Exam

Name_____

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

1) Capital accumulation definitely 1) _____
A) shifts the production possibilities frontier inward.
B) shifts the production possibilities frontier outward.
C) has no impact on the production possibilities frontier.
D) makes the production possibilities frontier steeper.

Answer: B
Explanation: A)
B)
C)
D)

2) Moving from one point on the production possibilities frontier to another 2) _____
A) involves an opportunity cost but no tradeoff.
B) involves a tradeoff and incurs an opportunity cost.
C) involves a tradeoff but does not incur an opportunity cost.
D) involves no tradeoff but it does incur an opportunity cost.

Answer: B
Explanation: A)
B)
C)
D)

3) The principle of decreasing marginal benefit implies that the 3) _____
A) additional benefit from obtaining one more of a good or service decreases as more is consumed.
B) total benefit from obtaining more of a good or service decreases as more is consumed.
C) total benefit from obtaining more of a good or service remains the same as more is consumed.
D) additional benefit from obtaining one more of a good or service increases as more is consumed.

Answer: A
Explanation: A)
B)
C)
D)

4) An increase in the production of capital goods 4) _____
A) shifts the production possibilities frontier outward in the future.
B) must increase the current production of consumer goods.
C) must decrease the future production of consumer goods.
D) shifts the production possibilities frontier inward in the future.

Answer: A
Explanation: A)
B)
C)
D)

5) Economic growth can be represented by 5) _____
A) a movement down the production possibilities frontier (*PPF*).
B) an inward shift of the production possibilities frontier (*PPF*).
C) a movement up the production possibilities frontier (*PPF*).
D) an outward shift of the production possibilities frontier (*PPF*).

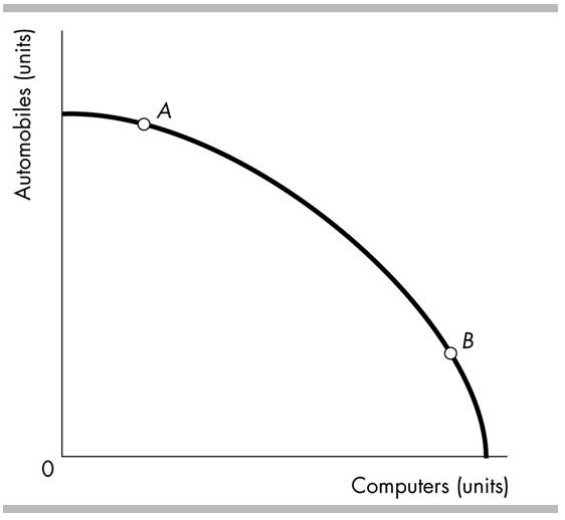
Answer: D
Explanation: A)
B)
C)
D)

6) The production possibilities frontier itself illustrates 6) _____
A) all goods that can be produced by an economy.
B) all possible production of capital goods.
C) all goods and services that are desired but cannot be produced due to scarce resources.
D) the combination of goods and services that can be produced efficiently.

Answer: D
Explanation: A)
B)
C)
D)

7) A marginal cost curve 7) _____
A) is upward sloping.
B) shows that as more of a good is produced, opportunity costs of producing another unit increase.
C) is bowed inward so that its slope can become negative.
D) Both answers A and B are correct.

Answer: D
Explanation: A)
B)
C)
D)



8) According to the figure above, the opportunity cost of producing another computer is 8) _____
A) higher at *A*.
B) higher at *B*.
C) the same at every point along the frontier.
D) different at most points along the frontier but equal at points *A* and *B* because they are equally distant from the axes.

Answer: B
Explanation: A)
B)
C)
D)

9) When the production possibilities frontier is bowed outwards, the opportunity cost of producing more of one good 9) _____
A) decreases in terms of the amount forgone of the other good.
B) remains constant.
C) increases in terms of the amount forgone of the other good.
D) cannot be determined.

Answer: C
Explanation: A)
B)
C)
D)

10) Markets 10) _____
A) allow traders to enjoy gains from trade.
B) coordinate price information between buyers and sellers.
C) facilitate trade.
D) All of the above answers are correct.

