



Test Canvas: Self-Test Quiz - Chapter 02

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☐ 1. Multiple Choice: When economists want to describe how ...

Points: 1

Question	When economists want to describe how much an economy can produce with a given amount of resources, they use a model known as:
Answer	the positive model. the normative model. comparative advantage. ☒ the production possibility frontier.
Correct Feedback	Correct! This model shows the various combinations of two goods that can be produced when an economy operates efficiently. Specifically, it shows the trade-offs of choosing between two goods. Section: Trade-offs: The Production Possibility Frontier
Incorrect Feedback	Incorrect! Each axis of the graph measures the amount of one good produced. Every point on the graph identifies a quantity for the good measured horizontally and one for the good measured vertically. This model shows the various combinations of two goods that can be produced when an economy operates efficiently. Section: Trade-offs: The Production Possibility Frontier

☐ 2. Multiple Choice: Economists typically depict the PPF a...

Points: 1

Question

Economists typically depict the PPF as a bowed-out curve rather than as a straight line in order to show that:

Answer

☒ the opportunity cost of producing a good rises as more is produced.

the opportunity cost of producing a good declines as more is produced.

resources used in the production of one good cannot be used in the production of another.

the opportunity cost is always present.

Correct Feedback

Correct! The opportunity cost rises as more is produced, because expanding the output level means that some resources that are not well-suited toward producing this good will be used in providing it. Resources used in the production of two goods are not homogeneous or similar. As more is produced of one product, resources are increasingly less and less suited to its production and its opportunity cost rises. Section: Trade-offs: The Production Possibility Frontier

Incorrect Feedback

Incorrect! Expanding the output level of a good leads to using resources that are not well-suited to its production because well-suited inputs are already used up. Therefore the opportunity cost of this good increases. Section: Trade-offs: The Production Possibility Frontier

☐ **3. Multiple Choice: Those points lying beyond the PPF:**

Points: **1**

Question

Those points lying beyond the PPF:

Answer

are inefficient.

represent outcomes in which resources would be unemployed.

☒ represent outcomes unattainable with the current level of technology and resources.

represent outcomes that are attainable with the current level of technology and resources, but are less desirable than those on the frontier.

Correct Feedback

Correct! These points can become attainable through economic growth. Section: Trade-offs: The Production Possibility Frontier

Incorrect Feedback

Incorrect! If resources are used efficiently, the combinations of output indicated by points on the frontier are attainable. Those beyond the frontier, representing higher levels of output, are unattainable. Section: Trade-offs: The Production Possibility Frontier

☐ **4. Multiple Choice: What is measured along the horizontal...**

Points: **1**

Question

What is measured along the horizontal axis in a graph of the PPF?

Answer

the amount of labor input

	the amount of capital input ✓ the quantity of one good produced the quantity of one good exported
Correct Feedback	Correct! The axis measures the quantity of output produced. The quantity and productivity of inputs are reflected in the position of the curve. Section: Trade-offs: The Production Possibility Frontier
Incorrect Feedback	Incorrect! The axis measures the quantity of output produced. The quantity and productivity of inputs are reflected in the position of the curve. Section: Trade-offs: The Production Possibility Frontier

☐ **5. Multiple Choice: Picture a production possibility fron...**

Points: **1**

Question	Picture a production possibility frontier. Point A lies inside (to the left) of the frontier. Points B and C are located along the frontier, and Point D is located outside (to the right) the frontier. Which of the following points represent feasible (attainable) production points?
Answer	All points (A, B, C, and D) are feasible. ✓ Points A, B, and C are feasible. Points B and C are feasible. None of the points is feasible.
Correct Feedback	Correct! All points along and inside the PPF are feasible. Section: Trade-offs: The Production Possibility Frontier
Incorrect Feedback	Incorrect! All points along and inside the PPF are feasible. Points outside the PPF are not obtainable given current inputs of capital and labor. Section: Trade-offs: The Production Possibility Frontier

☐ **6. Multiple Choice: Picture a production possibility fron...**

Points: **1**

Question	Picture a production possibility frontier. Point A lies inside (to the left) of the frontier. Points B and C are located along the frontier, and Point D is located outside (to the right) the frontier. Which points represent efficient production points?
Answer	All points (A, B, C, and D) are efficient. Points A, B, and C are efficient.

