

Exam

Name _____

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

- 1) Specialization of labour led to greater efficiency in the allocation of resources because of 1) _____
- A) greater reliance on self-sufficiency.
 - B) an increase in total work effort.
 - C) the opportunity cost of labour increased.
 - D) the use of barter.
 - E) the principle of comparative advantage.

Answer: E

Explanation: A)
B)
C)
D)
E)

- 2) Consider the production possibilities boundary (PPB) of an economy. Economic growth is 2) _____ illustrated by
- A) a movement onto the PPB.
 - B) the negative slope of the PPB.
 - C) the movement to a point outside of the PPB.
 - D) an outward shift of the PPB.
 - E) a movement along the PPB.

Answer: D

Explanation: A)
B)
C)
D)
E)

- 3) Most modern economies in the world today 3) _____
- A) are mostly run by government decree.
 - B) have pure market exchange.
 - C) have a mix of traditional, command and market elements.
 - D) are complex systems that defy description and analysis.
 - E) are similar to feudal systems.

Answer: C

Explanation: A)
B)
C)
D)
E)

- 4) The key decision makers in a market economy are
- A) individual citizens, non-profit organizations, and the Bank of Canada.
 - B) corporations and governments.
 - C) households, firms, and government.
 - D) large corporations and labour organizations.
 - E) governments and all institutions under government control.

4) _____

Answer: C

Explanation: A)
B)
C)
D)
E)

With a budget of \$500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

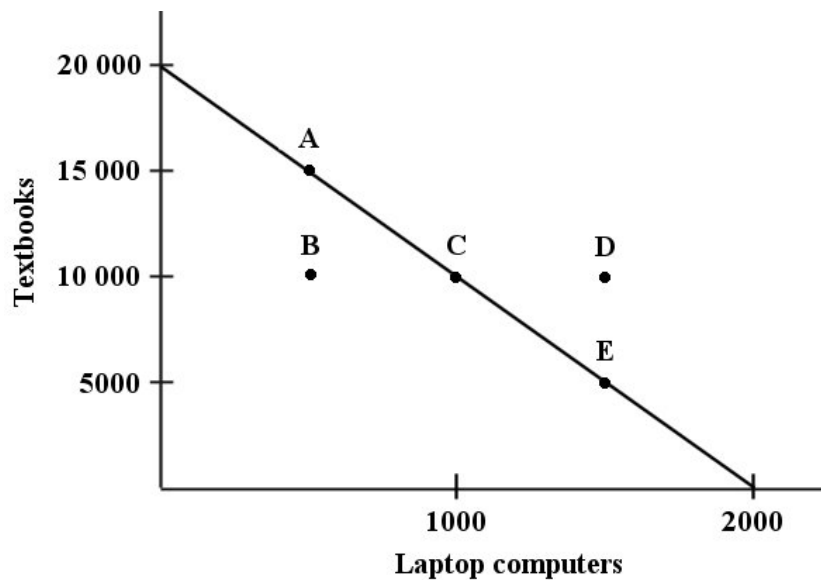


Figure 1-2

- 5) Refer to Figure 1-2. What is the price of a laptop computer in this example?
- A) \$25
 - B) \$40
 - C) \$50
 - D) \$100
 - E) \$250

5) _____

Answer: E

Explanation: A)
B)
C)
D)
E)

6) Refer to Figure 1-2. What is the price of a textbook in this example?

- A) \$25 B) \$40 C) \$50 D) \$100 E) \$250

6) _____

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

7) Suppose there are only two goods produced in our economy—snowplows and helicopters. If there is always a two-for-one tradeoff between the production of these two goods (in terms of opportunity cost), then the production possibilities boundary between snowplows and helicopters is

7) _____

- A) a downward-sloping straight line.
B) a downward-sloping straight line with slope equal to -1.
C) a downward-sloping curve concave to the origin.
D) a downward-sloping curve convex to the origin.
E) circular.

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

8) In the current Canadian economy, the majority of choices on how resources are allocated are made by

8) _____

- A) negotiation between unions and firms.
B) legal contracts.
C) consumers and firms through the price system.
D) business firms only.
E) the various levels of government.

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

9) Refer to Table 1-2. What is Claire's opportunity cost of completing 1 chemistry lab report?

9) _____

- A) $1 \frac{1}{2}$ biology lab reports
- B) 2 biology lab reports
- C) $\frac{2}{3}$ of a biology lab report
- D) $\frac{3}{4}$ of a biology lab report
- E) 3 biology lab reports

Answer: C

Explanation: A)
B)
C)
D)
E)

10) A modern economy like Canada's is largely organized by

10) _____

- A) governments at all levels coordinating the activities of firms and citizens.
- B) individuals forming cooperative enterprises and labour unions.
- C) the self-interested behaviour of a small number of individuals.
- D) benevolent individuals pursuing the public interest.
- E) individuals following their own self interest, doing what seems best for themselves.

Answer: E

Explanation: A)
B)
C)
D)
E)

11) Behaviour in free-market economies is

11) _____

- A) mostly affected by elements of tradition and government command.
- B) determined by a central authority.
- C) mostly directed by self interest.
- D) random and unpredictable.
- E) based primarily on custom and habit.

Answer: C

Explanation: A)
B)
C)
D)
E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

12) Refer to Table 1-1. What is Thomas's opportunity cost of producing one mowed lawn?

12) _____

- A) 6 fishing lures
- B) 12 fishing lures
- C) 1/6 fishing lure
- D) 0 fishing lures
- E) one fishing lure

Answer: E

Explanation: A)
B)
C)
D)
E)

13) Suppose drought destroys many millions of acres of valuable Canadian farmland. The effect on the Canadian economy would be to move

13) _____

- A) its production possibilities boundary inward.
- B) it along its production possibilities boundary.
- C) its production possibilities boundary outward.
- D) it beyond its production possibilities boundary.
- E) None of the above. There would be no change in Canada's production possibilities boundary.

Answer: A

Explanation: A)
B)
C)
D)
E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

14) Refer to Table 1-1. What is Tristan's opportunity cost of producing one fishing lure?

14) _____

- A) one mowed lawn
- B) 4 mowed lawns
- C) 1/4 of a mowed lawn
- D) 1/3 of a mowed lawn
- E) 3 mowed lawns

Answer: C

Explanation: A)
B)
C)
D)
E)

Madeleine allows herself \$100 per month for purchasing coffee. The diagram below illustrates the choices available to her.

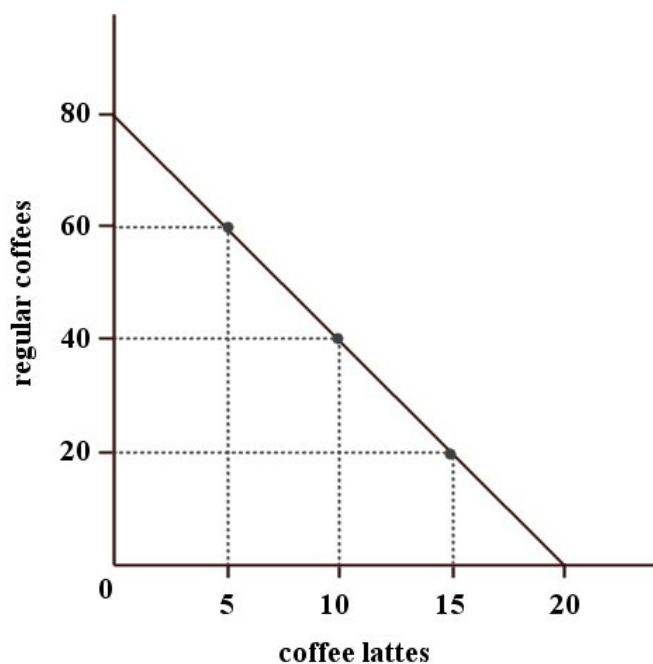


FIGURE 1-3

- 15) Refer to Figure 1-3. Which of the following combinations of regular coffees and lattes is affordable over the one-month period, given Madeleine's budget? 15) _____
- A) 16 lattes and 16 coffees
 - B) 15 lattes and 30 coffees
 - C) 4 lattes and 66 coffees
 - D) 20 lattes and 80 coffees
 - E) 8 lattes and 50 coffees

Answer: A

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

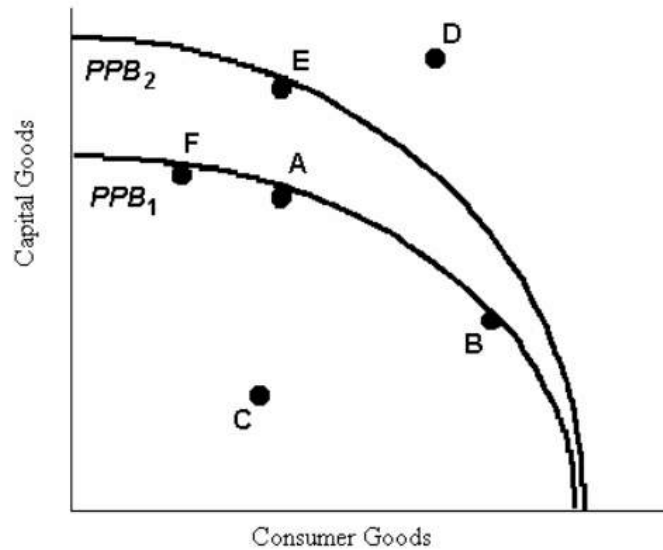


FIGURE 1-4

16) Refer to Figure 1-4. If Country X, constrained by the production possibilities boundary PPB_1 , is producing the combination of goods indicated at point F, it can produce more consumer goods by moving to one of the points

16) _____

- A) A, B, C, D, or E.
- B) A or E.
- C) A or B, but not C.
- D) A, B, or C.
- E) D or E

Answer: D

Explanation: A)
B)
C)
D)
E)

17) Suppose that a bakeshop with 5 employees can produce both pies and cakes. In one day, if all resources are devoted to baking pies, the shop can produce 125 pies; if all resources are devoted to baking cakes, the shop can produce 50. What is the shop's opportunity cost of producing any one cake?

17) _____

- A) 0.4 pies
- B) 0.25 pies
- C) 2.5 cakes
- D) 2.5 pies
- E) 0.4 cakes

Answer: D

Explanation: A)
B)
C)
D)
E)

- 18) If some income earned by households is not spent on output, or if some income earned by firms is not spent on factor services, the circular flow of income will 18) _____

A) run over. B) contract. C) stop. D) expand. E) explode.