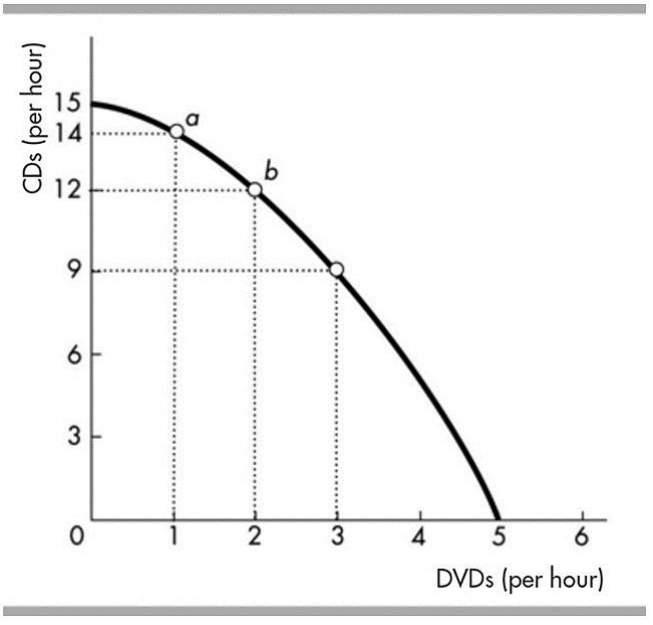
Answer: D
Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

11) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. 11) _____
What is the opportunity cost of *one* can of cola if Sweet-tooth Land moves from point C to point B?

A) 10 chocolate bars per can of cola
B) 1/2 chocolate bar per can of cola
C) 2 chocolate bars per can of cola
D) 20 chocolate bars per can of cola

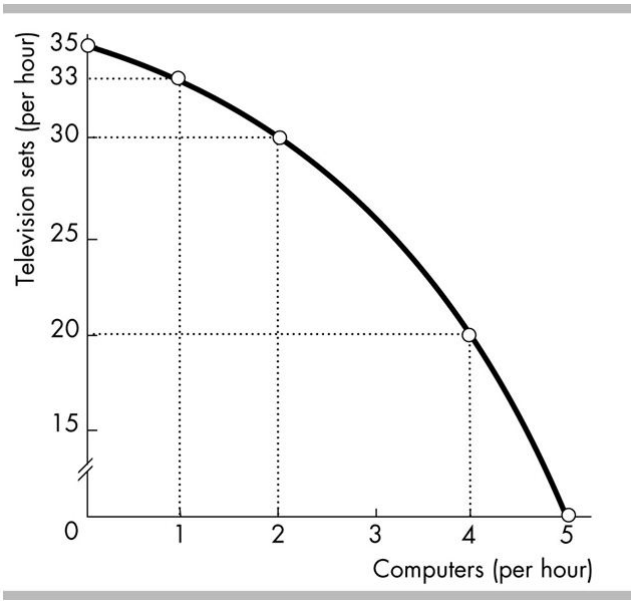
Answer: B
Explanation: A)
B)
C)
D)



12) In the above figure, at point *a,* what is the opportunity cost of producing one more CD? 12) _____

A) 2 DVDs.
B) 1 DVD.
C) 14 DVDs.
D) There is no opportunity cost.

Answer: B
Explanation: A)
B)
C)
D)