 Points B and C are efficient.

Points B, C, and D are efficient.

Correct Feedback

Correct! All points located along the boundary of the PPF are efficient. Section: Trade-offs: The Production Possibility Frontier

Incorrect Feedback

Incorrect! All points along and inside the PPF are feasible. Points outside the PPF are not obtainable given current inputs of capital and labor. All points located along the boundary of the PPF are efficient. Section: Trade-offs: The Production Possibility Frontier

☐ **7. Multiple Choice: If a country specializes according to...**

Points: **1**

Question

If a country specializes according to its own comparative advantage and then trades with other nations:

Answer

it will operate at a point inside its production possibility frontier.

 it can consume at a higher level than the domestic production possibility frontier.

its production possibility frontier will shift or rotate inward.

it can consume at the same level as the domestic production possibility frontier.

Correct Feedback

Correct! Trading according to comparative advantage allows both trading partners to consume more than if they tried to be self-sufficient. Section: Comparative Advantage and Gains from Trade

Incorrect Feedback

Incorrect! The efficiency that arises from producing at minimum opportunity cost is what allows for enhanced prosperity through trade. Section: Comparative Advantage and Gains from Trade

☐ **8. Multiple Choice: The result of free trade between nati...**

Points: **1**

Question

The result of free trade between nations is that:

Answer

wealthy countries benefit; developing nations lose.

developing nations benefit; wealthy countries lose.

the worldwide level of unemployment increases.

 goods can be produced in the location where their opportunity cost is the lowest.

Correct Feedback

Correct! As long as trade is conducted according to the principle of comparative advantage, all trading partners can benefit. Section: Comparative Advantage and International Trade

**Incorrect
Feedback**

Incorrect! Trade liberates us from the need to produce everything in the same location where it is consumed. With trade, goods can be produced where their opportunity cost is lowest or where it is cheapest to produce them Section: Comparative Advantage and International Trade

☐ **9. Multiple Choice: Suppose you hear an economist make an...**

Points: **1**

Question

Suppose you hear an economist make an assertion that, between the two countries, France has a comparative advantage in the production of chocolate and that Italy has a comparative advantage in the production of wine. Which of the following statements is another way of stating the same idea expressed in the assertion?

Answer

French chocolate is better tasting than Italian chocolate.

French wine is better tasting than Italian wine.

☒ France can produce chocolate at a lower opportunity cost than Italy can.

France can produce wine at a lower opportunity cost than Italy can.

**Correct
Feedback**

Correct! Having comparative advantage in the production of a good means having the ability to produce it at the lowest possible opportunity cost. Section: Comparative Advantage and International Trade

**Incorrect
Feedback**

Incorrect! Having comparative advantage in the production of a good means having the ability to produce it at the lowest possible opportunity cost. Section: Comparative Advantage and International Trade

☐ **10. Multiple Choice: What name is given to the form of exc...**

Points: **1**

Question

What name is given to the form of exchange in which individuals trade goods and services directly, without money serving as a medium of exchange?

Answer

☒ barter

comparative advantage

circular exchange

market exchange

**Correct
Feedback**

Correct! Though barter is uncommon, it still can serve to enhance the well-being of both parties to the exchange. Section: Transactions: The Circular-Flow Diagram

**Incorrect
Feedback**

Incorrect! The difficulty of finding someone who has what you want and wants what you have limits the opportunities for direct exchange of goods and services. Section: Transactions: The Circular-Flow Diagram

☐ **11. Multiple Choice: What are the two sectors represented ...**

Points: **1**

Question

What are the two sectors represented in a simple circular-flow diagram of the economy?