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

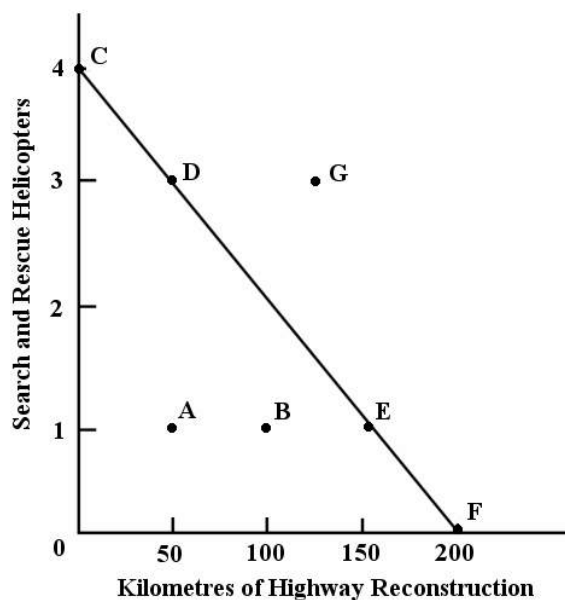


FIGURE 1-1

With a budget of \$200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.

- 19) Refer to Figure 1-1. For the government, the opportunity cost of one search and rescue helicopter is 19) _____

A) 150 kilometres of highway repair.
B) 100 kilometres of highway repair.
C) 200 kilometres of highway repair.
D) 0 kilometres of highway repair.
E) 50 kilometres of highway repair.

Answer: E

Explanation: A)
 B)
 C)
 D)
 E)

20) Economists usually assume that households and firms, respectively, maximize

20) _____

- A) wages and revenues.
- B) savings and profits.
- C) expenditures and profits.
- D) income and sales.
- E) utility and profits.

Answer: E

Explanation: A)
B)
C)
D)
E)

21) With reference to the circular flow of income, how is the allocation of resources largely decided?

21) _____

- A) by firms and households acting independently
- B) by individuals only
- C) by central authorities and firms only
- D) by central authorities only
- E) by political parties and firms only

Answer: A

Explanation: A)
B)
C)
D)
E)

22) In recent years, several large Canadian-owned mining and resource companies have been sold to foreign owners. The immediate effect on Canada's production possibilities boundary is

22) _____

- A) a movement to a point beyond the boundary.
- B) a shift outward.
- C) a shift inward.
- D) no change.
- E) a movement along.

Answer: D

Explanation: A)
B)
C)
D)
E)

23) Which of the following results from the introduction of money for use in transactions?

23) _____

- A) self-sufficiency is assured
- B) society is able to satisfy all wants
- C) exchange becomes easier and this promotes the specialization of labour
- D) the specialization of labour becomes more difficult
- E) an increased use of barter

Answer: C

Explanation: A)
B)
C)
D)
E)

With a budget of \$500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

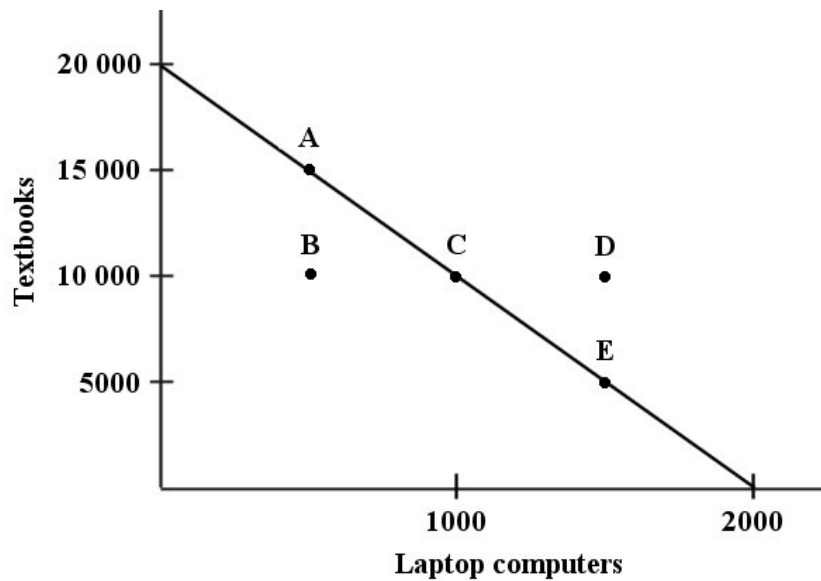


Figure 1-2

- 24) Refer to Figure 1-2. Suppose the school board chooses to allocate all \$500 000 to the purchase of laptop computers. What is the opportunity cost of this entire purchase?
- A) The opportunity cost is \$0.
 - B) The opportunity cost is 20,000 textbooks.
 - C) The opportunity cost is uncertain.
 - D) The opportunity cost is 2000 laptops.
 - E) There is no opportunity cost because the purchase was made within the available budget.

24) _____

Answer: B

Explanation: A)
B)
C)
D)
E)

- 25) Money facilitates trade and specialization by
- A) providing employment for coin makers.
 - B) allowing an efficient barter system to develop.
 - C) increasing the value of gold.
 - D) reducing the shift of resources between uses.
 - E) eliminating the need for barter.

25) _____

Answer: E

Explanation: A)
B)
C)
D)
E)

26) The famous economist who first described the division of labour was

26) _____

- A) David Ricardo.
- B) Karl Marx.
- C) John Maynard Keynes.
- D) Adam Smith.
- E) Milton Friedman.

Answer: D

Explanation: A)
B)
C)
D)
E)

27) A straight-line production possibilities boundary differs from a concave boundary in which of the following ways?

27) _____

- A) The straight-line boundary illustrates constant opportunity costs, whereas the concave boundary illustrates increasing opportunity costs.
- B) The concave boundary illustrates constant opportunity costs, whereas the straight-line boundary illustrates decreasing opportunity costs.
- C) The straight-line boundary shows opportunity cost, whereas the concave boundary does not.
- D) A straight-line boundary is associated with a command economy, whereas a concave boundary is associated with a free-market economy.
- E) The straight-line boundary does not show scarcity, whereas the concave boundary does.

Answer: A

Explanation: A)
B)
C)
D)
E)

28) During economic recessions, the opportunity cost of going to university _____ because the wages a student can expect to earn working in the best alternative _____.

28) _____

- A) increases; decrease
- B) decreases; increase
- C) decreases; decrease
- D) remains the same; remain the same
- E) increases; increase

Answer: C

Explanation: A)
B)
C)
D)
E)

29) Because resources are scarce, individuals are required to

29) _____

- A) sacrifice production but not consumption.
- B) improve production but not distribution.
- C) use resources inefficiently.
- D) improve distribution but not production.
- E) make choices among alternatives.

Answer: E

Explanation: A)
B)
C)
D)
E)

30) Which of the following has most contributed to the globalization of the economy?

30) _____

- A) tariffs and trade barriers
- B) the decline in the relative importance of manufacturing
- C) reductions in transportation and communication costs
- D) the shift toward a market economy in China
- E) the decreased importance of agriculture

Answer: C

Explanation: A)
B)
C)
D)
E)

31) Suppose Andrea has a job that pays her \$25 000 per year (after taxes). She is considering quitting her job and going to university full time for four years. Tuition fees and books will cost \$12 000 per year. Living expenses in either situation will cost \$10 000 per year. What is the opportunity cost of Andrea's four-year university degree?

31) _____

- A) \$188 000
- B) \$120 000
- C) \$88 000
- D) \$148 000
- E) \$100 000

Answer: D

Explanation: A)
B)
C)
D)
E)

32) Which of the following statements best describes the underlying feature in most economic problems?

32) _____

- A) Governments should never interfere in the workings of a market economy.
- B) Our country is rich; we just don't realize it.
- C) People have limited wants in the face of limited resources.
- D) People have unlimited wants in the face of limited resources.
- E) There are unlimited resources.

Answer: D

Explanation: A)
B)
C)
D)
E)

- 33) Consider a production possibilities boundary showing the quantity of military goods and the quantity of civilian goods on the two axes. A movement along the production possibilities boundary could be caused by 33) _____
- A) the reallocation of resources between military and civilian goods.
 - B) the employment of previously idle resources.
 - C) technological progress.
 - D) the growth of productive capacity.
 - E) an increase in the labour supply.

Answer: A

Explanation: A)
B)
C)
D)
E)

- 34) Chantal has a full-time job as a geological engineer and earns an annual after-tax salary of \$85 000. She decides to leave her job for 6 months to scuba dive on the Great Barrier Reef in Australia, and incurs costs of \$7500 for course equipment and certification, \$2500 for airfare, and \$12 000 for regular living expenses in Australia (equal to her living expenses at home). What is Chantal's opportunity cost for this 6-month, unpaid leave of absence? 34) _____
- A) \$22 000 B) \$12 000 C) \$42 000 D) \$52 500 E) \$65 000

Answer: D

Explanation: A)
B)
C)
D)
E)

- 35) Katie and Hugh are producing pies and jars of pickles. Katie can produce either 200 jars of pickles or 100 pies per month. Hugh can produce either 800 jars of pickles or 200 pies per month. Which of the following statements is correct? 35) _____
- A) Katie's opportunity cost of producing 1 jar of pickles is 2 pies.
 - B) Hugh's opportunity cost of producing 1 pie is 1/4 jar of pickles.
 - C) Hugh's opportunity cost of producing 1 jar of pickles is 4 pies.
 - D) Katie's opportunity cost of producing 1 jar of pickles is 1/2 of a pie.
 - E) Hugh's and Katie's opportunity costs of producing are the same.

