and the Production Possibilities Frontier

107. A point outside the production possibilities frontier
a. represents unemployment of resources
b. represents full employment of resources
c. would not represent an efficient combination of goods
d. cannot be reached using the available technology
e. is less desirable than one that lies inside the frontier

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

Exhibit 2-3



108. In Exhibit 2-3, if all the economy's resources are used efficiently to produce good B, then the economy is at point
a. g
b. b
c. h
d. i
e. e

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

109. In Exhibit 2-3, if all the economy's resources are used efficiently to produce good A, then the economy is at point
a. h
b. e
c. d
d. i
e. c

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

110. Which of the following points in Exhibit 2-3 is unattainable, given the quantity of resources and level of technology?
a. h
b. g
c. f
d. i
e. e

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

111. Which of the following points in Exhibit 2-3 represents an inefficient use of the economy's resources?
a. g
b. i
c. f

d. d
e. h

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

112. In Exhibit 2-3, if resources are used fully and efficiently, then the economy can produce at point(s)
a. f
b. h, d, or e
c. a, b, or c
d. d or e
e. g, h, or i

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

113. Point e in Exhibit 2-3 represents
a. an attainable combination of good A and good B
b. an unattainable combination of good A and good B
c. the combination of good A and good B that the economy will produce
d. one possible efficient combination of good A and good B
e. the only unattainable combination of good A and good B

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

114. Point f in Exhibit 2-3 represents
a. an efficient combination of good A and good B
b. the only efficient combination of good A and good B
c. the combination of good A and good B that the economy will produce
d. an inefficient combination of good A and good B
e. the only unattainable combination of good A and good B

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

115. Point g in Exhibit 2-3 is efficient because
a. the only way to increase production of A is by decreasing production of B
b. the economy can increase production of both A and B from point b
c. it is impossible to move to any other point along the production possibilities frontier
d. it is impossible to move to any other point inside the production possibilities frontier
e. no other production possibilities frontier exists

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

116. In moving from point f to point g in Exhibit 2-3, the
a. production of B increases without a change in the production of A
b. production of A increases without a change in the production of B
c. production of both A and B increase

d. production of both A and B decrease
e. production of B increases and production of A decreases

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

117. Points inside the production possibilities frontier represent
a. full and efficient use of all resources
b. inefficiency or unemployment (or both)
c. currently unattainable combinations of outputs
d. currently unattainable combinations of resources
e. the most desirable combinations of outputs

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

118. Points outside the production possibilities frontier represent
a. unemployment of resources
b. inefficient use of resources
c. combinations that are attainable only if all resources are used fully and efficiently
d. currently unattainable combinations of outputs
e. the only currently attainable combinations from which society must choose

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

119. A point inside the production possibilities curve illustrates a situation in which resources are not fully employed
a. True
b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: Inefficient and Unattainable Production

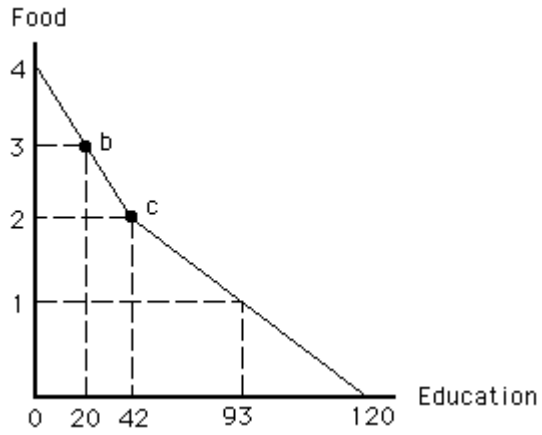
120. The bowed-out shape of the production possibilities frontier indicates increasing opportunity costs.
a. True
b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

121. The typical concave (i.e., bowed-out) shape of the production possibilities frontier reflects the law of increasing opportunity cost.
a. True
b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

