

Exam

Name _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Scarcity 1) _____

- A) is a bigger problem in market economies than in socialist economies.
- B) can be eliminated by rationing products.
- C) can be overcome by discovering new resources.
- D) stems from the incompatibility between limited resources and unlimited desires.

Answer: D

2) In 2002, BMW made a tactical decision to use a robot to attach the gearbox to the engines of its vehicles instead of using two workers as it had done previously. The robot method had a higher cost but installed the gearbox in exactly the right position. In making this decision, BMW 2) _____

- A) faced a trade-off between higher cost and lower precision (in installing the gearbox in exactly the right position).
- B) adopted a negative technological change because it replaced workers with robots.
- C) eroded some of its competitiveness in the luxury car market because of its increased cost of production.
- D) faced no trade-offs because the robot method increased efficiency.

Answer: A

3) The principle of opportunity cost is that 3) _____

- A) in a market economy, taking advantage of profitable opportunities involves some money cost.
- B) taking advantage of investment opportunities involves costs.
- C) the cost of production varies depending on the opportunity for technological application.
- D) the economic cost of using a factor of production is the alternative use of that factor that is given up.

Answer: D

4) The production possibilities frontier shows 4) _____

- A) what an equitable distribution of products among citizens would be.
- B) the maximum attainable combinations of two products that may be produced in a particular time period with available resources.
- C) what people want firms to produce in a particular time period.
- D) the various products that can be produced now and in the future.

Answer: B

5) The production possibilities frontier model shows that 5) _____

- A) if consumers decide to buy more of a product its price will increase.
- B) a market economy is more efficient in producing goods and services compared with a centrally planned economy.
- C) economic growth can only be achieved by free market economies.
- D) if all resources are fully and efficiently utilized, more of one product can be produced only by producing less of another product.

Answer: D

- 6) The production possibilities frontier model assumes all of the following, except
- A) labor, capital, land and natural resources are fixed in quantity.
 - B) any level of the two products that the economy produces is currently possible.
 - C) the level of technology is fixed and unchanging.
 - D) the economy produces only two products.

6) _____

Answer: B

- 7) The attainable production points on a production possibility curve are
- A) the points outside the area enclosed by the production possibilities frontier.
 - B) the points along the production possibilities frontier.
 - C) the horizontal and vertical intercepts.
 - D) the points along and inside the production possibility frontier.

7) _____

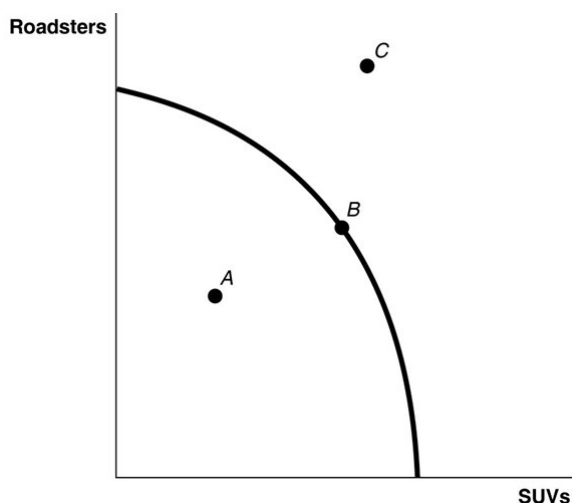
Answer: D

- 8) The unattainable points in a production possibilities diagram are
- A) the points within the production possibilities frontier.
 - B) the points of the horizontal and vertical intercepts.
 - C) the points outside the production possibilities frontier.
 - D) the points along the production possibilities frontier.

8) _____

Answer: C

Figure 2-1



- 9) Refer to Figure 2-1. Point A is
- A) technically efficient.
 - B) the equilibrium output combination.
 - C) unattainable with current resources.
 - D) inefficient in that not all resources are being used.

9) _____

Answer: D

- 10) Refer to Figure 2-1. Point B is 10) _____
A) technically efficient.
B) unattainable with current resources.
C) the equilibrium output combination.
D) inefficient in that not all resources are being used.
Answer: A
- 11) Refer to Figure 2-1. Point C is 11) _____
A) unattainable with current resources.
B) the equilibrium output combination.
C) inefficient in that not all resources are being used.
D) technically efficient.
Answer: A
- 12) In a production possibilities frontier model, a point inside the frontier is 12) _____
A) productively inefficient. B) allocatively inefficient.
C) allocatively efficient. D) productively efficient.
Answer: A
- 13) Farida can produce either a combination of 60 silk roses and 80 silk leaves or a combination of 70 silk roses and 55 silk leaves. If she produces 60 silk roses and 80 silk leaves, what is the opportunity cost of producing an additional 10 silk roses? 13) _____
A) 10 silk leaves B) 2.5 silk leaves C) 25 silk leaves D) 55 silk leaves
Answer: C
- 14) If the production possibilities frontier is linear, then 14) _____
A) opportunity costs are constant as more of one product is produced.
B) opportunity costs are increasing as more of one product is produced.
C) it is easy to produce output efficiently.
D) opportunity costs are decreasing as more of one product is produced.
Answer: A

Figure 2-2

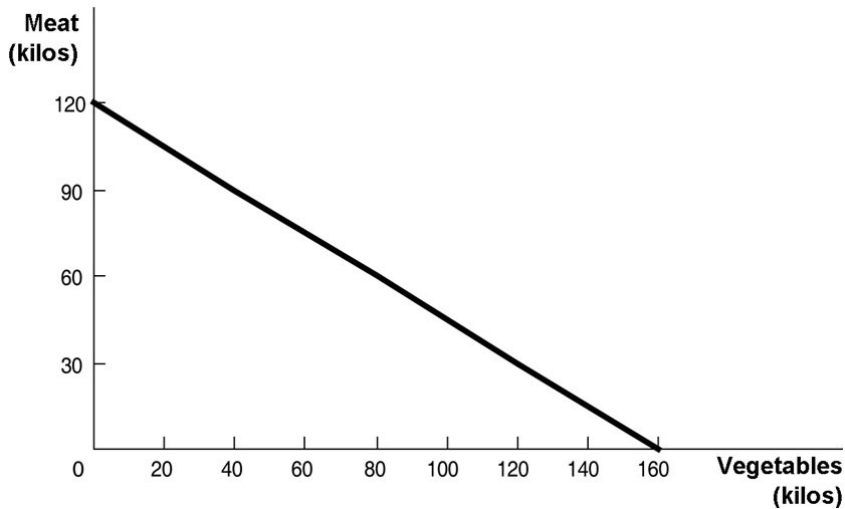


Figure 2-2 above shows the production possibilities frontier for Mendonca, an agrarian nation that produces two goods: meat and vegetables.

- 15) Refer to Figure 2-2. What is the opportunity cost of one kilo of vegetables? 15) _____
- A) 1.3 kilos of meat B) 1.2 kilos of meat
- C) .75 kilos of meat D) 12 kilos of meat

Answer: C

- 16) Refer to Figure 2-2. What is the opportunity cost of one kilo of meat? 16) _____
- A) 0.75 kilos of vegetables B) 1.6 kilos of vegetables
- C) 16 kilos of vegetables D) 1.3 kilos of vegetables

Answer: D

- 17) Refer to Figure 2-2. Suppose Mendonca is currently producing 60 kilos of vegetables per period. 17) _____
- How much meat is it also producing, assuming that resources are fully utilized?
- A) 100 kilos of meat B) 75 kilos of meat
- C) 45 kilos of meat D) 80 kilos of meat

Answer: B

- 18) Refer to Figure 2-2. The linear production possibilities frontier in the figure indicates that 18) _____
- A) Mendonca has a comparative disadvantage in the production of meat.
- B) it is progressively more expensive to produce meat.
- C) Mendonca has a comparative advantage in the production of vegetables.
- D) the trade-off between meat and vegetables is constant.

Answer: D

- 19) A production possibilities frontier with a bowed outward shape indicates 19) _____
- A) constant opportunity costs as more and more of one product is produced.
- B) decreasing opportunity costs as more and more of one product is produced.
- C) increasing opportunity costs as more and more of one product is produced.
- D) the possibility of inefficient production.