Answer	unions and management ✓ households and firms business and government profit and not-for-profit
Correct Feedback	Correct! Households supply the factors of production to firms, which in turn, supply the household sector with goods and services. Section: Transactions: The Circular-Flow Diagram
Incorrect Feedback	Incorrect! The factors of production are owned by the household sector. Households provide the services of these resources to firms in exchange for monetary compensation. Then they use the monetary compensation to purchase the goods and services supplied by firms. Section: Transactions: The Circular-Flow Diagram

☐ **12. Multiple Choice: What is traded in factor markets?**

Points: **1**

Question	What is traded in factor markets?
Answer	agricultural products mineral products exports and imports ✓ land, labor, capital, and human capital
Correct Feedback	Correct! In factor markets, firms purchase the resources needed for the manufacture of goods and the provision of services. Section: Transactions: The Circular-Flow Diagram
Incorrect Feedback	Incorrect! Land, labor, capital, and human capital are the factors of production. Firms pay those who provide them with the services of these resources. Section: Transactions: The Circular-Flow Diagram

☐ **13. Multiple Choice: As an economy moves from point to poi...**

Points: **1**

Question	As an economy moves from point to point along its PPF, what is changing?
Answer	the amount of resources available in the economy the productivity of the resources available in the economy ✓ the allocation of resources within the economy

the size of the labor force

Correct Feedback

Correct! As the mix of outputs changes, the allocation of resources among different uses must also change. Section: Trade-offs: The Production Possibility Frontier

Incorrect Feedback

Incorrect! Each point along the production possibility frontier corresponds to a different mix of products. Changing the mix requires that resources be directed to different uses. Section: Trade-offs: The Production Possibility Frontier

☐ **14. Multiple Choice: Which of the following statements is ...**

Points: **1**

Question

Which of the following statements is **true**?

Answer

A country cannot have a comparative advantage in producing a particular good unless it first has an absolute advantage in producing that good.

Comparative advantage in producing a certain item arises from being the first country to manufacture that item.

A country cannot have comparative advantage in producing a certain item if it incurs an increasing opportunity cost in producing the item.

☒ All countries can gain from trade if they all specialize in production according to comparative advantage.

Correct Feedback

Correct! Specializing according to comparative advantage means that countries produce those goods in which they have a lower opportunity cost. Both countries gain since they can consume more with the resources they have. Section: Comparative Advantage and Gains from Trade

Incorrect Feedback

Incorrect! Comparative advantage arises simply from the ability to produce a good at an opportunity cost lower than that incurred by other producers. This allows the countries engaged in trade to consume more than they could produce alone. Section: Comparative Advantage and Gains from Trade

☐ **15. Multiple Choice: Suppose that in Australia, it takes t...**

Points: **1**

Question

Suppose that in Australia, it takes two hours of labor to harvest 10 bushels of apples and four hours of labor to harvest 10 bushels of tomatoes. Further, suppose that in Brazil it takes 4 hours of labor to harvest 10 bushels of apples and 5 hours of labor to produce 10 bushels of tomatoes. Which of the following statements is TRUE?

Answer

☒ Of these two countries, Brazil has a comparative advantage in producing tomatoes.

Of these two countries, Brazil has a comparative advantage in producing apples.

Brazil has an absolute advantage in producing both goods.

In trade between these two countries, Australia would gain and Brazil would lose.

Correct Feedback

Correct! Australia has the absolute advantage in both goods, but also exhibits the higher opportunity cost of growing tomatoes. Section: Comparative Advantage and Gains from Trade

Incorrect Feedback

Incorrect!: In Australia, the opportunity cost of harvesting 10 bushels of tomatoes is 20 bushels of apples. In Brazil, the opportunity cost of harvesting 10 bushels of tomatoes is 12.5 bushels of apples. Since Brazil gives up fewer bushels of apples for 10 bushels of tomatoes, it has the lower opportunity cost. Section: Comparative Advantage and Gains from Trade

☐ **16. Multiple Choice: Which of the following is a normative...**

Points: **1**

Question

Which of the following is a normative statement?