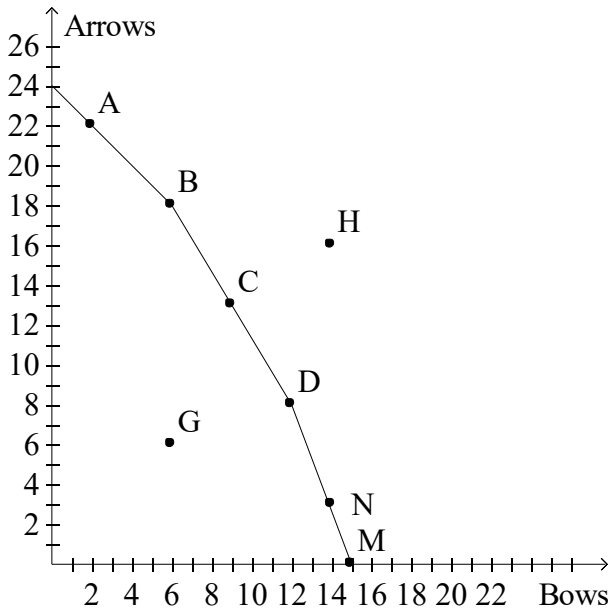
Exhibit 2-4



122. In Exhibit 2-4, what is the opportunity cost of moving from point c to point b?
   a. 3 units of food
   b. 22 units of education
   c. 1 unit of food
   d. 12 units of education
   e. 62 units of education

   ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost
   TOP: Shape of the Production Possibilities Frontier

Exhibit 2-8



123. Exhibit 2-8 represents Robin Hood's production possibilities frontier. Assume that he currently produces at point A on the production possibilities frontier. What is the opportunity cost of producing 2 more bows?
   a. 20 arrows
   b. 22 arrows
   c. 2 arrows

d. 2 bows
e. 4 bows

ANS: C PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: The Economy's Production Possibilities

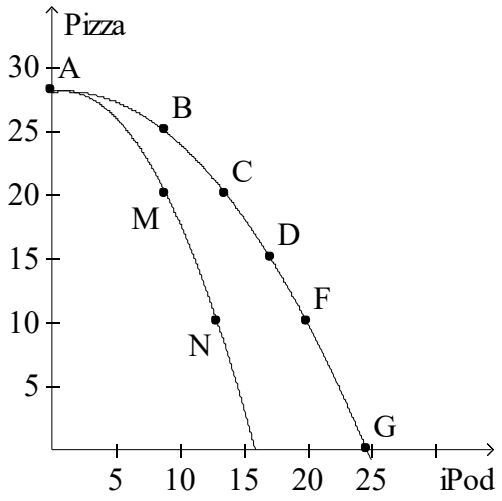
124. Exhibit 2-8 represents Robin Hood's production possibilities frontier. Assume that he currently produce at point C on the production possibilities frontier. If he wants to produce 5 more arrows, he has to give up producing
a. 10 arrows
b. 3 bows
c. 9 bows
d. 13 arrows
e. 6 bows

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: The Economy's Production Possibilities

125. Exhibit 2-8 represents Robin Hood's production possibilities frontier. Assume that he currently produce at point G inside the production possibilities frontier. Which of the following is incorrect?
a. He can produce more arrows employing the existing resources more efficient
b. He can produce more bows employing the existing resources more efficient
c. He can increase production of both arrows and bows employing the existing resources more efficient
d. He can reach point H by employing the existing resources more efficient
e. He can increase production to point D on the production possibilities frontier employing the existing resources more efficient

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: The Economy's Production Possibilities

Exhibit 2-9



126. Exhibit 2-9 represents two production possibilities frontiers for the country of Toyland. Currently, the country produces at point C. Which of the following would move the economy at point M where the same number of pizzas but fewer iPods are produced?
a. Using the existing resources more efficiently
b. A decrease in the quality of a resource used in the production of both pizzas and iPods
c. The discovery of a better technology that helps mostly the production of pizzas
d. An increase in the quantity of a resource that is used only in the production of iPods
e. A decrease in the quantity of a resource that is used only in the production of iPods