Answer: C

- 20) Increasing opportunity cost along a bowed out production possibilities frontier occurs because 20) _____
- A) some factors of production are not equally suited to producing both goods or services.
 - B) of ineffective management by entrepreneurs.
 - C) of the scarcity of factors of production.
 - D) of inefficient production.

Answer: A

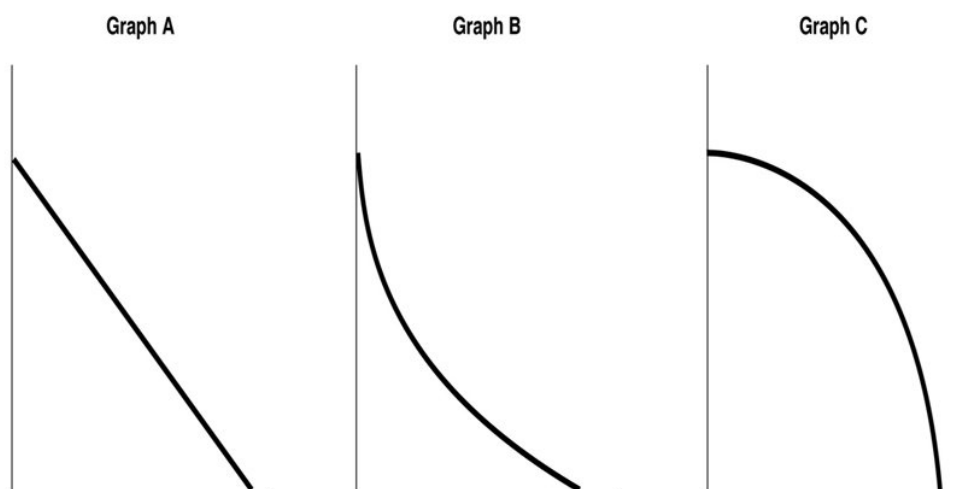
- 21) The slope of a production possibilities frontier 21) _____
- A) is always constant.
 - B) has no economic relevance or meaning.
 - C) measures the opportunity cost of producing one more unit of a product.
 - D) is always varying.

Answer: C

- 22) If opportunity costs are constant, the production possibilities frontier would be graphed as 22) _____
- A) a negatively sloped curve bowed in toward the origin.
 - B) a positively sloped straight line.
 - C) a negatively sloped straight line.
 - D) a ray from the origin.

Answer: C

Figure 2-3



- 23) Refer to Figure 2-3. Ayman Hamdy grows tomatoes and strawberries on his land. His land is equally suited to growing either fruit. Which of the graphs in Figure 2-3 represent his production possibilities frontier? 23) _____
- A) Graph B
 - B) Either Graph B or Graph C
 - C) Graph A
 - D) Graph C
 - E) Either Graph A or Graph B

Answer: C

- 24) Refer to Figure 2-3. Ayman Hamdy grows tomatoes and strawberries on his land. A portion of his land is more suitable for growing tomatoes and the other portion is better suited to strawberry cultivation. Which of the graphs in Figure 2-3 represent his production possibilities frontier? 24) _____
- A) Graph B
 - B) Either Graph A or Graph B
 - C) Graph A
 - D) Graph C
 - E) Either Graph B or Graph C

Answer: D

- 25) An outward shift of a nation's production possibilities frontier can occur due to 25) _____
- A) a reduction in unemployment.
 - B) a change in the amounts of one good desired.
 - C) an increase in the labor force.
 - D) a natural disaster like a hurricane or earthquake.

Answer: C

- 26) An outward shift of a nation's production possibilities frontier represents 26) _____
- A) a situation in which a country produces more of one product and less of another.
 - B) rising prices of the two products on the production possibilities frontier model.
 - C) economic growth.
 - D) an impossible situation.

Answer: C

- 27) Economic growth is represented on a production possibilities frontier model by the production possibility frontier 27) _____
- A) becoming steeper.
 - B) shifting inward.
 - C) shifting outward.
 - D) becoming flatter.

Answer: C

- 28) Without an increase in the supplies of factors of production, how can a nation achieve economic growth? 28) _____
- A) By lowering the prices of factors of production.
 - B) Through technological advancement which enables more output with the same quantity of resources.
 - C) By increasing the prices of factors of production.
 - D) By producing more high-value goods and fewer low-value goods.

Answer: B

- 29) Which of the following would shift a nation's production possibilities frontier inward? 29) _____
- A) An increase in the unemployment rate.
 - B) Discovering a cheap way to convert sunshine into electricity.
 - C) A law requiring workers to retire at age 50.
 - D) Producing more capital equipment.

Answer: C

Figure 2-4

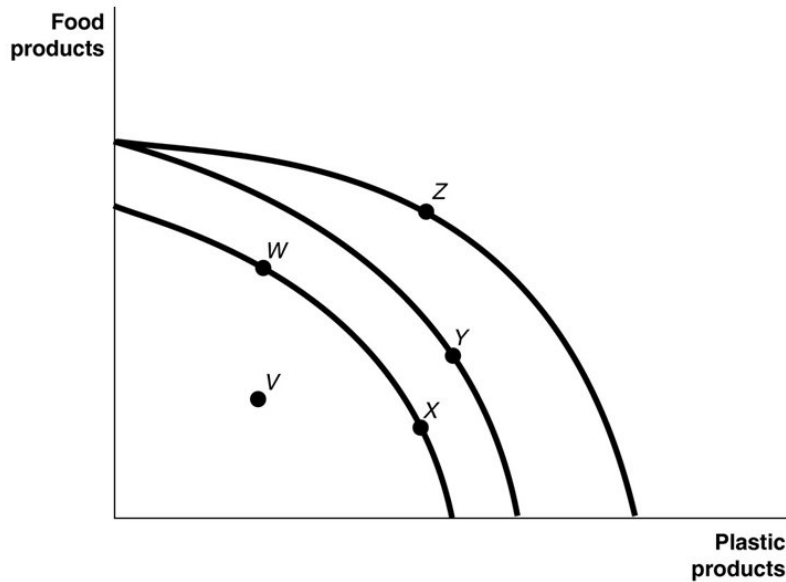


Figure 2-4 shows various points on three different production possibilities frontiers for a nation.

30) Refer to Figure 2-4. A movement from X to Y

30) _____

- A) is the result of advancements in food production technology only, with no change in the technology for plastic production.
- B) could occur because of an influx of immigrant labor.
- C) could be due to a change in consumers' tastes and preferences.
- D) is the result of advancements in plastic production technology only, with no change in food production technology.

Answer: B

31) Refer to Figure 2-4. A movement from Y to Z

31) _____

- A) represents an increase in the demand for plastic products.
- B) is the result of advancements in food production technology.
- C) is the result of advancements in plastic production technology.
- D) could occur because of general technological advancements.

Answer: C

32) Refer to Figure 2-4. Consider the following events:

32) _____

- a. an increase in the unemployment rate
 - b. a decrease in a nation's money supply
 - c. a war that kills a significant portion of a nation's population
- Which of the events listed above could cause a movement from Y to W?