Answer: D

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

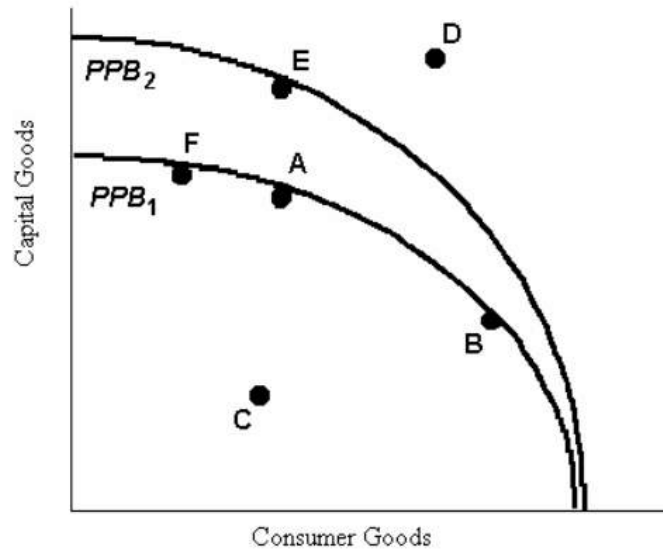


FIGURE 1-4

- 36) Refer to Figure 1-4. If Country X is currently producing at point A, it could move to point B if
- A) some resources were switched from the consumer goods industries to the capital goods industries.
 - B) some resources were switched from the capital goods industries to the consumer goods industries.
 - C) the cost of producing consumer goods were to increase.
 - D) the cost of producing capital goods were to increase.
 - E) Country X is no longer able to produce the quantity of capital goods at point A.

36) _____

Answer: B

Explanation: A)
B)
C)
D)
E)

With a budget of \$500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

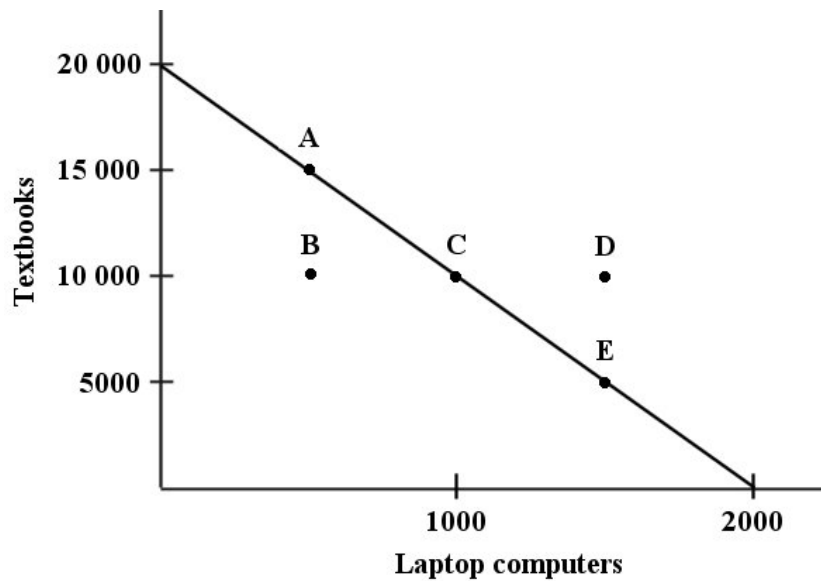


Figure 1-2

37) Refer to Figure 1-2. For the school board, what is the opportunity cost of one additional laptop computer?

37) _____

- A) 0 textbooks
- B) 1/10 of a textbook
- C) 10 textbooks
- D) 20 textbooks
- E) 2000 textbooks

Answer: C

Explanation: A)
B)
C)
D)
E)

38) Consider the following list: a worker with training in video gaming technology, 10 hectares of arable land in southern Ontario, a fishing trawler in Nova Scotia, an ice-cream truck at a park in Quebec. Each of these is an example of

38) _____

- A) a factor of production.
- B) a capital resource.
- C) goods and services.
- D) a commodity.
- E) an economic service.

Answer: A

Explanation: A)
B)
C)
D)
E)

- 39) On a diagram of a production possibilities boundary, the concept of scarcity is illustrated by the 39) _____
- A) area within the boundary.
 - B) unattainable points outside the boundary.
 - C) points on the boundary.
 - D) distance from the origin to the boundary.
 - E) negative slope of the boundary.

Answer: B

Explanation: A)
B)
C)
D)
E)

- 40) If a country's production possibilities boundary is drawn as a straight (downward-sloping) line it 40) _____ indicates
- A) constant opportunity cost of producing more of either good.
 - B) increasing opportunity cost of producing more of either good.
 - C) decreasing opportunity cost of producing more of either good.
 - D) the use of the scarce resources in an economy.
 - E) an unfair distribution of resources in an economy.

Answer: A

Explanation: A)
B)
C)
D)
E)

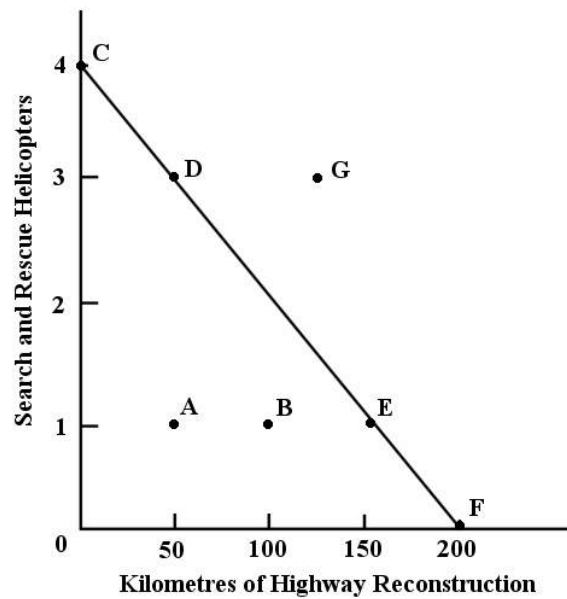


FIGURE 1-1

With a budget of \$200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.

- 41) Refer to Figure 1-1. Which of the following combinations of kilometres of highway repair and helicopters is unaffordable, given the government's budget of \$200 million?

41) _____

A) G B) B C) F D) D E) E

Answer: A

Explanation: A)
B)
C)
D)
E)

- 42) Consider Canada's production possibilities boundary. Suppose fire destroys many millions of hectares of valuable Canadian forest. The effect on the Canadian economy would be best illustrated by _____ the production possibilities boundary.

42) _____

A) a movement along
B) a shift outward of
C) an inward shift of
D) a movement to a point beyond
E) a movement inside

Answer: C

Explanation: A)
B)
C)
D)
E)

43) Scarcity arises from limited resources. For this reason, all economic choices involve

43) _____

- A) a value judgement.
- B) complementary ends.
- C) pride.
- D) greed.
- E) an opportunity cost.

Answer: E

Explanation: A)
B)
C)
D)
E)

44) In mixed economies, economic behaviour is

44) _____

- A) directed only by self interest.
- B) based primarily on custom and habit.
- C) affected by elements of tradition, government command, and market incentives.
- D) largely determined by a central authority.
- E) random and unpredictable.

Answer: C

Explanation: A)
B)
C)
D)
E)

45) In a modern mixed economy the government ensures that key institutions are in place to facilitate voluntary transactions between economic agents. These key institutions are

45) _____

- A) private property and freedom of contract.
- B) the Department of Finance and the Bank of Canada.
- C) securities regulators and the court system.
- D) labour and capital markets.
- E) the House of Commons and the Senate.

Answer: A

Explanation: A)
B)
C)
D)
E)

46) Consider a production possibilities boundary showing the possible combinations of military goods and civilian goods that a country can produce. Suppose that the country is currently at a point on the boundary. If the production of military goods is increased, the production of civilian goods will necessarily

46) _____

- A) decrease.
- B) increase at a decreasing rate.
- C) increase at a increasing rate.
- D) remain the same.
- E) increase.

Answer: A

Explanation: A)
B)
C)
D)
E)

47) A basic underlying point in economics is that

47) _____

- A) governments should satisfy the needs of the people.
- B) governments should never interfere in the workings of a market economy.
- C) there are unlimited resources.
- D) people have unlimited wants in the face of limited resources.
- E) people have limited wants in the face of limited resources.

Answer: D

Explanation: A)
B)
C)
D)
E)

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.

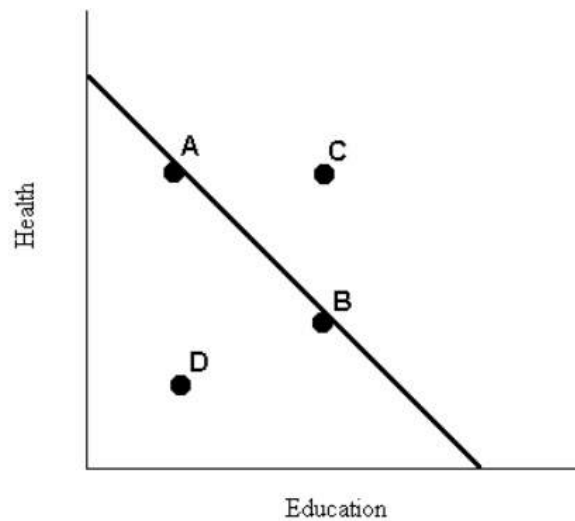


FIGURE 1-6

- 48) Refer to Figure 1-6. If the government's spending on health and education is given by point B, a move to point A must involve
- A) less spending in total.
 - B) zero opportunity cost.
 - C) more spending on education.
 - D) less spending on education.
 - E) less spending on health.

48) _____

Answer: D

Explanation: A)
B)
C)
D)
E)

- 49) Which of the following statements best describes a barter system of exchange?
- A) It developed late in history.
 - B) It does not involve the double coincidence of wants.
 - C) It involves the trading of goods directly for other goods.
 - D) It is the most efficient form of exchange.
 - E) It requires the use of money.

49) _____

Answer: C

Explanation: A)
B)
C)
D)
E)

50) Which of the following statements about specialization and trade are correct?

50) _____

- A) They arose as humans changed from nomadic and self-sufficient food gatherers to settled food producers.
- B) They exist only in capitalist economies.
- C) They occur only in the private sector.
- D) They developed only in the twentieth century.
- E) They developed only where government and political institutions were stable.

Answer: A

Explanation: A)
B)
C)
D)
E)

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.