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

127. Exhibit 2-9 represents two production possibilities frontiers for the country of Toyland. Currently, the country produces at point C. Which of the following would move the economy at point D where fewer pizzas but more iPods are produced?
a. Using the existing resources more efficiently
b. A decrease in the quality of a resource used in the production of both pizzas and iPods
c. An increase in the quantity of a resource that is used only in the production of iPods
d. The country's desire to produce more iPods
e. Discovery and implementation of a better technology that increases workers' productivity

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: Shape of the Production Possibilities Frontier

128. Along a bowed-out production possibilities frontier, as more of one good is produced,
a. the opportunity cost of producing that good remains constant
b. the opportunity cost of producing that good decreases
c. efficiency decreases
d. the opportunity cost of producing both goods must remain constant
e. technology remains constant

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

129. If an economy is operating at a point inside the production possibilities frontier, then
a. some of the nation's resources are unemployed
b. the production decisions are made by the government
c. unlimited resources must satisfy scarce desires
d. there is a scarcity of human resources relative to human wants therefore society must have some mechanism for making choices
e. society is paying too much for wages

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

130. If the production possibilities frontier is a straight line,
a. its slope will equal -1
b. resources must not be used efficiently
c. resources must be unemployed
d. society must not be using the latest technology
e. resources must be equally adaptable at producing either product

ANS: E PTS: 1 DIF: Moderate NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

131. A production possibilities frontier will be bowed out if
a. there is scarcity
b. resources are used efficiently
c. production of one good involves an opportunity cost
d. resources are not perfectly adaptable to making each good
e. technology is improving

ANS: D PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

132. Because resources are not perfectly adaptable to the production of both good A and good B,
a. the opportunity cost of A increases as production of A increases
b. the opportunity cost of A decreases as production of A increases
c. it is impossible for the economy to produce both A and B
d. the opportunity cost of A is constant
e. the opportunity cost of B is constant

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

133. On a production possibilities frontier showing possible output levels of good A and good B, the opportunity cost of producing the first 10 units of A will usually be
a. the same as the opportunity cost of producing the second 10 units of A
b. less than the opportunity cost of producing the second 10 units of A
c. greater than the opportunity cost of making the second 10 units of A
d. 10 units of A
e. 10 units of B

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

134. The concave shape of a production possibilities frontier showing possible output levels of good A and good B indicates that if the economy produces more and more of good B,
a. larger and larger amounts of good A must be sacrificed
b. smaller and smaller amounts of good A must be sacrificed
c. more of good A will be produced
d. the amount of resources available in the economy must be increased
e. there must be an improvement in technology

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

135. If the production possibilities curve is a downward-sloping straight line, that would indicate
a. that society cannot decide which good it prefers
b. an absence of scarcity
c. constant opportunity cost

d. inefficiency
e. specialization

ANS: C PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

136. The law of increasing opportunity cost explains why
a. opportunity cost is constant along the production possibilities frontier
b. the production possibilities frontier is downward sloping
c. the production possibilities frontier is curved
d. efficient points lie along the production possibilities frontier
e. technology remains constant along a production possibilities frontier

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

137. The law of increasing opportunity cost reflects the fact that
a. the production possibilities frontier is bowed inward
b. resources are not perfectly substitutable
c. resources cannot always be used efficiently
d. an economy will operate at a point inside the production possibilities frontier
e. an economy will operate at a point along the production possibilities frontier