- A) a only
- B) a, b and c
- C) c only
- D) a and c only
- E) a and b only

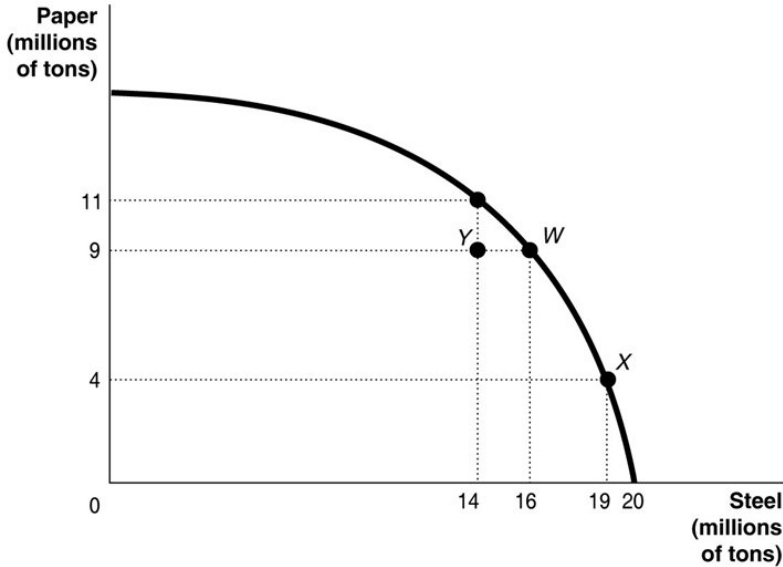
Answer: C

- 33) Refer to Figure 2-4. Consider the following movements: 33) _____
a. from point V to point W
b. from point W to point Y
c. from point Y to point Z
Which of the movements listed above represents economic growth?
A) b only B) a, b, and c C) b and c only D) a only
Answer: C
- 34) Refer to Figure 2-4. Consider the following events: 34) _____
a. a decrease in the unemployment rate
b. general technological advancement
c. an increase in consumer wealth
Which of the events listed above could cause a movement from V to W?
A) a only B) b and c only C) a, b, and c D) a and b only
Answer: A
- 35) Refer to Figure 2-4. Consider the following events: 35) _____
a. a reduction in the patent protection period to no more than 2 years
b. a war that destroys a substantial portion of a nation's capital stock
c. a lack of secure and enforceable property rights system
Which of the events listed above could cause a movement from W to V?
A) a and b only
B) a, b, and c
C) b and c only
D) a only
E) a and c only
Answer: E
- 36) The Great Depression of the 1930s, with a large number of workers unemployed, would be 36) _____
represented in a production possibilities frontier graph by
A) a point on the frontier.
B) a point outside the frontier.
C) an intercept on either the vertical or the horizontal axis.
D) a point inside the frontier.
Answer: D
- 37) Suppose there is some unemployment in the economy and society decides that it wants more of 37) _____
one product. Which of the following statements is true?
A) It can increase output without giving up another product by employing more resources.
B) It will have to give up production and consumption of some other product.
C) It will have to increase resource supplies.
D) It is not possible to achieve this unless technology advances.
Answer: A
- 38) If society decides it wants more of one product and all resources are fully utilized, then 38) _____
A) it is unable to do this unless technology advances.
B) more unemployment will occur.
C) it has to give up some of another product and incur some opportunity costs.
D) additional resource supplies will have to be found.
Answer: C

- 39) According to the production possibility model, if more resources are allocated to the production of physical and human capital, then all of the following are likely to happen except _____
- A) the country's total production will fall.
 - B) fewer goods will be produced for consumption today.
 - C) the production possibilities frontier will shift outward in the future.
 - D) future economic growth will be enhanced.

Answer: A

Figure 2-5



- 40) Refer to Figure 2-5. If the economy is currently producing at point Y, what is the opportunity cost of moving to point W? _____
- A) 16 million tons of paper
 - B) zero
 - C) 9 million tons of paper
 - D) 2 million tons of steel

Answer: B

- 41) Refer to Figure 2-5. If the economy is currently producing at point W, what is the opportunity cost of moving to point X? _____
- A) 5 million tons of paper
 - B) 3 million tons of steel
 - C) 19 million tons of steel
 - D) 9 million tons of paper

Answer: A

- 42) In a report made to the US Congress in 2001, the National Academy of Sciences cautioned that if fuel economy encourages the production of smaller and lighter cars, "some additional traffic fatalities would be expected." This statement suggests that _____
- A) there is a trade-off between safety and fuel economy.
 - B) society should value safety more highly than fuel economy.
 - C) society should value fuel economy more highly than consumer safety because of the long-term environmental benefits generated by reduced gasoline use.
 - D) US auto manufacturers are more concerned about producing fuel-efficient cars to compete with their Japanese and South Korean rivals than about consumer safety.

Answer: A

- 43) Suppose your expenses for this term are as follows: 43) _____
tuition: US\$5,000
room and board: US\$3,000
books and other educational supplies: US\$500.
Further, during the term, you can only work part-time and earn US\$4,000 instead of your full-time salary of US\$10,000. What is the opportunity cost of going to college this term, assuming that your room and board expenses would be the same even if you did not go to college?
A) US\$11,500 B) US\$14,500 C) US\$5,500 D) US\$8,500

Answer: A

- 44) The opportunity cost of taking a semester-long economics class is 44) _____
A) the cost of tuition and fees only.
B) the value of the time spent in the classroom.
C) the knowledge and enjoyment you receive from attending the class.
D) zero because there is no admission charged if you are enrolled on the course.
E) equal to the highest value of an alternative use of the time and money spent on the class.

Answer: E

- 45) Mobica provides car furniture to Daimler and Toyota. When would Mobica factory managers face a trade-off between Daimler car furniture and Toyota car furniture? 45) _____
A) If Mobica is operating at its PPF.
B) If Mobica has idle resources.
C) If Daimler and Toyota increase their demand on Mobica.
D) If Mobica is operating inside its PPF.

Answer: A

- 46) Which of the following statements is NOT true about charitable giving in the Arab world? 46) _____
A) Charitable giving is a fundamental feature of the Arab culture.
B) People in the Arab world used to give charitable donations on a person-to-person basis.
C) As more donations are directed to one project, fewer donations will be available to other projects.
D) All charities are related to human development programs such as helping people to start projects and become self-sufficient.

Answer: D

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 47) An increase in the unemployment rate may be represented as a movement from a point on the production possibilities frontier to a point inside the frontier. 47) _____

Answer: ☒ True False

- 48) If a country is producing efficiently and is on the production possibilities frontier, the only way to produce more of one product is to produce less of another. 48) _____

Answer: ☒ True False

- 49) Consider a country that produces only two goods: pineapples and tractors. If it was possible for this country to increase its production of pineapples without producing fewer tractors, then its current output combination would be inefficient. 49) _____

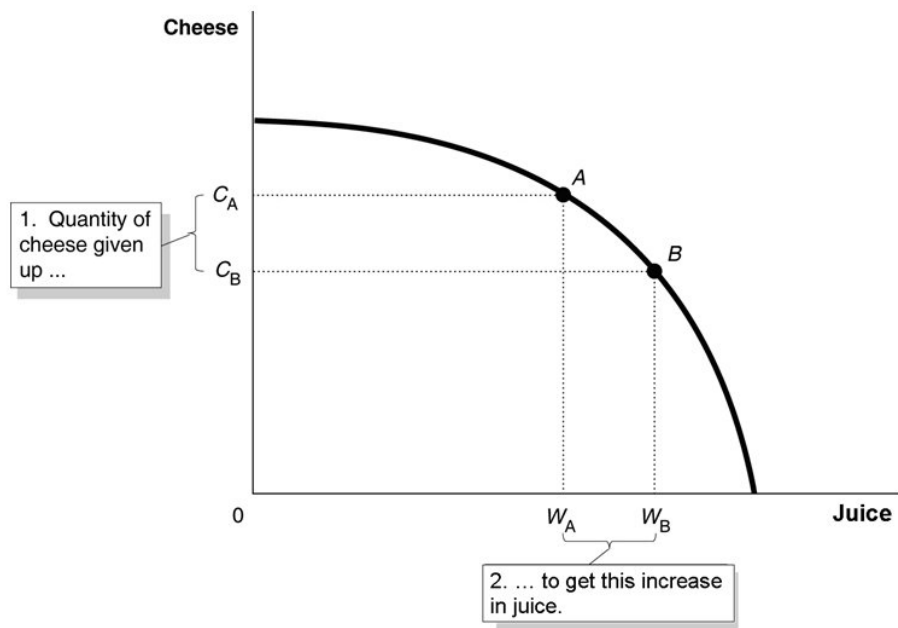
Answer: ☒ True False

- 50) Any output combination outside a production possibility frontier is associated with unused or underutilized resources. 50) _____
Answer: ☒ True ☐ False
- 51) An increase in population shifts the production possibility frontier inwards over time. 51) _____
Answer: ☐ True ☒ False
- 52) If additional units of a product could be produced at a constant opportunity cost, the production possibility frontier would be bowed outward (concave). 52) _____
Answer: ☐ True ☒ False
- 53) On a diagram of a production possibility frontier, opportunity cost is represented by the slope of the production possibility frontier. 53) _____
Answer: ☒ True ☐ False
- 54) To increase gas mileage, automobile manufacturers make cars small and light. Large cars absorb more of the impact of an accident than smaller cars but yield lower gas mileage. These facts suggest that a negative relationship exists between safety and gas mileage. 54) _____
Answer: ☒ True ☐ False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 55) a. Draw a production possibilities frontier for a country that produces two goods, juice and cheese. Assume that resources are not equally suited to both tasks.
 b. Define opportunity costs.
 c. Use your production possibilities frontier graph to demonstrate the principle of opportunity costs.