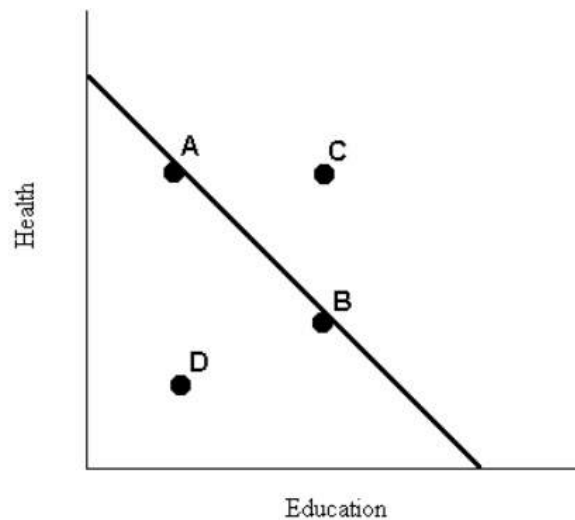


FIGURE 1-6

51) Refer to Figure 1-6. The levels of health and education expenditures at point C

51) _____

- A) are equal to those of point A and point B.
- B) could be achieved if the prices of health and/or education increased.
- C) are not attainable with the government's current budget.
- D) are less than at point D.
- E) are more cost-effective than those at points A, B, and D.

Answer: C

Explanation: A)
B)
C)
D)
E)

52) In a pure market economy, the role of government is limited to provision of :

52) _____

- i) a basic legal and institutional structure.
- ii) intervention in the allocation of resources in some areas of the economy.
- iii) redistribution of income.
- iv) stabilization of economic conditions generally.

Which of the above points is true?

- A) Only i).
- B) Only i) and ii).
- C) Only i) and iv).
- D) Only i), ii), and iv).
- E) All of the points are provided by government in a pure market economy.

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

Madeleine allows herself \$100 per month for purchasing coffee. The diagram below illustrates the choices available to her.

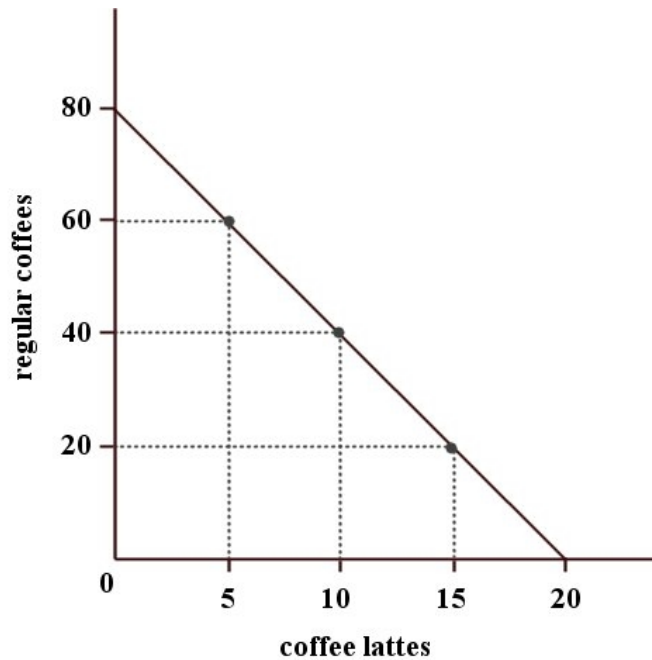


FIGURE 1-3

53) Refer to Figure 1-3. For Madeleine, the opportunity cost of one latte is

53) _____

- A) 80 regular coffees.
- B) 8 regular coffees.
- C) 1/4 of a latte.
- D) 1/4 of a regular coffee.
- E) 4 regular coffees.

Answer: E

Explanation: A)
B)
C)
D)
E)

54) With regard to various economic systems, most economists agree that

54) _____

- A) command economies have been very successful in distributing income in socially just ways.
- B) government intervention in the economy is only justified in time of war.
- C) most production and consumption decisions are more efficiently coordinated by markets than through central planning.
- D) the mix of market and command principles that exists in Canada is the best.
- E) the optimal mix of market and command systems remains constant over time.

Answer: C

Explanation: A)
B)
C)
D)
E)

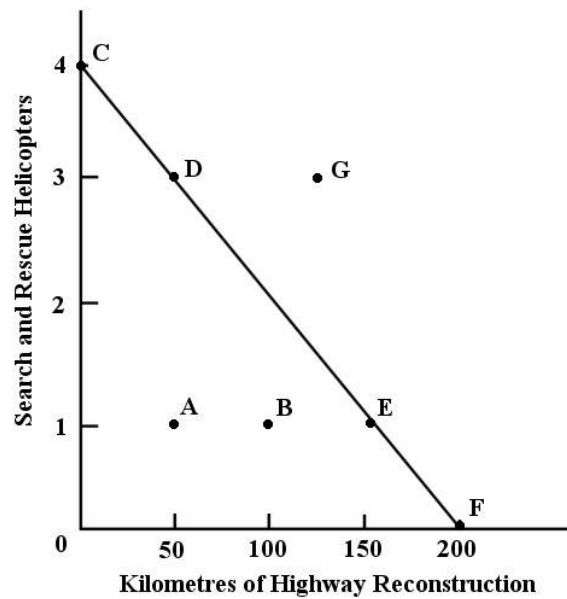


FIGURE 1-1

With a budget of \$200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.

- 55) Refer to Figure 1-1. For the government, the opportunity cost of one kilometre of highway repair is 55) _____
- A) 1/50 of a search and rescue helicopter.
 - B) 1/100 of a search and rescue helicopter.
 - C) 1 search and rescue helicopter.
 - D) 1/10 of a search and rescue helicopter.
 - E) 1/2 of a search and rescue helicopter.

Answer: A

Explanation: A)
B)
C)
D)
E)

With a budget of \$500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

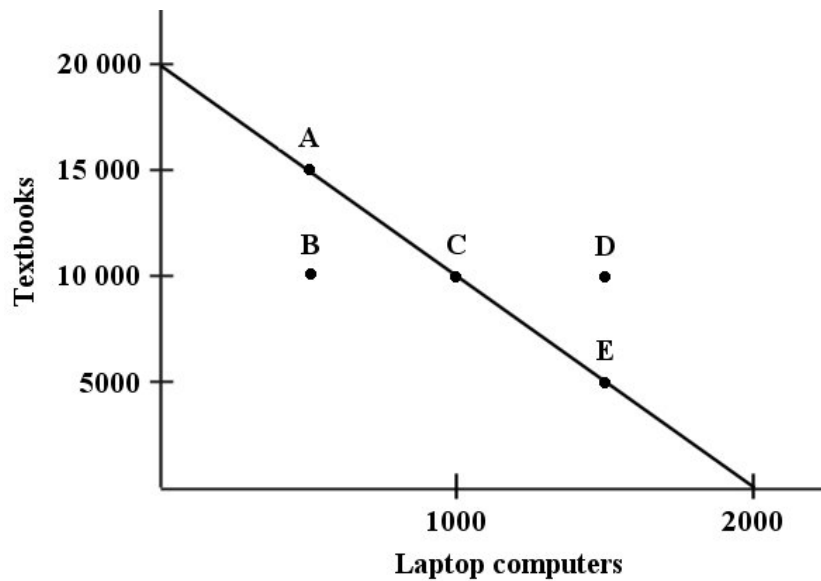


Figure 1-2

56) Refer to Figure 1-2. Which of the following combinations of textbooks and laptops is unaffordable, given the school board's budget of \$500 000? 56) _____

- A) A B) B C) C D) D E) E

Answer: D

Explanation: A)
B)
C)
D)
E)

57) A farmer selling tomatoes and corn at a roadside, and a currency trader in Hong Kong, are each participating in 57) _____

- A) a market.
B) barter.
C) an involuntary transaction.
D) flexible manufacturing.
E) international trade.

Answer: A

Explanation: A)
B)
C)
D)
E)

58) Comparison of economic systems indicates that

58) _____

- A) all countries have largely traditional economies.
- B) most countries have mixed economies.
- C) most nations have either a purely socialist economy or a purely capitalist economy.
- D) socialist economies are clearly superior in producing consumer goods.
- E) capitalist economies are clearly superior in distributing income.

Answer: B

Explanation: A)
B)
C)
D)
E)

59) The opportunity cost of going to college or university for four years is

59) _____

- A) the least valued alternative one forfeits to attend.
- B) equal to the wage rate a person will earn after graduation.
- C) zero.
- D) the cost of tuition, residence fees and books.
- E) the cost of tuition and books and four years of lost wages from employment.

Answer: E

Explanation: A)
B)
C)
D)
E)

60) An insight first fully developed by Adam Smith is that

60) _____

- A) without benevolence production would not occur.
- B) self-interest, not benevolence, is the foundation of economic order.
- C) all individuals are motivated solely by self-interest.
- D) self-interest undermines effective economic order.
- E) individual self-interest is the only necessary force for social order.

Answer: B

Explanation: A)
B)
C)
D)
E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

61) Refer to Table 1-2. Which of the following statements about Claire's and Sam's opportunity costs is correct? 61) _____

- A) Sam has a higher opportunity cost for completing 1 biology lab report.
- B) Claire has a higher opportunity cost for completing 1 chemistry lab report.
- C) Claire and Sam have equal opportunity costs.
- D) Claire has a higher opportunity cost for completing 1 biology lab report.
- E) Sam has a lower opportunity cost for completing 1 chemistry lab report.

Answer: D

Explanation: A)
B)
C)
D)
E)

62) Which of the following statements provides the best definition of *economics*? 62) _____

- A) The study of the use of scarce resources to satisfy unlimited human wants.
- B) The study of the most equitable distribution of scarce resources.
- C) The study of the production of goods and services.
- D) The study of production and increasing its efficiency.
- E) The study of the productive capacity of a nation's factors of production.

Answer: A

Explanation: A)
B)
C)
D)
E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

63) Refer to Table 1-2. What is Sam's opportunity cost of completing 1 chemistry lab report?

63) _____

- A) 3 of a biology lab report
- B) $\frac{2}{3}$ of a biology lab report
- C) 4 of a biology lab report
- D) $\frac{4}{3}$ of a biology lab report
- E) $\frac{3}{4}$ of a biology lab report

Answer: E

Explanation: A)
B)
C)
D)
E)

64) The concept of scarcity in economics usually refers to a condition

64) _____

- A) where production is efficient, but distribution is inefficient.
- B) where too many frivolous goods and services are produced at the expense of socially desirable goods and services.
- C) where people's wants can never be satisfied by the available resources.
- D) where society is not employing all of its available resources in an efficient manner.
- E) that afflicts only poor countries.

Answer: C

Explanation: A)
B)
C)
D)
E)

65) The opportunity cost of producing good A is defined to be

65) _____

- A) the cheapest method of producing good A.
- B) the money cost of the factors of production used in good A.
- C) the cost of having to get by using something else in place of good A.
- D) the retail price of good A.
- E) what must be sacrificed of other goods to get an additional unit of good A.