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

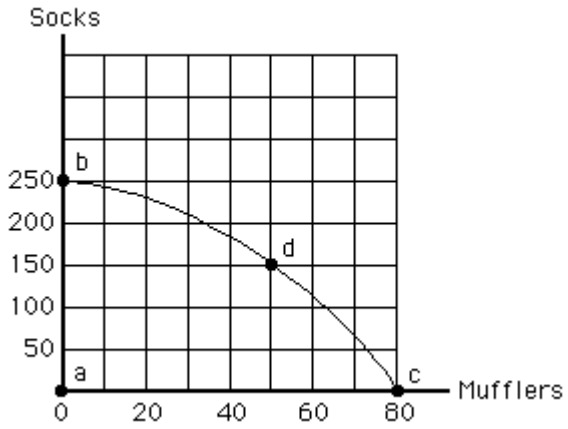
138. On a straight-line production possibilities frontier, which of the following is true?
a. The problem of scarcity does not exist.
b. Resources are imperfect substitutes.
c. Opportunity costs are constant.
d. Technology is rapidly expanding.
e. Some resources are not being used efficiently.

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

139. Any movement along the production possibilities frontier involves the production of
a. more of both goods
b. more of one good and less of the other
c. less of both goods
d. more resources
e. better technology

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Shape of the Production Possibilities Frontier

Exhibit 2-5



140. In Exhibit 2-5, the opportunity cost of moving from point b to d is
   a. 30 mufflers
   b. 50 mufflers
   c. 100 socks
   d. 150 socks
   e. 250 socks

   ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost
   TOP: Shape of the Production Possibilities Frontier

141. In Exhibit 2-5, if society moves from point c to point d, society
   a. gains 100 socks
   b. loses 30 mufflers
   c. is worse off after the change in production
   d. is not operating efficiently
   e. experiences some unemployment of resources

   ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost
   TOP: Shape of the Production Possibilities Frontier

142. On a production possibilities frontier, the opportunity cost of one more unit of a commodity per time period is measured by the
   a. monetary price of the commodity
   b. amount of the other commodity that must be sacrificed
   c. amount of unemployed resources that must be used
   d. amount of satisfaction it gives consumers
   e. amount of tax paid to government for production, sale, and use of the commodity

   ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
   LOC: Scarcity, tradeoffs, and opportunity cost
   TOP: Shape of the Production Possibilities Frontier

143. A production possibilities frontier will shift outward if there is an improvement in technology.
   a. True
   b. False

   ANS: A PTS: 1 DIF: Moderate NAT: Analytic
   LOC: Understanding and applying economic models
   TOP: What Can Shift the Production Possibilities Frontier?

144. A production possibilities frontier will shift inward if there is more unemployment of labor.
a. True
b. False

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

145. Increases in resources or improvements in technology will cause the production possibilities frontier to
a. shift outward
b. shift inward
c. become a straight line
d. become horizontal
e. become vertical

ANS: A PTS: 1 DIF: Hard NAT: Analytic
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

146. Which of the following would shift the production possibilities frontier outward?
a. an increase in the size of the labor force
b. more efficient use of existing resources and technology
c. the government prints more money
d. the end of a strike by a labor union
e. society's desire to produce more of one of the goods

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

147. Which of the following would *not* shift the production possibilities frontier?
a. an increase in worker training
b. a war that destroyed many buildings
c. a technological improvement that improved fuel efficiency in cars
d. a decrease in the size of the labor force
e. a change to a more inefficient production process

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

148. Which of the following would shift the production possibilities frontier outward?
a. a reduction in inefficiency
b. a reduction in the size of the labor force
c. an improvement in technology
d. a change in the combination of goods produced
e. increasing opportunity costs

ANS: C PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

149. An improvement in technology
a. will always result in a parallel shift of the production possibilities frontier

b. will never result in a parallel shift of the production possibilities frontier
c. will be indicated as a movement along the production possibilities frontier
d. will shift the production possibilities frontier outward but not necessarily to a parallel position
e. may not shift the production possibilities frontier

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

150. An improvement in technology would
a. enable the economy to produce outside its original production possibilities frontier
b. enable the economy to move along its original production possibilities frontier
c. eliminate scarcity; therefore, the production possibilities frontier would no longer exist
d. have no effect on the production possibilities frontier
e. change the production possibilities frontier to a line with a positive slope

ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

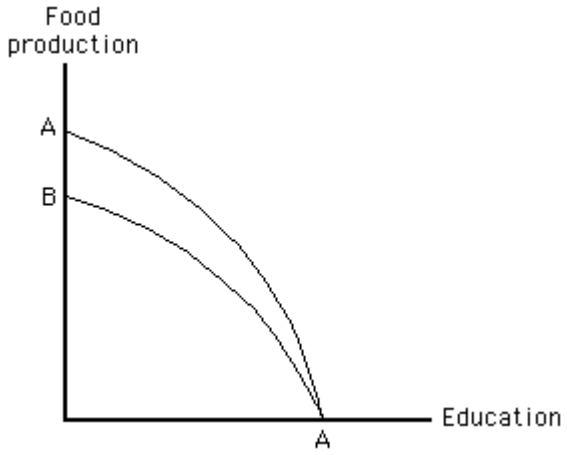
151. A production possibilities frontier can shift outward for all of the following reasons *except one*. Which is the exception?
a. a decrease in the unemployment rate
b. an improvement in labor skills
c. an improvement in technology
d. a larger work force
e. a larger capital stock

ANS: A PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

152. A production possibilities frontier can shift inward if there is
a. an increase in the unemployment rate
b. mandatory retirement at age 55
c. an improvement in technology
d. a larger work force
e. a larger capital stock

ANS: B PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

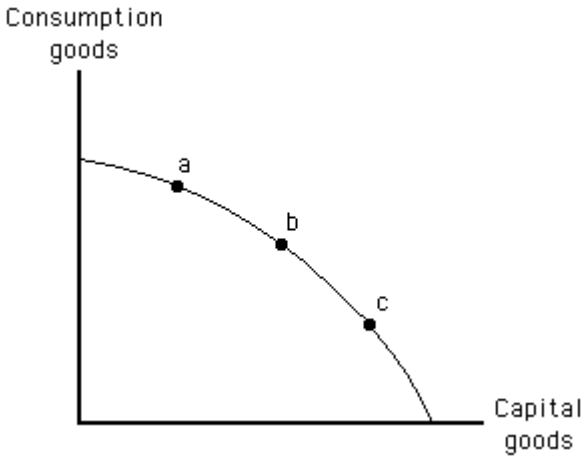
Exhibit 2-6



153. Which of the following would cause the production possibilities frontier in Exhibit 2-6 to shift from AA to BA?
   a. a drought that affected food production but had no effect on education
   b. a technological improvement in education that had no effect on food production
   c. a technological improvement in food production that had no effect on education
   d. a disease that affected students' ability to learn (and therefore education) but not food production
   e. an increase in the size of the labor force that affected both food production and education

   ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Understanding and applying economic models
   TOP: What Can Shift the Production Possibilities Frontier?

Exhibit 2-7



154. Current production at which labeled point in Exhibit 2-7 would lead to the largest outward shift in the production possibilities frontier in a later year?
   a. point a because this point represents a greater consumption level than point b
   b. point b because this point represents greater total production than the other two points
   c. point c because this point represents a greater consumption level than the other two points
   d. point b because this point represents greater production of capital than point c
   e. point c because this point represents greater production of capital than the other two points

   ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: Understanding and applying economic models

TOP: What Can Shift the Production Possibilities Frontier?