Answer: a. The PPF is concave (bowed away from the origin) showing that resources are not equally suited to both tasks.



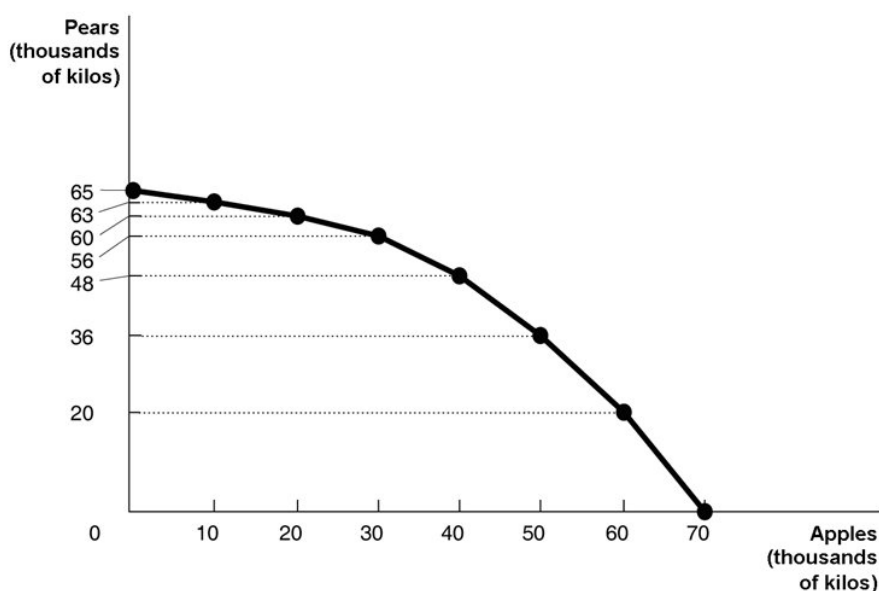
- b. Opportunity cost is defined as the highest valued alternative that must be forgone by taking an action.
 c. In the PPF graph in part (a), suppose the country is currently producing at point A and wishes to move to point B so that it can produce more juice. The only way it can obtain more juice is to give up some amount of cheese.

Table 2-1

Possible Output Combinations	Apples (thousands of kilos)	Pears (thousands of kilos)
A	70	0
B	60	20
C	50	36
D	40	48
E	30	56
F	20	60
G	10	63
H	0	65

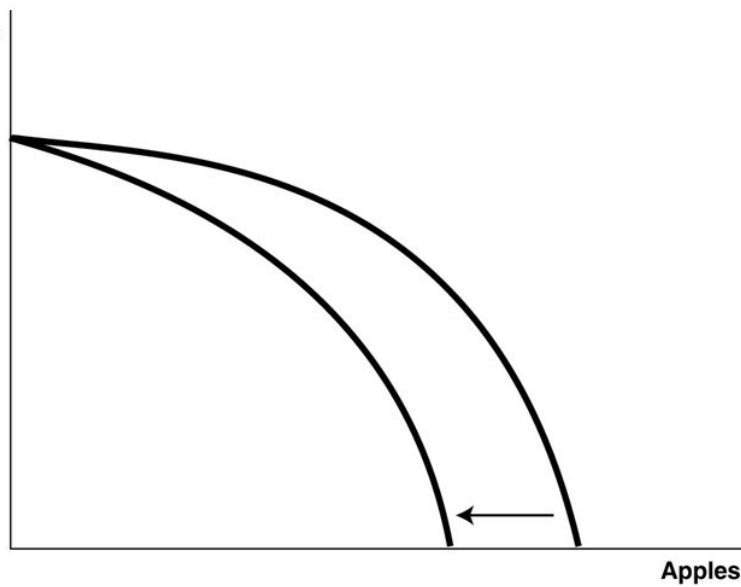
- 56) Refer to Table 2-1. The Fruit Farm produces only apples and pears. The table above shows the maximum possible output combinations of the two fruits using all resources and currently available technology.
- Graph The Fruit Farm's production possibilities frontier. Put apples on the horizontal axis and pears on the vertical axis. Be sure to identify the output combination points on your diagram.
 - Suppose The Fruit Farm is currently producing at point D. What is the opportunity cost of producing an additional 8,000 kilos of pears?
 - Suppose The Fruit Farm is currently producing at point D. What happens to the opportunity cost of producing more and more pears? Does it increase, decrease or remain constant? Explain your answer.
 - Suppose The Fruit Farm is currently producing at point G. What happens to the opportunity cost of producing more and more apples? Does it increase, decrease or remain constant? Explain your answer.
 - Suppose The Fruit Farm is plagued by a maggot infestation which destroys apple trees but not pears. Show in a graph what happens to its PPF.

Answer: a.



- 10 kilos of apples
- It increases. For example to move to E, The Fruit Farm has to give up 10,000 kilos of apples to produce an additional 8,000 kilos of pears. For each additional 10,000 kilos of apples foregone, the payoff in terms of pears gets progressively smaller.
- It increases. Each time it wants to produce an additional 10,000 kilos of apples, an increasing number of pears must be given up.
-

Answer: **Pears**



MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

57) You have an absolute advantage whenever you

57) _____

- A) prefer to do one particular activity.
- B) are better educated than someone else.
- C) can produce more of something than others with the same resources.
- D) can produce something at a lower opportunity cost than others.

Answer: C

Table 2-2

	Ahmed	Ayman
Lawns mowed	10	6
Gardens cultivated	5	4

Table 2-2 shows the output per day of two gardeners, Ahmed and Ayman. They can either devote their time to mowing lawns or cultivating gardens.

58) Refer to Table 2-2. Which of the following statements is true?

58) _____

- A) Ayman has an absolute advantage in both tasks.
- B) Ayman has an absolute advantage in lawn mowing and Ahmed in garden cultivating.
- C) Ayman has an absolute advantage in garden cultivating and Ahmed in lawn mowing.
- D) Ahmed has an absolute advantage in both tasks.

Answer: D

59) Refer to Table 2-2. What is Ayman's opportunity cost of mowing a lawn?

59) _____

- A) two lawns mowed
- B) half a garden cultivated
- C) two-thirds of a garden cultivated
- D) one and a half lawns mowed

Answer: C

- 60) Refer to Table 2-2. What is Ayman's opportunity cost of cultivating a garden? 60) _____
A) one and a half lawns mowed B) half a garden cultivated
C) two lawns mowed D) two-thirds of a garden cultivated
Answer: A
- 61) Refer to Table 2-2. What is Ahmed's opportunity cost of mowing a lawn? 61) _____
A) two lawns mowed B) one and a half lawns mowed
C) half a garden cultivated D) two-thirds of a garden cultivated
Answer: C
- 62) Refer to Table 2-2. What is Ahmed's opportunity cost of cultivating a garden? 62) _____
A) two lawns mowed B) one and a half lawns mowed
C) half a garden cultivated D) two-thirds of a garden cultivated
Answer: A
- 63) Refer to Table 2-2. Which of the following statements is true? 63) _____
A) Ayman has a comparative advantage in both tasks.
B) Ayman has a comparative advantage in garden cultivating and Ahmed in lawn mowing.
C) Ahmed has a comparative advantage in both tasks.
D) Ayman has a comparative advantage in lawn mowing and Ahmed in garden cultivating.
Answer: B
- 64) Comparative advantage means 64) _____
A) that, compared to others, you are better at producing a product.
B) the ability to produce more of a product with the same amount of resources than any other producer.
C) the ability to produce a product or service at a lower opportunity cost than any other producer.
D) the ability to produce a product or service at a higher opportunity cost than any other producer.
Answer: C
- 65) Specializing in the production of a product or service in which one has a comparative advantage enables a country to do all of the following, except 65) _____
A) increase the variety of products that it can consume with no increase in resources.
B) engage in mutually beneficial trade with other nations.
C) produce a combination of goods that lie outside its own production possibilities frontier.
D) consume a combination of goods that lie outside its own production possibilities frontier.
Answer: C
- 66) For each watch that Switzerland produces, it gives up the opportunity to make 50 kilos of chocolate. Germany can produce one watch for every 100 kilos of chocolate it produces. Which of the following is true about the comparative advantage between the two countries? 66) _____
A) Switzerland has the comparative advantage in watches.
B) Switzerland has the comparative advantage in chocolate.
C) Germany has the comparative advantage in watches.
D) Germany has the comparative advantage in watches and chocolate.
Answer: A