Answer: E

Explanation: A)
B)
C)
D)
E)

66) Many economies in central and Eastern Europe, including the countries of the former Soviet Union, are still in the process of moving from a command economy to a market economy. In the first years of this transition, most of these countries experienced sharp drops in output and reductions in living standards. Economists generally see this as 66) _____

- A) an indication of the extreme difficulty of transition from one type of economic system to another.
- B) the failure of the market system.
- C) the difficulty of corruption in non-market economies.
- D) the triumph of capitalism over communism.
- E) an indication that these economies should return to being command economies.

Answer: A

Explanation: A)
B)
C)
D)
E)

67) The barter system of exchange is inefficient because 67) _____

- A) markets do not exist.
- B) the double coincidence of wants may not exist.
- C) "fair" values cannot be defined without the use of money.
- D) exchange partners need to know each other.
- E) bargaining power is unequal between rich and poor.

Answer: B

Explanation: A)
B)
C)
D)
E)

68) In general, which of the following statements is an accurate description of economists' assumptions about households? Households 68) _____

- A) make consistent decisions, maximize utility, and are the principal owners of the factors of production.
- B) do not make consistent decisions, maximize profits, and are the principal users of the factors of production.
- C) do not make consistent decisions, maximize satisfaction, and are the principal owners of the factors of production.
- D) make consistent decisions, maximize savings, and are the principal users of the factors of production.
- E) make consistent decisions, maximize profits, and are the principal users of the factors of production.

Answer: A

Explanation: A)
B)
C)
D)
E)

69) Economics can best be described as

69) _____

- A) the study of how a society *ought* to allocate its resources.
- B) the study of how to reduce inflation and unemployment.
- C) the study of the use of scarce resources to satisfy unlimited human wants.
- D) the application of sophisticated mathematical models to address social problems.
- E) a normative science.

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

70) A greater specialization of labour leads to which of the following major results?

70) _____

- A) there is an increased need for government to intervene in the marketplace
- B) there is a greater need for trade
- C) the overall output of the economy declines
- D) each worker must become more self-sufficient
- E) the circular flow of income contracts

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

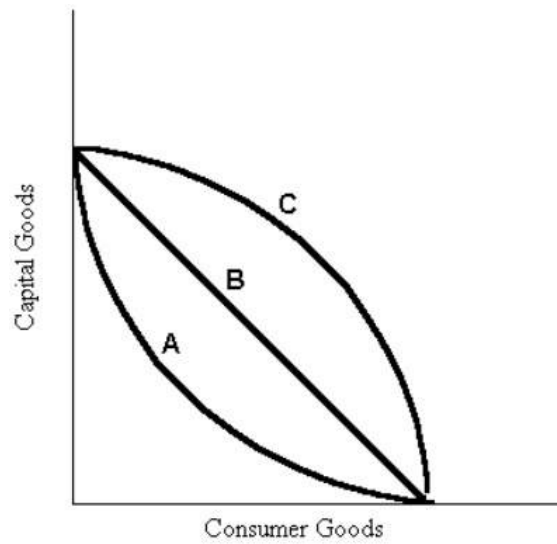


FIGURE 1-5

71) Refer to Figure 1-5. Which production possibilities boundaries are consistent with increasing opportunity costs?

71) _____

- A) boundaries A, B, and C
- B) boundary A only
- C) boundaries B and C
- D) boundary C only
- E) boundaries A and B

Answer: D

Explanation: A)
B)
C)
D)
E)

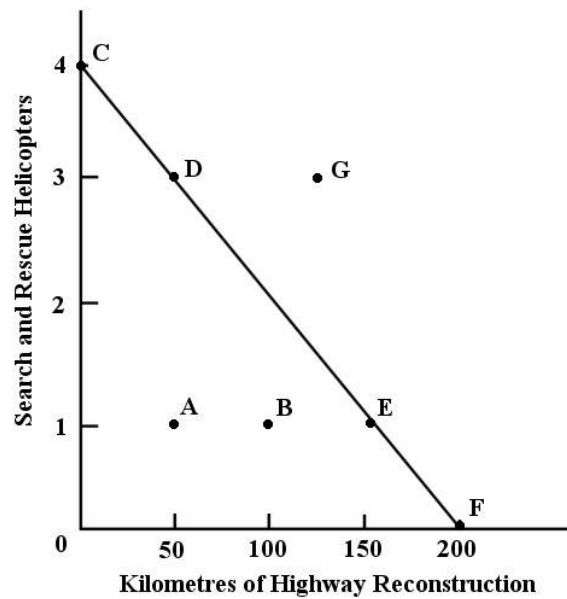


FIGURE 1-1

With a budget of \$200 million, the government can choose to purchase 4 helicopters or repair 200 km of highway.

- 72) Refer to Figure 1-1. If the government chooses to allocate all \$200 million to highway repair, we can say that 72) _____
- A) there is no opportunity cost involved because the government has achieved its objectives.
 - B) the opportunity cost of the highway repair is uncertain.
 - C) the opportunity cost of the highway repair is \$0.
 - D) there is no opportunity cost involved because the government stayed within its budget.
 - E) the opportunity cost of the highway repair is 4 search and rescue helicopters.

Answer: E

Explanation: A)
B)
C)
D)
E)

The downward-sloping line in the diagram below shows the combinations of health care and education expenditures that the government can afford with a given amount of tax revenue.

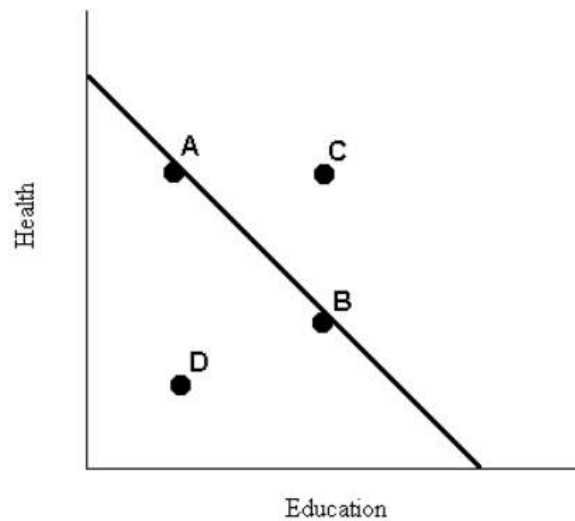


FIGURE 1-6

- 73) Refer to Figure 1-6. Suppose the government's current spending is shown by point D. In this case,
- A) the government is not spending its total budget.
 - B) the prices of education and health care have increased beyond the government's ability to pay.
 - C) more health expenditures can be achieved only by sacrificing some education expenditures.
 - D) the government should spend its total budget so as to get to point B, since more health spending and more education spending are both clearly desirable.
 - E) more education expenditures can be achieved only by sacrificing some health expenditures.

73) _____

Answer: A

Explanation: A)
B)
C)
D)
E)

- 74) A small landscaping firm purchases a tractor that, in one day, is capable of drilling 60 fence-post holes or removing 12 tree stumps (or some intermediate combination). For this landscaper, what is the opportunity cost of removing one extra tree stump?
- A) drilling 12 fence-post holes
 - B) there is no opportunity cost
 - C) 1/5 of the cost of the tractor
 - D) drilling 5 fence-post holes
 - E) 1/12th of the cost of the tractor

74) _____

Answer: D

Explanation: A)
B)
C)
D)
E)

75) Suppose that one unit of labour can produce either 5 units of wool or 2 pineapples. What is the opportunity cost of producing 1 pineapple? 75) _____

- A) $\frac{5}{2}$ units of wool
- B) zero
- C) 5 units of wool
- D) $\frac{2}{5}$ unit of wool
- E) 2 units of wool

Answer: A

Explanation: A)
B)
C)
D)
E)

76) In traditional economies, economic behaviour is 76) _____

- A) based primarily on custom and habit.
- B) directed only by self interest.
- C) affected by elements of tradition, government command, and market incentives.
- D) random and unpredictable.
- E) largely determined by a central authority.

Answer: A

Explanation: A)
B)
C)
D)
E)

77) In command economies, economic behaviour is 77) _____

- A) based primarily on custom and habit.
- B) largely affected by elements of tradition and market incentives.
- C) largely determined by a central authority.
- D) random and unpredictable.
- E) directed by individual self interest.

Answer: C

Explanation: A)
B)
C)
D)
E)

- 78) Consider Canada's production possibilities boundary. Suppose a scientific breakthrough leads to a lower-cost method of producing battery-operated cars in Canada. The likely effect would be to move Canada's current production
- A) to a point inside its new production possibilities boundary.
 - B) above the level of U.S. production.
 - C) possibilities boundary outward.
 - D) to a point beyond its new production possibilities boundary.
 - E) possibilities boundary inward.

Answer: C

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

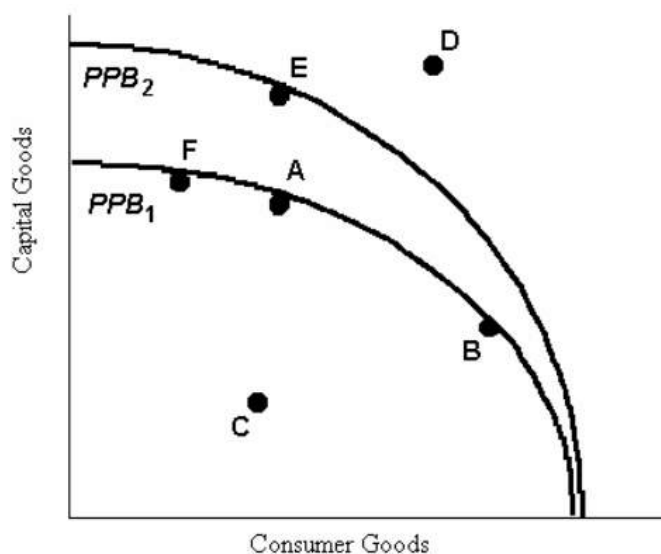


FIGURE 1-4

- 79) Refer to Figure 1-4. The production possibilities boundaries are drawn concave to the origin. What does this shape of the PPB demonstrate?
- A) the decreasing opportunity cost of producing more of either good
 - B) the increasing opportunity cost of producing more of either good
 - C) the scarcity of resources in the economy
 - D) the constant opportunity cost of producing more of either good
 - E) the unfair distribution of resources in the economy

Answer: B

Explanation: A)
B)
C)
D)
E)

80) When discussing types of economic systems the Canadian economy is best described as

80) _____

- A) primarily a public ownership economy.
- B) traditional.
- C) primarily free-market decision making.
- D) a mixed economic system.
- E) a command economy.