155. The production possibilities frontier will shift if there is a change in
a. technology
b. unemployment
c. product prices
d. society's preferences for commodities
e. the quantities of the two goods being produced

ANS: A PTS: 1 DIF: Hard NAT: Analytic
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

156. The production possibilities frontier represents all desirable combinations of two goods
a. True
b. False

ANS: B PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What We Learn from the PPF

157. The reason that the production possibilities frontier is usually a bow-shaped curve instead of a straight line is that
a. it makes it easier to illustrate the concepts of scarcity and prices with a bow-shaped curve than it is with a straight line
b. early economists began drawing them in this way and the convention has continued throughout the years
c. output eventually reaches a maximum and then declines
d. resources are not perfectly adaptable to the production of all goods
e. the frontier will shift outward over time

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: What We Learn from the PPF

158. The production possibilities frontier can be used to show all of the following *except one*. Which is the exception?
a. scarcity
b. opportunity cost
c. the law of increasing opportunity cost
d. efficiency
e. the best combination of goods and services for an economy

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What We Learn from the PPF

159. An outward shift of the production possibilities frontier
a. reflects economic stability
b. reflects economic growth
c. reflects economic decline
d. does not relate to the state of the economy
e. is always a parallel shift

ANS: B PTS: 1 DIF: Moderate NAT: Analytic

LOC: Understanding and applying economic models
TOP: What We Learn from the PPF

160. Which of the following *cannot* be determined from a nation's position relative to its production possibilities frontier?
a. whether it is producing efficiently
b. whether it has unemployed resources
c. the opportunity cost of each good illustrated
d. the society's relative preferences regarding each good illustrated
e. the price of each good illustrated

ANS: E PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What We Learn from the PPF

161. The economic question of "what to produce" is often referred to as the distribution question.
a. True
b. False

ANS: B PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

162. Which economic question does the decision to produce butter instead of guns answer?
a. What to produce?
b. How to produce?
c. For whom to produce?
d. Who has a comparative advantage in gun production?
e. Who has an absolute advantage in butter production?

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

163. If dairy farmers use automatic milking machines instead of milking by hand, which economic question does their decision answer?
a. What to produce?
b. How to produce?
c. For whom to produce?
d. Who has a comparative advantage in milking?
e. What is the price of milk?

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

164. Which economic question does the decision to give all of the butter the economy produces to the homeless answer?
a. What to produce?
b. How to produce?
c. For whom to produce?
d. Who has a comparative advantage in butter production?
e. Who has an absolute advantage in butter production?

ANS: C PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

165. Every economy must answer each of the following questions *except one*. Which is the exception?
a. Which goods will be produced?
b. Why are these particular goods produced?
c. Which resources should be used?
d. How should resources be combined to produce each product?
e. Who will actually consume the goods produced?

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

166. The economic question of what will be produced is
a. primarily answered by the government in a system of pure capitalism
b. primarily answered by markets in a command economy
c. faced by all economies regardless of their wealth
d. does not have to be answered by economies possessing great wealth
e. cannot be illustrated by the economic concept of the production possibilities frontier

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

167. The set of mechanisms and institutions that resolve the basic economic questions is called the
a. economic system
b. production possibilities dilemma
c. business resolution device
d. absolute advantage determination
e. comparative advantage determination

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

168. An economic system
a. must answer the three economic questions to the satisfaction of everyone in society
b. must not allow some members of society to gain an unfair advantage when answering the three economic questions
c. must choose pure capitalism to adequately answer the three economic questions
d. is a set of social institutions and mechanisms organized to answer the three economic questions
e. can address problems of scarcity only by embracing the social institution of private property

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

169. Of the various types of economic systems, pure market capitalism involves the greatest government interference and control over the economy.
a. True
b. False

ANS: B PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

170. One flaw of pure capitalism is that a person who owns no resources could starve.
a. True
b. False

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

171. The fictional country of Gameland has the following characteristics: its citizens are privately owning all resources; the resources are guided to their most productive use through market prices; goods and services are channeled to consumers who value them the most; and there is no central authority to protect property rights or enforces contracts. The economic system in Gameland is most likely:
a. Pure command system
b. Pure capitalist system
c. Mixed system
d. Transitional economy
e. Economy based on religion

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models TOP: Pure Capitalism

172. Which of the following is *not* a characteristic of pure capitalism?
a. private property rights
b. competitive markets
c. laissez-faire policies
d. central planning
e. a reliance on prices to direct resources to their best uses