Figure 2-7

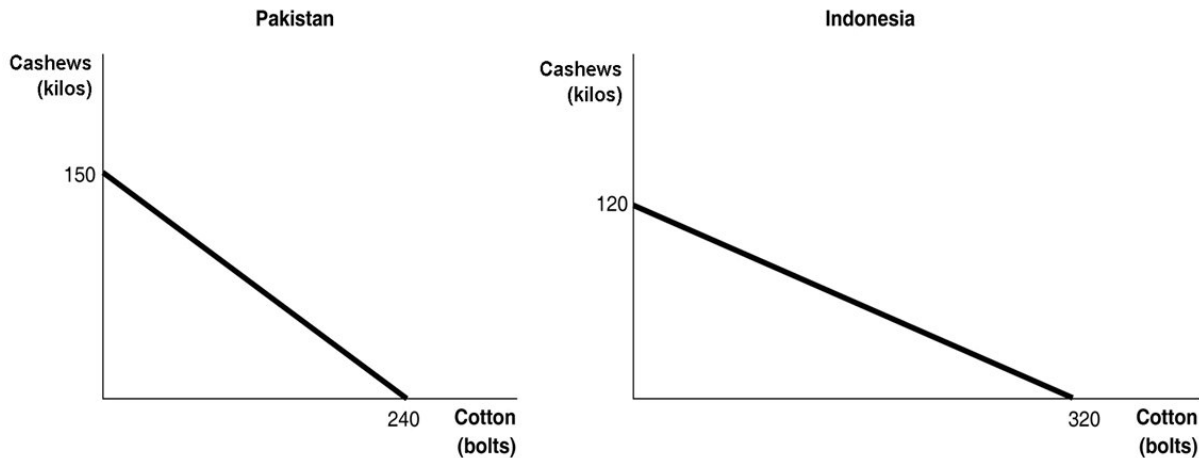


Figure 2-7 shows the production possibilities frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

- 67) Refer to Figure 2-7. What is the opportunity cost of producing one bolt of cloth in Pakistan? 67) _____
- A) 150 kilos of cashews B) $\frac{5}{8}$ kilos of cashews
- C) $1\frac{3}{5}$ kilos of cashews D) $\frac{3}{8}$ kilos of cashews

Answer: B

- 68) Refer to Figure 2-7. What is the opportunity cost of producing one bolt of cloth in Indonesia? 68) _____
- A) $\frac{3}{8}$ kilos of cashews B) 120 kilos of cashews
- C) $2\frac{2}{3}$ kilos of cashews D) $\frac{5}{8}$ kilos of cashews

Answer: A

- 69) Refer to Figure 2-7. What is the opportunity cost of producing one kilo of cashews in Pakistan? 69) _____
- A) $\frac{5}{8}$ bolts of cotton B) $1\frac{3}{5}$ bolts of cotton
- C) $\frac{3}{8}$ bolts of cotton D) 240 bolts of cotton

Answer: B

- 70) Refer to Figure 2-7. What is the opportunity cost of producing one kilo of cashews in Indonesia? 70) _____
- A) 320 bolts of cotton B) $\frac{3}{8}$ bolts of cotton
- C) $2\frac{2}{3}$ bolts of cotton D) $\frac{5}{8}$ bolts of cotton

Answer: C

- 71) Refer to Figure 2-7. Which country has a comparative advantage in the production of cotton? 71) _____
- A) Pakistan B) They have equal productive abilities.
- C) Indonesia D) Neither country

Answer: C

- 72) Refer to Figure 2-7. Which country has a comparative advantage in the production of cashews? 72) _____
- A) Neither country B) Pakistan
- C) Indonesia D) They have equal productive abilities.

Answer: A

- 73) Refer to Figure 2-7. If the two countries have the same amount of resources and the same technological knowledge, which country has an absolute advantage in the production of cotton?
- A) Indonesia
C) Pakistan
B) This cannot be determined.
D) They have the same advantage.

73) _____

Answer: A

- 74) Individuals who have never been the best at doing anything
- A) cannot have a comparative advantage in producing any product.
B) perform all tasks at a higher opportunity cost than others.
C) can still have a comparative advantage in producing a product.
D) must have an absolute advantage in at least one task.

74) _____

Answer: C

Table 2-3

	<i>One digital camera</i>	<i>Wheat (per kilo)</i>
China	100 hours	4 hours
South Korea	60 hours	3 hours

Table 2-3 shows the number of labor hours required to produce a digital camera and a kilo of wheat in China and South Korea.

- 75) Refer to Table 2-3. Does either China or South Korea have an absolute advantage and, if so, in which product?
- A) South Korea has an absolute advantage in both products.
B) China has an absolute advantage in digital cameras.
C) South Korea has an absolute advantage in wheat.
D) China has an absolute advantage in wheat.

75) _____

Answer: A

- 76) Refer to Table 2-3. What is China's opportunity cost of producing one digital camera?
- A) 4 kilos of wheat
C) 40 kilos of wheat
B) 0.04 kilos of wheat
D) 25 kilos of wheat

76) _____

Answer: D

- 77) Refer to Table 2-3. What is South Korea's opportunity cost of producing one digital camera?
- A) 25 kilos of wheat
C) 60 kilos of wheat
B) 0.05 kilos of wheat
D) 20 kilos of wheat

77) _____

Answer: D

- 78) Refer to Table 2-3. What is China's opportunity cost of producing one kilo of wheat?
- A) 40 digital cameras
C) 0.04 units of a digital camera
B) 4 digital cameras
D) 25 digital cameras

78) _____

Answer: C

- 79) Refer to Table 2-3. What is South Korea's opportunity cost of producing one kilo of wheat?
- A) 5 digital cameras
C) 20 digital cameras
B) 0.05 units of a digital camera
D) 60 digital cameras

79) _____

Answer: B

80) Refer to Table 2-3. China has a comparative advantage in 80) _____
A) both products. B) neither product.
C) wheat production. D) digital camera production.
Answer: C

81) Refer to Table 2-3. South Korea has a comparative advantage in 81) _____
A) digital camera production. B) neither product.
C) both products. D) wheat production.
Answer: A

82) Refer to Table 2-3. If the two countries specialize and trade, who should export wheat? 82) _____
A) China
B) There is no basis for trade between the two countries.
C) They should both be exporting wheat.
D) South Korea
Answer: A

83) Refer to Table 2-3. If the two countries specialize and trade, who should export digital cameras? 83) _____
A) China
B) South Korea
C) They should both be exporting digital cameras.
D) There is no basis for trade between the two countries.
Answer: B

84) If the best lawyer in town is also the best at operating a word processor, then according to 84) _____
economic reasoning, this person should
A) specialize in operating a word processor because it is more capital-intensive.
B) specialize in being a lawyer because its opportunity cost is lower.
C) split his time evenly between being a lawyer and operating a word processor.
D) pursue the activity he enjoys more.
Answer: B

85) Khaled Hamdy is a highly talented photographer. He has chosen to specialize in photography for 85) _____
all but one of the following reasons:
A) His opportunity cost of pursuing another career is very low.
B) His photographs are highly esteemed by art lovers who are willing to pay very high prices.
C) For him, this is the most lucrative way to purchase the products that he wants to consume.
D) He obviously has a comparative advantage in photography.
Answer: A

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

86) If Mohamed can pick more cherries in one hour than Ahmed, then Mohamed has a comparative 86) _____
advantage in cherry picking.
Answer: True ☒ False