Answer: D

Explanation: A)
 B)
 C)
 D)
 E)

81) If an economy exhibits the specialization of labour, we know that

81) _____

- A) job security is ensured.
- B) most production is artisanal in nature.
- C) different individuals are producing different products.
- D) each worker is self-sufficient.
- E) a barter economy is more suitable.

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

82) In practice, the term "centrally planned economy" refers to an economy in which

82) _____

- A) the mix of market and command principles is heavily weighted towards the latter.
- B) all commodities are rationed.
- C) the government makes ALL production and consumption decisions.
- D) the military is in control of the government.
- E) economic decisions are made in the geographic centre of the country.

Answer: A

Explanation: A)
 B)
 C)
 D)
 E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

83) Refer to Table 1-2. What is Sam's opportunity cost of completing 2 biology lab reports?

83) _____

- A) $2\frac{2}{3}$ chemistry lab reports
- B) $1\frac{1}{3}$ chemistry lab reports
- C) 4 chemistry lab reports
- D) $\frac{3}{4}$ of a chemistry lab report
- E) $\frac{2}{3}$ of a chemistry lab report

Answer: A

Explanation: A)
B)
C)
D)
E)

84) Suppose that a bakeshop with 5 employees can produce both pies and cakes. In one day, if all resources are devoted to baking pies, the shop can produce 125 pies; if all resources are devoted to baking cakes, the shop can produce 50. What is the shop's opportunity cost of producing any one pie?

84) _____

- A) 0.4 cakes
- B) 2.5 pies
- C) 50 cakes
- D) 125 pies
- E) 0.4 pies

Answer: A

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

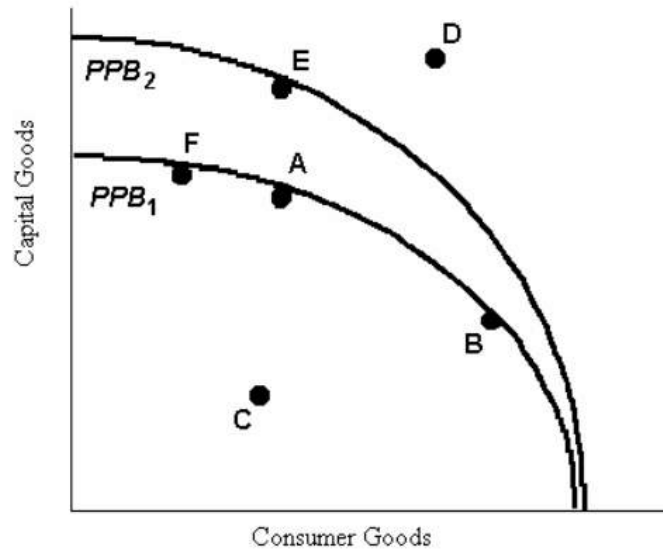


FIGURE 1-4

85) Refer to Figure 1-4. At point B,

85) _____

- A) the price of capital goods is higher than the price of consumer goods.
- B) the price of consumer goods is equal to the price of capital goods.
- C) the opportunity cost of producing an extra unit of capital goods is higher than at point A.
- D) Country X is producing too many consumer goods and too few capital goods.
- E) the opportunity cost of producing an extra unit of consumer goods is higher than at point A.

Answer: E

Explanation: A)
B)
C)
D)
E)

Madeleine allows herself \$100 per month for purchasing coffee. The diagram below illustrates the choices available to her.

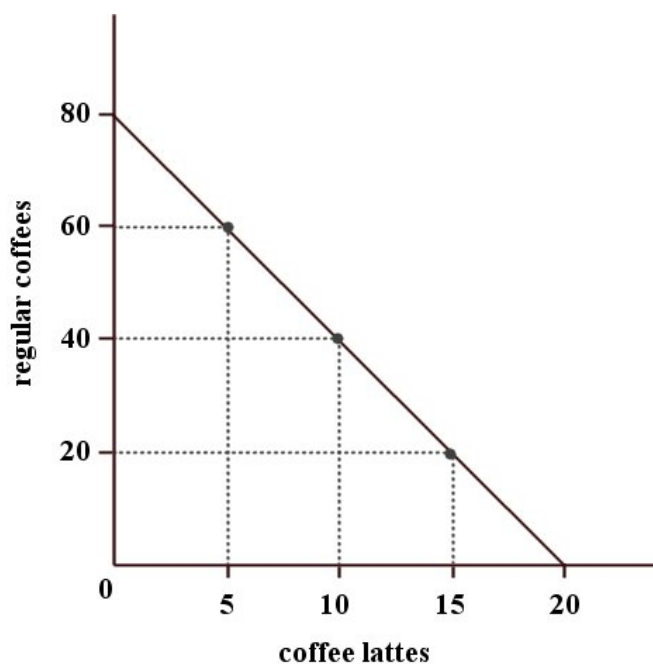


FIGURE 1-3

86) Refer to Figure 1-3. For Madeleine, the opportunity cost of one regular coffee is

86) _____

- A) 80 lattes.
- B) 1/4 of a regular coffee.
- C) 1/4 of a latte.
- D) 20 lattes.
- E) 4 lattes.

Answer: C

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

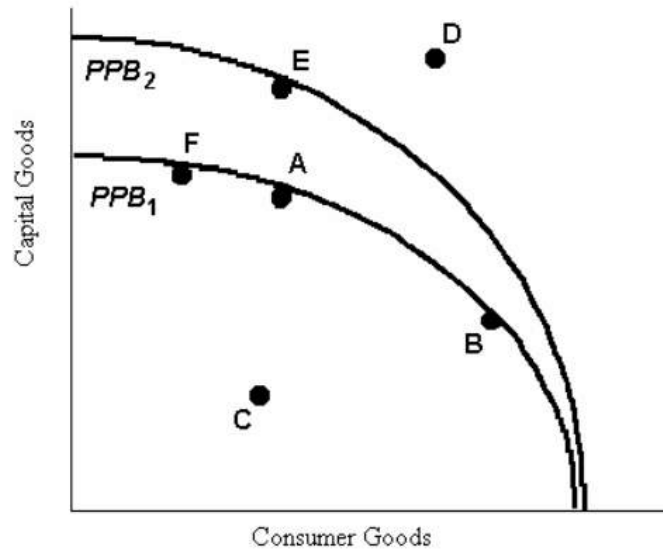


FIGURE 1-4

87) Refer to Figure 1-4. Suppose that Country X is currently producing at point E. Country X could achieve production at point D if

87) _____

- A) the given resources were more efficiently employed.
- B) the given resources were fully employed.
- C) sufficient improvements in technology occurred in either the capital goods industry or the consumer goods industries.
- D) the prices of capital goods and consumption goods fell.
- E) firms reduced output of capital goods.

Answer: C

Explanation: A)
B)
C)
D)
E)

88) Complex economic plans for many economic sectors are most associated with a

88) _____

- A) command economy.
- B) free-market system.
- C) feudal system.
- D) traditional economy.
- E) mixed market system.

Answer: A

Explanation: A)
B)
C)
D)
E)

89) Which countries have mostly public ownership of resources?

89) _____

- A) Cuba and North Korea
- B) United States and Canada
- C) Brazil and Argentina
- D) Sweden and Norway
- E) France and Germany

Answer: A

Explanation: A)
B)
C)
D)
E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

90) Refer to Table 1-1. What is Thomas's opportunity cost of producing one fishing lure?

90) _____

- A) 1/6 of a lure
- B) 5 lures
- C) there is no opportunity cost
- D) 1/6 of a mowed lawn
- E) 1 mowed lawn

Answer: E

Explanation: A)
B)
C)
D)
E)

91) Which of the point(s) below is (are) true of money?

91) _____

- i) Money eliminated the need for barter.
 - ii) Money allowed for specialization of labour and expansion of trade.
 - iii) Money allowed for the development of a market economy.
 - iv) Money allowed one to save current production for future use.
- A) Only i).
 - B) Only i) and ii).
 - C) Only i) and iv).
 - D) Only i), ii), and iv).
 - E) All of the points are true.

Answer: E

Explanation: A)
B)
C)
D)
E)

92) Consider Canada's production possibilities boundary. During the nineteenth and early twentieth centuries, millions of people immigrated to western Canada. The effect on the Canadian economy was to

92) _____

- A) move it along an unchanged production possibilities boundary.
- B) move it beyond its new production possibilities boundary.
- C) shift its production possibilities boundary outward.
- D) shift its production possibilities boundary inward.
- E) move it inside its new production possibilities boundary.

Answer: C

Explanation: A)
B)
C)
D)
E)

93) Suppose there are only three alternatives to attending a "free" social event: read a novel (you value this at \$10), go to work (you could earn \$20), or watch videos with some friends (you value this at \$25). The opportunity cost of attending the social event is

93) _____

- A) \$10.
- B) \$20.
- C) \$25.
- D) \$45.
- E) \$55.

Answer: C

Explanation: A)
B)
C)
D)
E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

94) Refer to Table 1-1. If Tristan and Thomas want to maximize their joint output from one day of work, how should they specialize their production?

94) _____

- A) Tristan produces 6 lures and 3 mowed lawns
- B) Tristan produces 3 mowed lawns; Thomas produces 6 mowed lawns
- C) Tristan produces nothing, Thomas produces 6 lures and 6 mowed lawns
- D) Tristan produces 6 lures; Thomas produces 6 lures
- E) Tristan produces 12 lures; Thomas produces 6 mowed lawns

Answer: E

Explanation: A)
B)
C)
D)
E)

95) Refer to Table 1-1. What is Tristan's opportunity cost of producing one mowed lawn?

95) _____

- A) 4 fishing lures
- B) 12 fishing lures
- C) one fishing lure
- D) 6 fishing lures
- E) 3 fishing lures

Answer: A

Explanation: A)
B)
C)
D)
E)

96) If there is always a three-for-one trade-off between the production of goods X and Y, then the production possibilities boundary for X and Y is

96) _____

- A) semi-circular.
- B) a downward-sloping curve concave to the origin.
- C) a downward-sloping curve convex to the origin.
- D) a downward-sloping straight line.
- E) a downward-sloping straight line that is broken at one point.