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

173. Adam Smith's term, "the invisible hand," refers to
a. the hidden role of government in setting regulations that govern trading in markets
b. the most capable entrepreneurs in the economy
c. market forces
d. the unseen work of the financial markets that facilitates trade
e. the role of technological change and random events in the economy

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

174. A major distinguishing feature between capitalist and socialist (or command) economies is that
a. under capitalism the average citizen is always wealthier than in socialist economies
b. decision making is typically decentralized in socialist economies and is centralized in capitalist economies
c. socialist countries all have red flags and capitalistic economies do not
d. resources are publically owned in capitalist economies
e. decision making is typically decentralized under capitalism while it is centralized in command economies

ANS: E PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

175. Adam Smith believed that people's pursuit of their own self-interests
   a. tended to promote the general welfare
   b. required the government's "invisible hand" to keep the economy running smoothly
   c. might cause aggregate demand to be greater than aggregate supply
   d. would increase the wealth of a nation, which was the quantity of gold and silver it owned
   e. would decrease the wealth of a nation, which was its ability to produce goods and services

   ANS: A PTS: 1 DIF: Easy NAT: Analytic
   LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

176. Pure capitalism and a pure command system represent
   a. two different ways of answering the basic economic questions
   b. two names describing the same method of answering the basic economic questions
   c. the only two ways of answering the basic economic questions
   d. the most efficient ways to answer the basic economic questions
   e. none of the above

   ANS: A PTS: 1 DIF: Moderate NAT: Analytic
   LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

177. Which of the following is a characteristic of pure capitalism?
   a. all resources are owned communally
   b. economic activity is coordinated by government decision makers
   c. the price system is used to guide resources to their highest-valued uses
   d. centralized economic planning is used to answer the basic economic questions
   e. individual choices are reflected only through collective decisions

   ANS: C PTS: 1 DIF: Moderate NAT: Analytic
   LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

178. The "invisible hand" described by Adam Smith refers to the
   a. allocative role of markets and market forces
   b. importance of government intervention and central planning
   c. actions of successful entrepreneurs in directing the economy
   d. role of monopolized industries in leading the nation
   e. value of religious belief in creating an ideal economy

   ANS: A PTS: 1 DIF: Hard NAT: Reflective Thinking
   LOC: The study of economics, and definitions of economics TOP: Pure Capitalism

179. Inefficiency is a flaw of a command economy because there is less incentive for resources to flow to their highest-valued uses.
   a. True
   b. False

   ANS: A PTS: 1 DIF: Moderate NAT: Reflective Thinking
   LOC: The study of economics, and definitions of economics TOP: Pure Command System

180. In a command economy
   a. a dictator makes every economic decision
   b. owners can sell their resources to the highest bidder
   c. no individual or group coordinates the economy
   d. in theory, individual choices are reflected in collective decisions, and decisions are made by central planners
   e. public ownership of resources is combined with free markets to direct economic activity

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Pure Command System

181. Which of the following is a characteristic of a pure command economy?
a. all resources are privately owned
b. economic activity is coordinated by the price system
c. competitive markets guide resources to their highest-valued uses
d. centralized economic planning is used to answer the basic economic questions
e. economic choices are voluntary and are based on rational self-interest

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Pure Command System

182. One of the most centrally planned economies in the world today is found in
a. the United States
b. Germany
c. Canada
d. Japan
e. North Korea

ANS: E PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics TOP: Pure Command System

183. The primary differences in economic structure among different countries relate to ownership of resources and the manner in which economic activities are coordinated.
a. True
b. False

ANS: A PTS: 1 DIF: Easy NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Mixed and Transitional Economies

184. The U.S. economy is best characterized as
a. pure capitalism
b. a command economy
c. socialism
d. a mixed capitalist economy
e. market socialism

ANS: D PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Mixed and Transitional Economies