87) The basis for trade is comparative advantage, not absolute advantage. 87) _____
Answer: ☒ True ☐ False

- 88) If a country produces only two goods, it is not possible to have a comparative advantage in the production of both goods. 88) _____
 Answer: ☒ True ☐ False
- 89) If two countries produce the same two goods (and no others) and one country has an absolute advantage in the production of both goods, it cannot benefit by trading with the other country. 89) _____
 Answer: ☐ True ☒ False
- 90) If the opportunity cost of producing more of one product increases as more of that product is produced, then the production method is inefficient. 90) _____
 Answer: ☐ True ☒ False
- 91) It is possible to have a comparative advantage in producing a product or service without having an absolute advantage. 91) _____
 Answer: ☒ True ☐ False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

Table 2-4

	Assembled cars	Wheat (kilos)
Egypt	100 hours	5 hours
Morocco	90 hours	3 hours

- 92) Refer to Table 2-4. This table shows the number of labor hours required to produce an assembled car and a kilo of wheat in Egypt and Morocco.
- Which country has an absolute advantage in the production of assembled cars?
 - Which country has an absolute advantage in the production of wheat?
 - What is Egypt's opportunity cost of producing one assembled car?
 - What is Morocco's opportunity cost of producing one assembled car?
 - What is Egypt's opportunity cost of producing one kilo of wheat?
 - What is Morocco's opportunity cost of producing one kilo of wheat?
 - If each country specializes in the production of the product in which it has a comparative advantage, who should produce assembled cars?
 - If each country specializes in the production of the product in which it has a comparative advantage, who should produce wheat?

Answer: a. Morocco has an absolute advantage in the production of assembled cars.
 b. Morocco has an absolute advantage in wheat production.
 c. Egypt's opportunity cost of producing one assembled car is 20 kilos of wheat.
 d. Morocco's opportunity cost of producing one assembled car is 30 kilos of wheat.
 e. Egypt's opportunity cost of producing one kilo of wheat is 0.05 units of an assembled car.
 f. Morocco's opportunity cost of producing one kilo of wheat is 0.03 units of an assembled car.
 g. Egypt should specialize in producing assembled cars.
 h. Morocco should specialize in producing wheat.

Table 2-5

	Assembled cars	Wheat (kilos)
Egypt	100 hours	5 hours
Morocco	90 hours	3 hours

- 93) Refer to Table 2-5. This table shows the number of labor hours required to produce an assembled car and a kilo of wheat in Egypt and Morocco.
- If each country has a total of 9,000 labor hours to devote to the production of the two goods, draw the production possibilities frontier for each country. Put "Assembled cars" on the horizontal axis and "Wheat (kilos)" on the vertical axis. Be sure to identify the intercept values on your graphs.
 - Suppose each country allocates 60% of its labor hours to wheat production and 40% to the production of assembled cars. Complete Table 2-6 below to show each country's output of the two products.

Table 2-6: Production and consumption with no trade

	Assembled cars output	Wheat output (kilos)
Egypt		
Morocco		
Total		

- If the two countries do not trade and consume whatever they produce, identify the current production and consumption point for each country on their respective production possibilities frontiers. Label Egypt's consumption point "C" and Morocco's consumption point "K".
- Suppose the two countries specialize and trade. Who should produce assembled cars and who should produce wheat? Explain your answer.
- Complete Table 2-7 below to show each country's output with specialization.

Table 2-7: Output with specialization

	Assembled cars output	Wheat output (kilos)
Egypt		
Morocco		
Total		

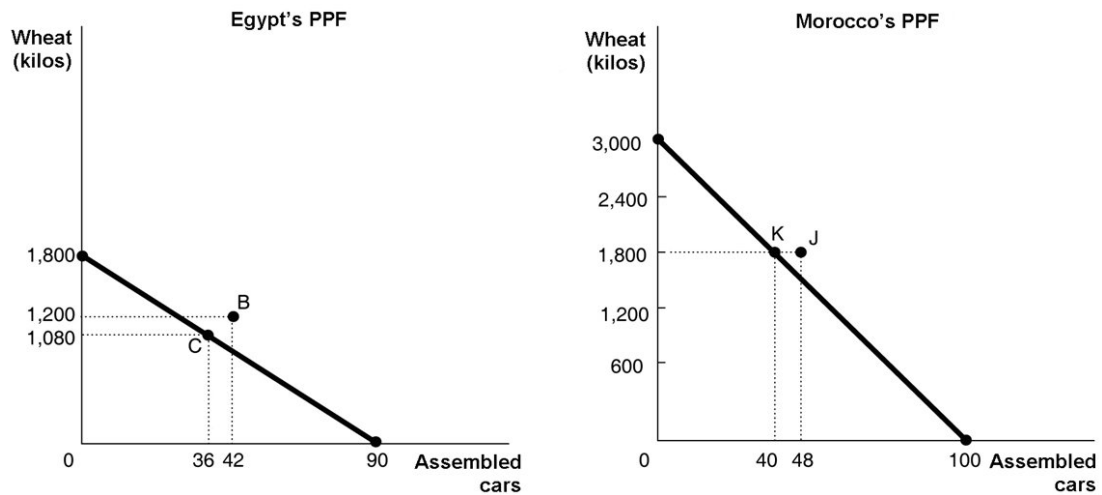
- Did specialization increase the combined output for the two countries without any increase in resources? If so, by how much?
- Suppose Egypt and Morocco agree to trade so that in exchange for 1,200 kilos of wheat, the exporter of wheat receives 48 cars. Complete Table 2.8 below to show each country's consumption bundle after trade.

Table 2.8: Consumption with trade

	Assembled cars	Wheat (kilos)
Egypt		
Morocco		

- Show the consumption points after trade on each country's production possibilities frontier. Label these points "B" for Egypt and "J" for Morocco.
- Has trade made the two countries better off? Explain your answer.

Answer: a.



b.

Table 2-6: Production and consumption with no trade

	Assembled cars output	Wheat output (kilos)
Egypt	36	1,080
Morocco	40	1,800
Total	76	2,880

c. See graph in part (a)

d. Egypt should specialize in producing assembled cars because it has a lower opportunity cost: 20 kilos of wheat as opposed to Morocco's 30 kilos of wheat. Morocco should specialize in producing wheat because it has a lower opportunity cost: 0.03 units of an assembled car as opposed to Egypt's 0.05 units of an assembled car.

e.

Table 2-7: Output with specialization

	Assembled cars output	Wheat output (kilos)
Egypt	90	0
Morocco	0	3,000
Total	90	3,000

f. Yes, assembled cars output increased by 14 units from 76 to 90 units and wheat output increased by 120 kilos.

g.

Table 2-8: Consumption with trade

	Assembled cars	Wheat (kilos)
Egypt	42	1,200
Morocco	48	1,800

Answer: h. See graph in part (a)

i. Yes, trade has enabled the two countries to consume outside their PPFs.

94) Suppose in Egypt, the opportunity cost of producing a motor engine is 4 auto bodies. In Morocco, the opportunity cost of producing a motor engine is 2 auto bodies.

a. What is the opportunity cost of producing an auto body for Egypt?

b. What is the opportunity cost of producing an auto body for Morocco?

c. Which country has a comparative advantage in the production of auto bodies?

d. Which country has a comparative advantage in the production of motor engines?

Answer: a. For Egypt, the opportunity cost of producing an auto body is 0.25 of a motor engine.

b. For Morocco, the opportunity cost of producing an auto body is 0.5 of a motor engine.

c. Egypt has a comparative advantage in the production of auto bodies.

d. Morocco has a comparative advantage in the production of motor engines.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

95) Which of the following is not a factor of production?

95) _____

A) a drill press in a machine shop

B) US\$1,000 in cash

C) the manager of the local tire shop

D) an acre of farmland

Answer: B

96) An example of a factor of production is

96) _____

A) the automobiles exported by an auto manufacturer.

B) a worker hired by an auto manufacturer.

C) a car produced by an auto manufacturer.

D) a loan granted to an auto manufacturer.

Answer: B

97) If a commercial dairy farm wants to raise funds to purchase feeding troughs, it does so in the

97) _____

A) product market.

B) factor market.