Answer: D

Explanation: A)
B)
C)
D)
E)

97) Which of the following best describes the study of economics?

97) _____

- A) how to distribute income as equally as possible
- B) why resources are scarce
- C) how to limit human wants so that scarce resources are sufficient
- D) how to plan an economy
- E) the allocation of scarce resources among alternative uses

Answer: E

Explanation: A)
B)
C)
D)
E)

98) Which of the following represents a typical "real" flow (as opposed to a financial flow) in the circular flow of income?

98) _____

- A) money payments going from producers to consumers
- B) goods going from producers to consumers
- C) goods going from consumers to producers
- D) money payments going from consumers to producers
- E) factor services going from producers to consumers

Answer: B

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

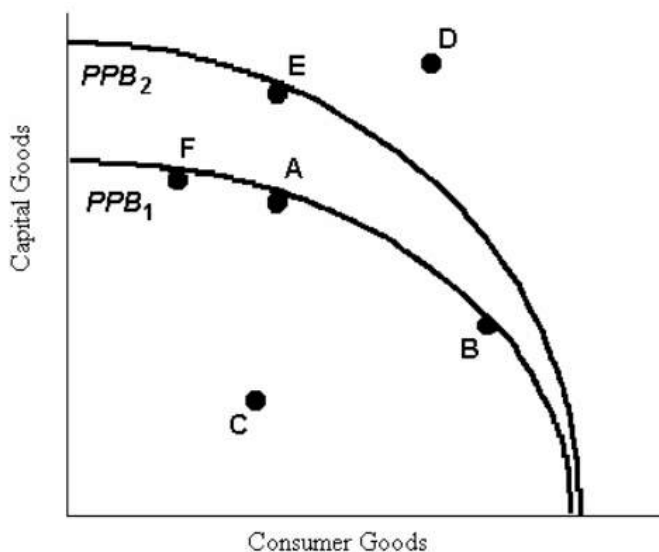


FIGURE 1-4

99) Refer to Figure 1-4. If Country X were producing at point C,

99) _____

- A) the opportunity cost of moving to point B is to give up some consumption goods.
- B) the opportunity cost of moving to point A is zero.
- C) it is not possible to move to any point on PPB_1 or PPB_2 without technological progress.
- D) this is the maximum output possible from given resources.
- E) the opportunity cost of moving to point A is to give up some capital goods.

Answer: B

Explanation: A)
B)
C)
D)
E)

100) Karl Marx argued that

100) _____

- A) benevolence, not self-interest, produced an effective economic order.
- B) a free-market system would produce a low level of total output.
- C) technological change was not important in improving living standards.
- D) centrally planned economies could provide a more equitable distribution of total output than capitalist economies.
- E) the unfettered market system driven by self-interest leads to the best social outcome.

Answer: D

Explanation: A)
B)
C)
D)
E)

101) Scarcity is likely to be

101) _____

- A) eliminated with a better understanding of economics.
- B) a result of the work ethic.
- C) a problem that will be solved by the proper use of available resources.
- D) unique to the twentieth century.
- E) a problem that will always exist.

Answer: E

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

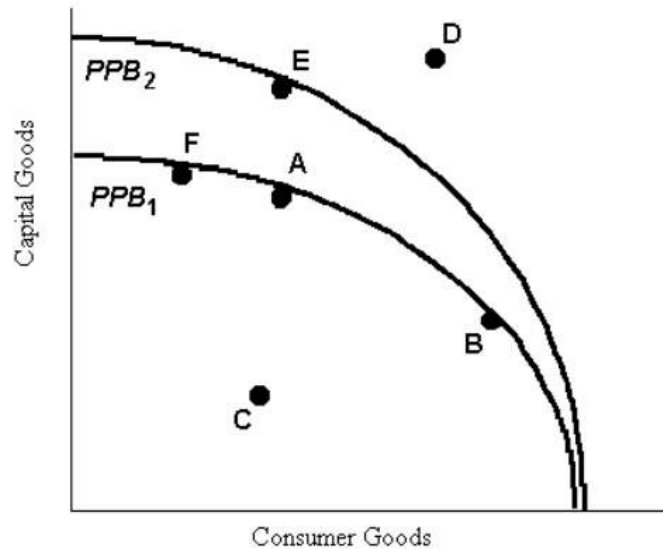


FIGURE 1-4

102) Refer to Figure 1-4. A shift of the production possibilities boundary from PPB_1 to PPB_2 implies 102) _____

- A) that if point E is the new choice of outputs, productivity has increased in the consumer goods industry.
- B) that technology in the capital goods industries has improved.
- C) that technology in the consumer goods industry has improved.
- D) an inevitable decrease in total output.
- E) a movement from full employment to some unemployment.

Answer: B

Explanation: A)
B)
C)
D)
E)

103) Refer to Figure 1-4. If Country X, constrained by the production possibilities boundary PPB_1 , is currently producing at point A, it can produce more capital goods by moving to point 103) _____

- A) D.
- B) E.
- C) B.
- D) F.
- E) C.

Answer: D

Explanation: A)
B)
C)
D)
E)

- 104) It has been observed that university enrollment in Canada is higher during periods of high unemployment. A possible explanation for this is that 104) _____
- A) during periods of high unemployment, the opportunity cost is no longer relevant.
 - B) when prospects for getting a job are poor, the opportunity cost of doing nothing is higher.
 - C) when prospects for getting a job are poor, the opportunity cost of going to university is lower.
 - D) when prospects for getting a job are poor, the opportunity cost of getting a job is lower.
 - E) during periods of high unemployment, tuition fees are reduced.

Answer: C

Explanation: A)
B)
C)
D)
E)

- 105) A point lying inside the production possibilities boundary is one at which 105) _____
- A) more output could be produced with existing resources.
 - B) it is not possible to produce more output with existing resources.
 - C) the opportunity cost of producing more output is negative.
 - D) there is no scarcity.
 - E) the economy has run out of resources.

Answer: A

Explanation: A)
B)
C)
D)
E)

- 106) An economic system that relies primarily upon custom and habit in economic decision making is a 106) _____
- A) market system.
 - B) communist system.
 - C) traditional system.
 - D) command system.
 - E) mixed system.

Answer: C

Explanation: A)
B)
C)
D)
E)

With a budget of \$500 000, a school board can choose to purchase 20 000 textbooks or 2000 laptop computers (or some intermediate combination) for use in classrooms.

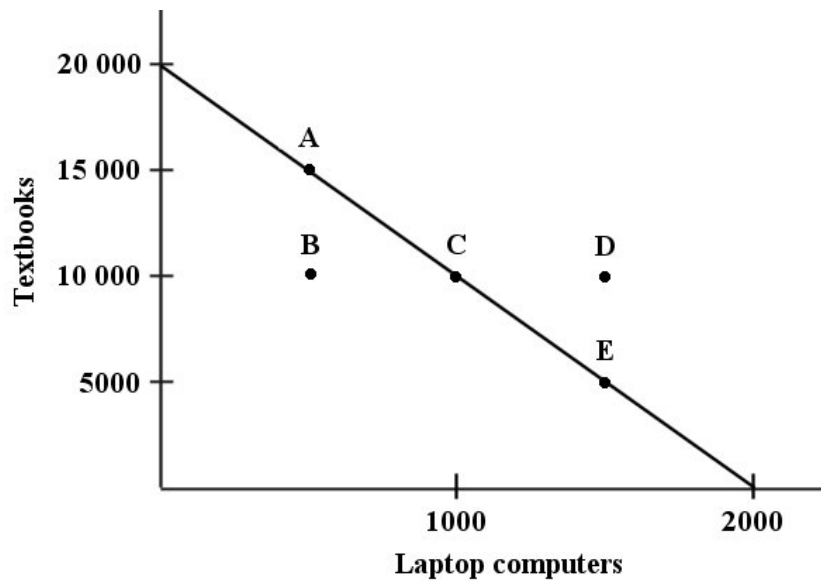


Figure 1-2

107) Refer to Figure 1-2. For the school board, what is the opportunity cost of one additional textbook? 107) _____

- A) 2000 laptops
- B) 1000 laptops
- C) 1/100 of a laptop
- D) 1/1000 of a laptop
- E) 1/10 of a laptop

Answer: E

Explanation: A)
B)
C)
D)
E)

108) On a diagram of a production possibilities boundary, the concept of opportunity cost is illustrated by the 108) _____

- A) distance from the origin to the boundary.
- B) area bounded by the two axes and the boundary.
- C) negative slope of the boundary.
- D) boundary being concave to the origin.
- E) unattainable points outside the boundary.

Answer: C

Explanation: A)
B)
C)
D)
E)

109) Society's resources are often divided into broad categories. They are

109) _____

- A) population and natural resources.
- B) goods and services.
- C) factors of consumption.
- D) tangible commodities and intangible commodities.
- E) land, labour, and capital.

Answer: E

Explanation: A)
B)
C)
D)
E)

The diagram below shows two production possibilities boundaries for Country X.

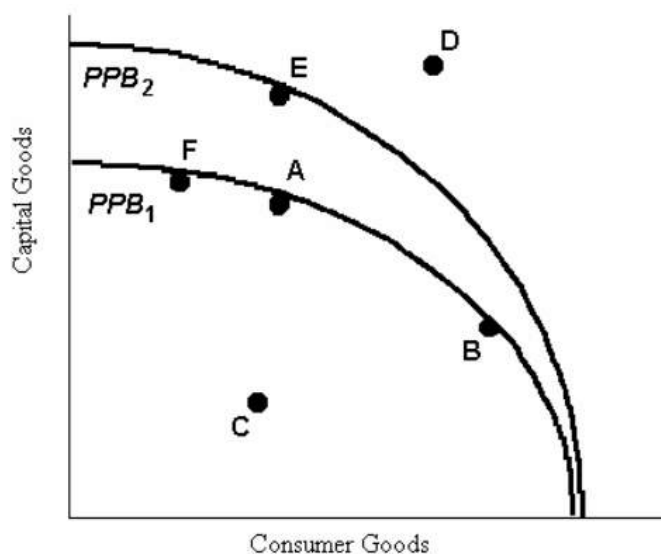


FIGURE 1-4

110) Refer to Figure 1-4. Growth in the country's productive capacity is illustrated by

110) _____

- A) an outward shift of the boundary, for example from PPB_1 to PPB_2 .
- B) a movement from a point inside the boundary such as C to the boundary.
- C) the movement between points on a given boundary.
- D) a single point such as A on the boundary.
- E) a point like D outside the boundary.