Answer

An increase in the price of cameras will decrease the number of cameras sold.

A decrease in the price of digital cameras will decrease the demand for camera film.



A camera makes a good wedding gift.

The United States imports most of its cameras from Asia.

Correct Feedback

Correct! Positive economics describes economic phenomena; normative economics makes value judgments. Section: Positive Versus Normative Economics

Incorrect Feedback

Incorrect! A normative statement is one that prescribes a certain course of action as being desirable or undesirable. Section: Positive Versus Normative Economics

☐ **17. Multiple Choice: Why do economists use models?**

Points: **1**

Question

Why do economists use models?

Answer

to distinguish between positive and normative statements

to solve disagreements about the desirable extent of income equality

to choose the correct political opinion among many competing ones



to make forecasts

Correct Feedback

Correct! Economists use models to capture the relationships among key variables. Section: Positive Versus Normative Economics

Incorrect Feedback

Incorrect! Models cannot be used to solve political differences, but they can clarify the effect of one variable on another. Section: Positive Versus Normative Economics

☐ 18. Multiple Choice: What is one thing that economists generally agree on?

Points: 1

Question	What is one thing that economists generally agree on?
Answer	☒ trade enhances welfare the desirability of a different taxes the relative merits of different political candidates the desirability of Washington, DC, as a place to live
Correct Feedback	Correct! Economists generally agree that trade makes both trading partners better off. Although, some people in a country could be hurt by specific kinds of trade. Section: Positive Versus Normative Economics
Incorrect Feedback	Incorrect! Economists generally agree that trade makes both trading partners better off. Although, some people in a country could be hurt by specific kinds of trade. Section: Positive Versus Normative Economics

☐ 19. Multiple Choice: If an economist argues that all countries gain from trade, what reasoning is **most** likely underlying her argument?

Points: 1

Question	If an economist argues that all countries gain from trade, what reasoning is most likely underlying her argument?
Answer	Trading with other countries does not affect the number or the type of remaining domestic jobs. Trading with other countries enriches those who work in the shipping industry, and shipping is a key sector of the economy. ☒ Production according to the principle of comparative advantage lowers overall costs and therefore allows both countries to have a higher standard of living. Export industries are the most important part of the economy.
Correct Feedback	Correct! Economists consider the "gain" from trade to be the efficiency that results when production can be located in the place where its costs are minimized. Section: Positive Versus Normative Economics
Incorrect Feedback	Incorrect! An economist who argues that countries gain from trade is basing her argument on the principle of comparative advantage, which allows everyone to consume more. Section: Positive Versus Normative Economics

☐ 20. Multiple Choice: Suppose that a single person working ...

Points: 1

Question	Suppose that a single person working in Mexico can produce either 20 yards of cloth or 80 baskets, and that a single person working in Turkey for the same length of time can produce either 15 yards of cloth or 30 baskets. Which of the following statements is then TRUE?
Answer	Between these two countries, Turkey has the absolute advantage in both goods.



Turkey has a comparative advantage in cloth; Mexico has a comparative advantage in baskets.

Turkey has a comparative advantage in baskets; Mexico has a comparative advantage in cloth.

In both countries, the opportunity costs of producing cloth and baskets are the same.

**Correct
Feedback**

Correct! Both countries can benefit if Turkey produces cloth and Mexico produces baskets, since Turkey has a comparative advantage in cloth and Mexico has comparative advantage in baskets. Section: Comparative Advantage and Gains from Trade

**Incorrect
Feedback**

Incorrect! Consider that the opportunity cost of each yard of cloth is 2 baskets in Turkey, and that in Mexico, the opportunity cost of each yard of cloth is 4 baskets. Production according to the principle of comparative advantage requires that goods be manufactured where their opportunity cost is minimized. Section: Comparative Advantage and Gains from Trade

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