C) dairy products market.

D) output market.

Answer: B

98) A worker is hired in a

98) _____

A) goods and services market.

B) product market.

C) government market.

D) factor market.

Answer: D

99) When you purchase a new pair of jeans you do so in the

99) _____

A) resource market.

B) factor market.

C) product market.

D) input market.

Answer: C

100) The resource income earned by those who supply labor services is called

100) _____

A) stock options.

B) bonus.

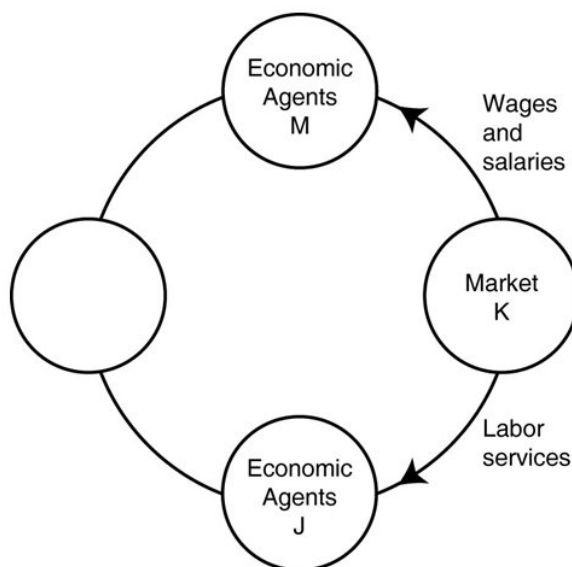
C) wages and salaries.

D) profit.

Answer: C

- 101) Which of the following statements is false about an entrepreneur? 101) _____
- A) An entrepreneur develops the vision for the firm and funds the producing unit.
 - B) An entrepreneur sells his entrepreneurial services in the output market.
 - C) An entrepreneur organizes the other factors of production into a working unit.
 - D) An entrepreneur risks the personal funds provided.
- Answer: B
- 102) The circular flow model demonstrates 102) _____
- A) how demand and supply for goods and services are brought into equilibrium.
 - B) how shortages and surpluses are eliminated in a market.
 - C) the role of the government in overseeing the market system.
 - D) the roles played by households and firms in the market system.
- Answer: D
- 103) Households 103) _____
- A) sell goods in the product market.
 - B) purchase resources in the factor market.
 - C) sell resources in the factor market.
 - D) have no influence on the circular flow in a market economy.
- Answer: C
- 104) Households 104) _____
- A) purchase final goods and services in the product market.
 - B) purchase resources in the factor market.
 - C) purchase resources in the product market.
 - D) purchase final goods and services in the factor market.
- Answer: A
- 105) In the circular flow model, producers 105) _____
- A) spend earnings from resource sales on goods and services in the factor market.
 - B) spend earnings from resource sales on goods and services in the product market.
 - C) hire resources sold by households in the factor market.
 - D) sell goods and services in the input market.
- Answer: C
- 106) Which of the following is not a flow in the circular flow model? 106) _____
- A) the flow of goods and services and the flow of resources to produce goods and services
 - B) the flow of revenue received by producers and the flow of payments to resource owners
 - C) the flow of income earned by households and the flow of expenditures incurred by households
 - D) the flow of profit and the flow of revenue
- Answer: D

Figure 2-8



- 107) Refer to Figure 2-8. The segment of the circular flow diagram in the figure shows the flow of labor services from market *K* to economic agents *J*. What is market *K* and who are economic agents *J*? 107) _____
- A) *K* = product markets; *J* = firms
 B) *K* = factor markets; *J* = households
 C) *K* = factor markets; *J* = firms
 D) *K* = product markets; *J* = households

Answer: C

- 108) Refer to Figure 2-8. The segment of the circular flow diagram in the figure shows the flow of wages and salaries from market *K* to economic agents *M*. What is market *K* and who are economic agents *M*? 108) _____
- A) *K* = product markets; *M* = firms
 B) *K* = factor markets; *M* = firms
 C) *K* = factor markets; *M* = households
 D) *K* = product markets; *M* = households

Answer: C

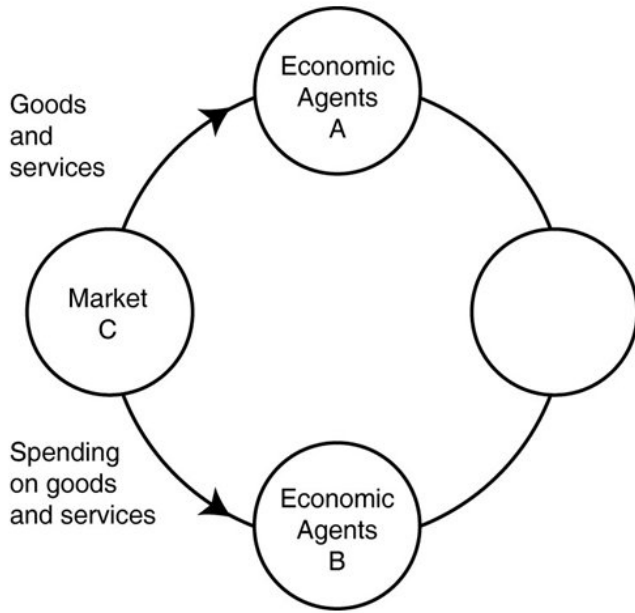
- 109) Which of the following are flows in the circular flow model? 109) _____
- A) the flow of income received by households and the flow of tax revenues paid by households
 B) the flow of costs and the flow of revenue
 C) the flow of income earned from the sale of resources and the flow of expenditures on goods and services
 D) the flow of goods and the flow of services

Answer: C

- 110) Which of the following statements is true about a simple circular flow model? 110) _____
- A) Households are neither buyers nor sellers in the input market.
 B) Producers are neither buyers nor sellers in the product market.
 C) Producers are buyers in the factors market.
 D) Households are sellers in the product market.

Answer: C

Figure 2-9



111) Refer to Figure 2-9. The segment of the circular flow diagram in the figure shows the flow of goods and services from market C to economic agents A. What is market C and who are economic agents A?

111) _____

A) C = factor markets; A = households

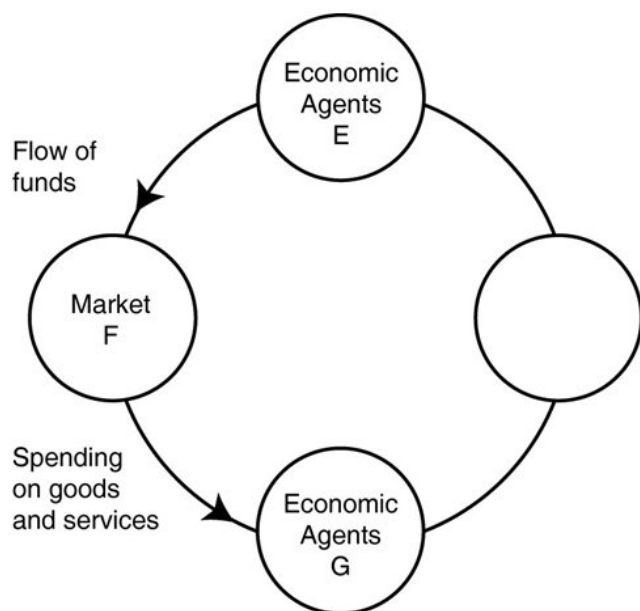
B) C = factor markets; A = firms

C) C = product markets; A = firms

D) C = product markets; A = households

Answer: D

Figure 2-10



112) Refer to Figure 2-10. The segment of the circular flow diagram in the figure shows the flow of funds from market *F* to economic agents *G*. The funds represent spending on goods and services. What is market *F* and who are economic agents *G*?

112) _____

A) = product markets; *G* = households

B) = factor markets; *G* = households

C) = factor markets; *G* = firms

D) = product markets; *G* = firms

Answer: D

113) All of the following are examples of spending on factors of production in the circular flow model, except

113) _____

A) Zeyad hires two students to work at his ice-cream store.

B) "Get Fit Together" purchases three new treadmills for its gym.

C) Carrefour rents a much larger property so that it can add a restaurant to its facilities.