Answer: A

Explanation: A)
B)
C)
D)
E)

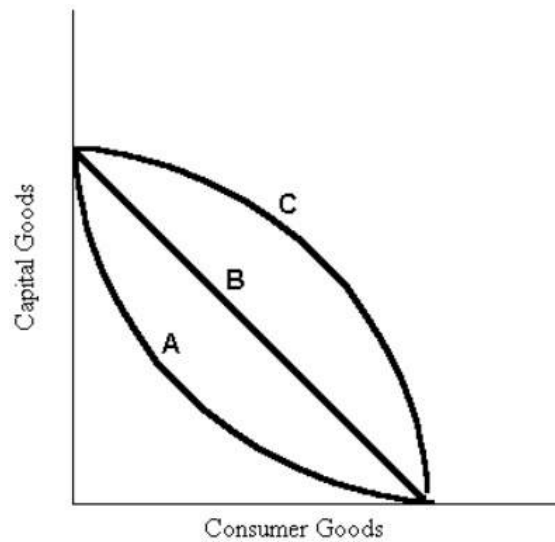


FIGURE 1-5

111) Refer to Figure 1-5. Suppose that the relevant production possibilities boundary is the one labelled 111) _____

B. This boundary implies that

- A) the opportunity cost of producing either capital goods or consumer goods does not depend on how much of each good is produced.
- B) the concept of opportunity cost is not at work in this economy.
- C) in this society the resources are not efficiently employed.
- D) consumer goods are preferred to capital goods.
- E) capital goods are preferred to consumer goods.

Answer: A

Explanation: A)
B)
C)
D)
E)

112) A move from inside the production possibilities boundary to the boundary itself could be caused 112) _____
by

- A) a reallocation of resources from military to civilian goods.
- B) technological progress.
- C) an increase in the labour supply.
- D) an improvement in the government's ability to control its spending.
- E) the employment of previously idle resources.

Answer: E

Explanation: A)
B)
C)
D)
E)

113) Which of the following is illustrated by the circular flow of income?

113) _____

- A) that firms own the factors of production
- B) that the flow of payments moves in the same direction as the flow of goods
- C) the interaction of households and firms through the factors and goods markets
- D) that there is no relationship between goods markets and factor markets
- E) the flows of expenditures and income in a household

Answer: C

Explanation: A)
B)
C)
D)
E)

The table below shows that, in one day, Claire can complete either 3 chemistry or 2 biology lab reports, while Sam can complete either 4 chemistry or 3 biology lab reports.

	Chemistry Lab Reports	Biology Lab Reports
Claire	3	2
Sam	4	3

TABLE 1-2

114) Refer to Table 1-2. What is Sam's opportunity cost of completing 3 biology lab reports?

114) _____

- A) 2 chemistry lab reports
- B) 4 chemistry lab reports
- C) 0 chemistry lab reports
- D) 3 chemistry lab reports
- E) 1 chemistry lab reports

Answer: B

Explanation: A)
B)
C)
D)
E)

The table below illustrates that, in one day, Tristan can produce either 12 fishing lures or mow 3 lawns, while Thomas can produce either 6 fishing lures or mow 6 lawns.

	Fishing Lures	Mowed Lawns
Tristan	12	3
Thomas	6	6

TABLE 1-1

- 115) Refer to Table 1-1. Which of the following statements about Tristan's and Thomas's opportunity costs is correct? 115) _____
- A) Tristan has a higher opportunity cost of producing mowed lawns.
 - B) Tristan has a higher opportunity cost of producing fishing lures.
 - C) Thomas has a higher opportunity cost of producing mowed lawns.
 - D) Thomas has a higher opportunity cost of producing fishing lures.
 - E) Both A and D are correct.

Answer: E

Explanation: A)
B)
C)
D)
E)

Madeleine allows herself \$100 per month for purchasing coffee. The diagram below illustrates the choices available to her.

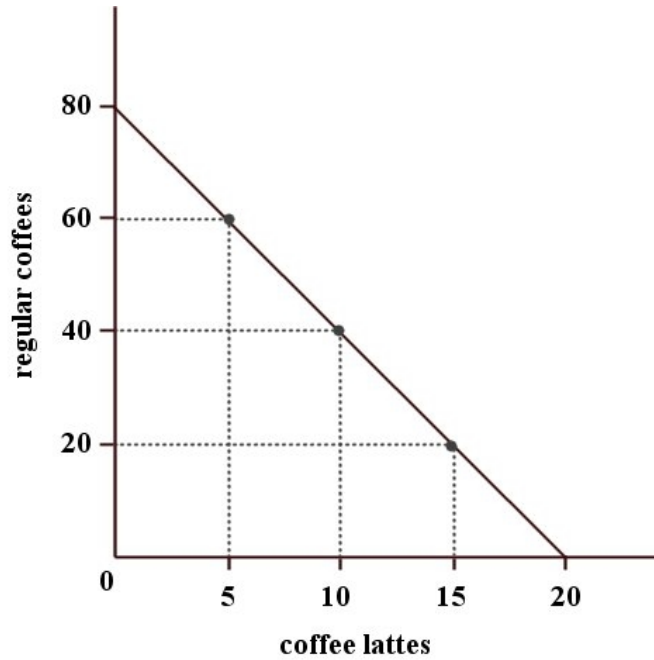


FIGURE 1-3

- 116) Refer to Figure 1-3. If Madeleine chooses to allocate all \$100 to buying lattes, we can say that her opportunity cost in one month is 116) _____
- A) 20 cups of regular coffee.
 - B) zero because she bought what she desired.
 - C) 40 cups of regular coffee.
 - D) zero because she stayed within her budget.
 - E) 80 cups of regular coffee.

Answer: E

Explanation: A)
B)
C)
D)
E)

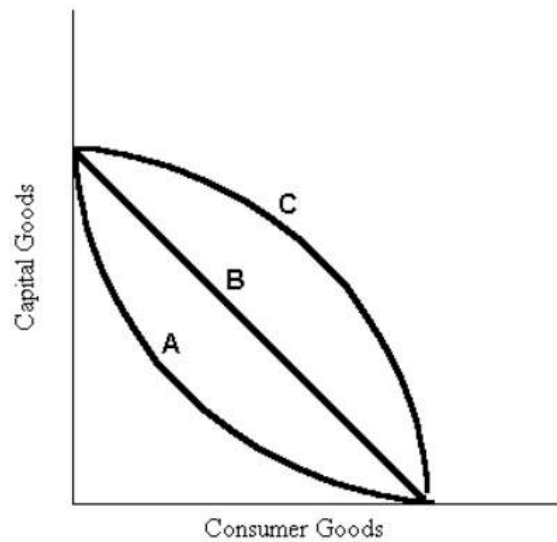


FIGURE 1-5

117) Refer to Figure 1-5. Which production possibilities boundaries exhibit decreasing opportunity costs?

117) _____

- A) boundaries A and B
- B) boundaries A and C
- C) boundary B only
- D) boundary C only
- E) boundary A only

Answer: E

Explanation: A)
B)
C)
D)
E)

118) In the Canadian economy, most decisions regarding resource allocation are made by

118) _____

- A) consumers and producers interacting in the price system.
- B) the various levels of government.
- C) negotiation between unions and firms.
- D) legal contract.
- E) business firms only.

Answer: A

Explanation: A)
B)
C)
D)
E)

119) A country's production possibilities boundary shows that

119) _____

- A) when a society combines its resources efficiently, it is always possible to produce more of all goods.
- B) all points inside the boundary are preferred to all points on the boundary.
- C) when a society combines its resources efficiently, it cannot produce more of one good without producing less of the other good.
- D) when a society combines its resources inefficiently, it cannot produce more of one good without producing less of the other good.
- E) the supply for goods always exceeds the demand.

Answer: C

Explanation: A)
 B)
 C)
 D)
 E)

120) Income redistribution in a mixed economy

120) _____

- A) is supported by all individuals.
- B) risks reducing individual incentives to work and produce.
- C) is not allowed.
- D) is only accomplished through government intervention.
- E) rarely occurs.

Answer: B

Explanation: A)
 B)
 C)
 D)
 E)

Answer Key
Testname: C1

- 1) E
- 2) D
- 3) C
- 4) C
- 5) E
- 6) A
- 7) A
- 8) C
- 9) C
- 10) E
- 11) C
- 12) E
- 13) A
- 14) C
- 15) A
- 16) D
- 17) D
- 18) B
- 19) E
- 20) E
- 21) A
- 22) D
- 23) C
- 24) B
- 25) E
- 26) D
- 27) A
- 28) C
- 29) E
- 30) C
- 31) D
- 32) D
- 33) A
- 34) D
- 35) D
- 36) B
- 37) C
- 38) A
- 39) B
- 40) A
- 41) A
- 42) C
- 43) E
- 44) C
- 45) A
- 46) A
- 47) D
- 48) D
- 49) C
- 50) A

Answer Key
Testname: C1

- 51) C
- 52) A
- 53) E
- 54) C
- 55) A
- 56) D
- 57) A
- 58) B
- 59) E
- 60) B
- 61) D
- 62) A
- 63) E
- 64) C
- 65) E
- 66) A
- 67) B
- 68) A
- 69) C
- 70) B
- 71) D
- 72) E
- 73) A
- 74) D
- 75) A
- 76) A
- 77) C
- 78) C
- 79) B
- 80) D
- 81) C
- 82) A
- 83) A
- 84) A
- 85) E
- 86) C
- 87) C
- 88) A
- 89) A
- 90) E
- 91) E
- 92) C
- 93) C
- 94) E
- 95) A
- 96) D
- 97) E
- 98) B
- 99) B
- 100) D

Answer Key
Testname: C1

- 101) E
- 102) B
- 103) D
- 104) C
- 105) A
- 106) C
- 107) E
- 108) C
- 109) E
- 110) A
- 111) A
- 112) E
- 113) C
- 114) B
- 115) E
- 116) E
- 117) E
- 118) A
- 119) C
- 120) B