185. The mixed economy is the dominant economic system in the world because
a. custom and religion have no influence on economic decisions in these systems
b. pure capitalist economies have placed more control in the hands of individuals in recent years
c. there is public (i.e., governmental) ownership of resources but regulation of government by individuals reduces some of the flaws of pure capitalism
d. there is private ownership of property but government regulation of individuals reduces some of the flaws of pure capitalism
e. governments in pure command economies have increased their control over decision-making in recent years

ANS: D PTS: 1 DIF: Easy NAT: Reflective Thinking

LOC: The study of economics, and definitions of economics
TOP: Mixed and Transitional Economies

186. A mixed capitalist economy is one in which
a. decisions are based primarily on religion or custom
b. all resources are publicly owned and economic planning is centralized
c. all resources are privately owned and prices are used to coordinate economic activity
d. resources are both publicly and privately owned and some markets are regulated
e. all resources are publicly owned and prices are used to coordinate economic activity

ANS: D PTS: 1 DIF: Hard NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Mixed and Transitional Economies

187. When faced with a choice, a person assesses alternatives as long as the expected marginal _____ of gathering more information about the person's opinions _____ the expected marginal _____.
a. benefit, is less than, cost
b. cost, exceeds, benefit
c. benefit, exceeds, cost
d. benefit, is greater than, benefit
e. cost, is greater than, benefit

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: Scarcity, tradeoffs, and opportunity cost
TOP: Opportunity Cost Is Subjective

188. The law of comparative advantage does not apply to
a. entire nations
b. natural resources like air and sunshine
c. individuals
d. firms
e. regions of a country

ANS: B PTS: 1 DIF: Easy NAT: Analytic
LOC: Gains from trade, specialization and trade
TOP: Absolute Advantage versus Comparative Advantage

189. All of the following are evidence of specialization except
a. a solo carpenter who builds a whole bedroom set
b. restaurants that range from subs to sushi
c. the credits at the end of a movie
d. professional mourners in Taiwan
e. online sellers

ANS: A PTS: 1 DIF: Moderate NAT: Analytic
LOC: Gains from trade, specialization and trade TOP: Specialization and Exchange

190. Just as resources are scarce for the individual,
a. they are also scarce for the economy as a whole
b. they are never scarce for the economy as a whole
c. they are randomly abundant for other individuals
d. there will be zero resources available for the economy as a whole
e. the economy a whole is never faced with having to make rational choices about using resources

ANS: A PTS: 1 DIF: Easy NAT: Analytic
LOC: Understanding and applying economic models
TOP: The Economy's Production Possibilities

191. A PPF will not shift because of an increase in
a. the stability of the rules of the game
b. capital stock
c. resource availability
d. unemployment
e. technological change

ANS: D PTS: 1 DIF: Moderate NAT: Analytic
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

192. People have less incentive to invest the more concerned they are that their investment will not be
a. appropriated by government
b. stolen by thieves
c. protected from high tax rates
d. destroyed by civil unrest
e. blown up by terrorists

ANS: C PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: Understanding and applying economic models
TOP: What Can Shift the Production Possibilities Frontier?

193. The "rules of the game," the set of conditions that shape individual incentives and constraints, are determined by
a. the production possibilities frontier
b. scarcity
c. technology
d. the amount of consumer goods in the economy
e. laws about resource ownership and the role of government

ANS: E PTS: 1 DIF: Moderate NAT: Reflective Thinking
LOC: The study of economics, and definitions of economics
TOP: Three Questions Every Economic System Must Answer

194. Recognizing the incentive power of property rights and markets, some of the most die-hard central planners are now allowing
a. more influence from custom or religion
b. family relations to play significant roles
c. a role for markets
d. communal ownership of property
e. inefficient use of resources

ANS: C PTS: 1 DIF: Easy NAT: Analytic
LOC: The study of economics, and definitions of economics
TOP: Mixed and Transitional Economies