D) Hala buys a dozen roses for her mother's birthday.

Answer: D

114) All of the following are examples of spending on goods and services in the circular flow model, except

114) _____

A) Rasheed buys a new digital camera to take pictures at his son's graduation.

B) Hanan buys a pizza at Pizza Hut.

C) Saadia purchases a new electric guitar to pursue her hobby seriously.

D) Sarah buys a new spa pedicure chair for her expanding nail salon business.

Answer: D

115) "An Inquiry into the Nature and Causes of the Wealth of Nations" published in 1776 was written by

115) _____

A) John Maynard Keynes.

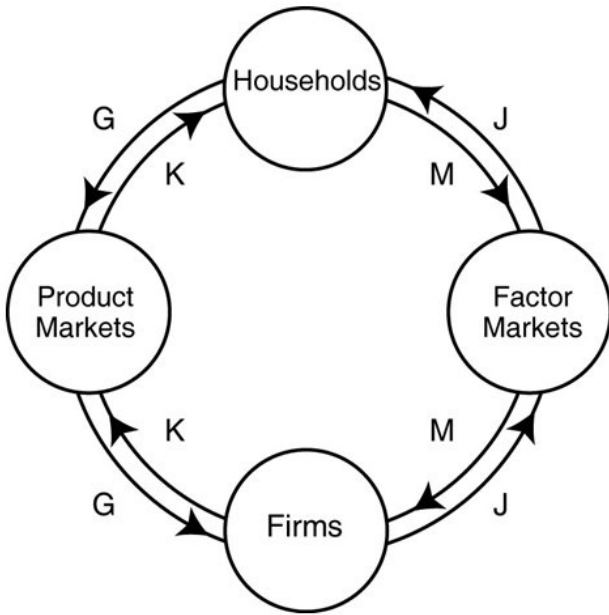
B) Adam Smith.

C) Alfred Marshall.

D) Karl Marx.

Answer: B

Figure 2-11



116) Refer to Figure 2-11. Which two arrows in the diagram depict the following transaction: Mostafa purchases the novel "Night of Sorrows" to read over the summer. 116) _____

- A) K and M B) J and M C) K and G D) J and G

Answer: C

117) Refer to Figure 2-11. Which two arrows in the diagram depict the following transaction: Yaser hires "The Paint Pros", a professional painting company, to paint her home. 117) _____

- A) K and G B) J and G C) K and M D) J and M

Answer: A

118) Refer to Figure 2-11. Which two arrows in the diagram depict the following transaction: Abdullah earns a commission of US\$400 for selling men's designer shoes at Samy Brothers. 118) _____

- A) J and M B) J and G C) K and G D) K and M

Answer: A

119) Adam Smith's behavioral assumption about humans was that people 119) _____

- A) usually act in a rational, self-interested way.
 B) typically act irrationally.
 C) typically act randomly.
 D) are consistently greedy.

Answer: A

120) Which of the following countries does not come close to the free market benchmark? 120) _____

- A) United Arab Emirates B) Lebanon
 C) Cuba D) The United States

Answer: C

- 121) Adam Smith's invisible hand refers to 121) _____
A) the government's unobtrusive role in ensuring that the economy functions efficiently.
B) property ownership laws and the rule of the court system.
C) the laws of nature that influence economics decisions.
D) the process by which individuals acting in their own self-interest bring about a market outcome that benefits society as a whole.
Answer: D
- 122) A critical function of the government in facilitating the operation of a market economy is 122) _____
A) controlling the market prices of food items.
B) ensuring an equal distribution of income to all citizens.
C) producing goods and services for low income households.
D) setting up and enforcing private property rights.
Answer: D
- 123) The term "property rights" refers to 123) _____
A) the right of a business not to have its assets confiscated by the government in the event that the business is accused of committing fraud.
B) the ability to exercise control over one's own resources within the confines of the law.
C) the physical possession of a house or any other property which the owner legally purchased.
D) the government's right to appropriate land from wealthy land owners to redistribute to peasants.
Answer: B
- 124) The primary purpose of patents and copyrights is to 124) _____
A) protect firms from being taken advantage of by competing firms.
B) encourage the expenditure of funds on research and development to create new products.
C) provide owners with large profit.
D) protect domestic firms from foreign competition.
Answer: B
- 125) A major factor contributing to the slow growth rate of less developed economies is 125) _____
A) the lack of well-defined and enforceable property rights.
B) the high rate of illiteracy.
C) the lack of natural resources.
D) the lack of workers.
Answer: A
- 126) Consider the following items: 126) _____
a. the novel "The DaVinci Code" by Dan Brown
b. "The Smart Shipper", an innovative juice shipping box
c. a Lebanese chef's award-winning recipe
d. an original fabric design, for example, the fabric used for "Coach" bags and luggage
Which of the items listed is an example of intellectual property?
A) a, b, and c B) a and d only
C) a and b only D) all of the items listed
Answer: D

- 127) A guild is 127) _____
- A) an organization of producers that limits the production of goods.
 - B) a group of nations who agree not to compete with each other.
 - C) a nation that is a free market benchmark.
 - D) a group of independent producers competing with each other.

Answer: A

- 128) In the 17th century Arab world there were over 300 guilds in Cairo that had authority to limit production of goods. Did this authority obstruct or improve the market mechanism and how? 128) _____
- A) It improved the market mechanism by making it more efficient because the guilds were able to quickly identify and rectify any market shortages and surpluses.
 - B) It obstructed the market mechanism because with one more party having to coordinate activities (the guilds) there were delays in getting the products to consumers.
 - C) It improved the market mechanism because the government's actions provided the correct set of signals to the market so that producers can adjust their output to better meet the needs of consumers.
 - D) It obstructed the market mechanism because the guild's actions prevented the forces of demand and supply from coordinating the self-interested decisions of producers and consumers.

Answer: D

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 129) The payment received by suppliers of entrepreneurial skills is called profit. 129) _____
- Answer: ☒ True ☐ False

- 130) In the circular flow model, households supply resources such as labor services in the product market. 130) _____
- Answer: ☒ True ☐ False

- 131) In economics, the term "free market" refers to a market where no sales tax is imposed on products sold. 131) _____
- Answer: ☐ True ☒ False

- 132) In a free market there are virtually no restrictions, or at best few restrictions on how factors of production can be employed. 132) _____
- Answer: ☒ True ☐ False

- 133) A tray of Baklava is not a factor of production, but its ingredients - butter, wheat, and pistachio - are considered factors of production. 133) _____
- Answer: ☐ True ☒ False

- 134) Each person goes about her daily business seeking to maximize her own self interests. In doing so, she contributes to the welfare of society at large. This is the idea underlying Adam Smith's "invisible hand". 134) _____
- Answer: ☒ True ☐ False

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 135) Define the term "property rights." Explain why the lack of well-defined and enforceable property rights is detrimental to the smooth functioning of a market system.

Answer: The term "property rights" refers to the rights that individuals or firms have to the exclusive use of their resources, within the confines of the law. Well-defined and enforceable property rights provide the incentive for people and firms to invest resources and undertake risks. This encourages the production of a wide range of goods and services. Without property rights and the means to enforce these rights, no person would want to undertake such a risk.

- 136) When videos on YouTube contained material from television shows or movies, YouTube had to obtain permission from several people who held rights to the television show or movie, which could be a time-consuming process. YouTube's vice president for business development was quoted as saying, "It's almost like technology has pushed far beyond the business practices and the law, and now everything needs to kind of catch up." What do you think he meant by that statement?

Answer: His statement alludes to the fact that the nature of internet technology requires society to change the legal understanding or status of copyright as it stands and to re-examine the payment mechanism.

- 137) Adam Smith, the father of modern economics, wrote in his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner but from their regard to their own interest." Explain what he meant by that statement and how such behavior promotes the wealth of a nation.

Answer: The statements refer to the fact that people act in their own self interest. For example, the butcher who sells meat and the baker who bakes bread carry out these activities because these tasks contribute to their livelihood, not because they are concerned about the diner. Nevertheless, their actions benefit the diner. This is precisely one of the virtues of a market: people do not have to act virtuously to produce worthwhile outcomes. Producing goods and services that consumers value increases the wealth of a nation.