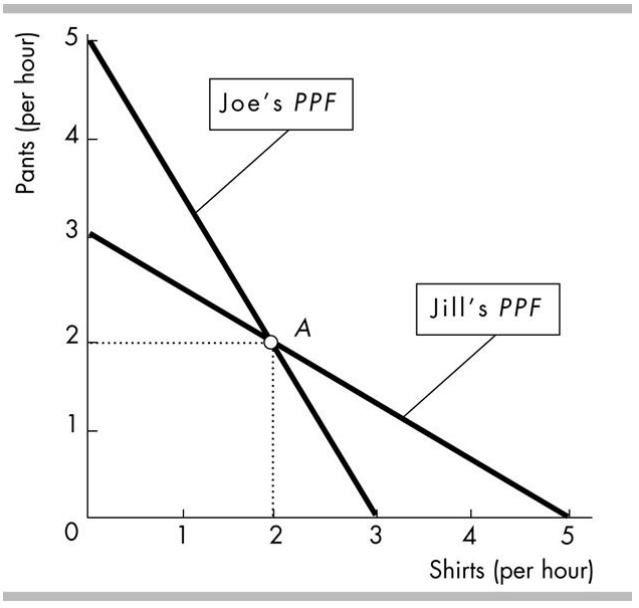


13) In the figure above, the marginal cost of the second computer is 13) _____

A) 2 television sets.
B) 30 television sets.
C) 5 television sets.
D) 3 television sets.

Answer: D

Explanation: A)
B)
C)
D)



14) In the figure above, both Joe and Jill initially produce at point *A*. If Joe and Jill realise that they each possess a comparative advantage, which outcome can we expect? 14) _____

A) Joe will specialise in shirts and Jill will specialise in pants.
B) Joe will specialise in pants and Jill will specialise in shirts.
C) Joe and Jill each will be able to consume more than 2 shirts and 2 pairs of pants.
D) Both answers B and C are correct.

Answer: D
Explanation: A)
B)
C)
D)

15) One of the opportunity costs of economic growth is 15) _____

A) reduced current consumption.
B) technological change.
C) the gain in future consumption.
D) capital accumulation.

Answer: A
Explanation: A)
B)
C)
D)

16) A person who has an absolute advantage in the production of all goods will 16) _____

A) have a production possibilities frontier with a constant slope.
B) have a comparative advantage in the production of some goods but not in the production of others.
C) also have a comparative advantage in the production of all goods.
D) not be able to gain from specialisation and exchange.

Answer: B
Explanation: A)
B)
C)
D)

17) Scarcity is represented on a production possibilities frontier figure by 17) _____

A) the amount of the good on the horizontal axis forgone.
B) technological progress.
C) the fact that there are only two goods in the diagram.
D) the fact that there are attainable and unattainable points.

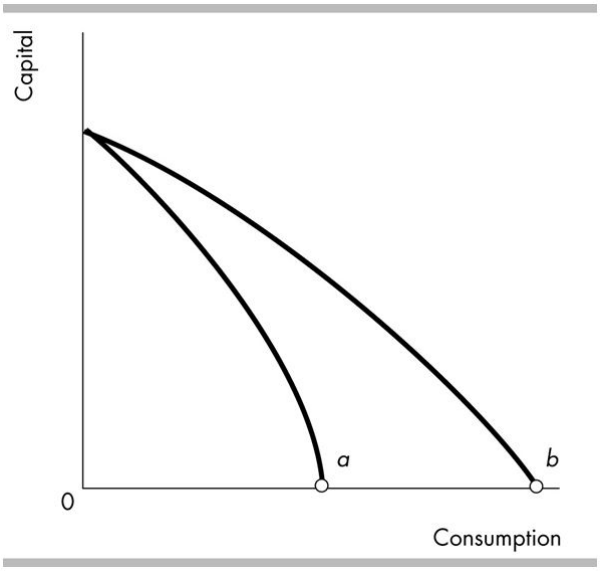
Answer: D
Explanation: A)
B)
C)
D)

Quantity (pizzas per day)	Marginal benefit (cans per day)	Marginal cost (cans per day)
10	26	14
20	24	16
30	22	18
40	20	20
50	18	22
60	16	24
70	14	26

18) The table above shows the marginal benefit from pizza and the marginal cost of pizza in cans of cola forgone. If _____ pizzas are produced, the quantity of cola that people are willing to give up to get an additional pizza is more than the quantity of cola that they must give up to get that additional pizza. 18) _____

A) more than 40
B) any quantity other than 40
C) fewer than 40
D) 40

Answer: C
Explanation: A)
B)
C)
D)

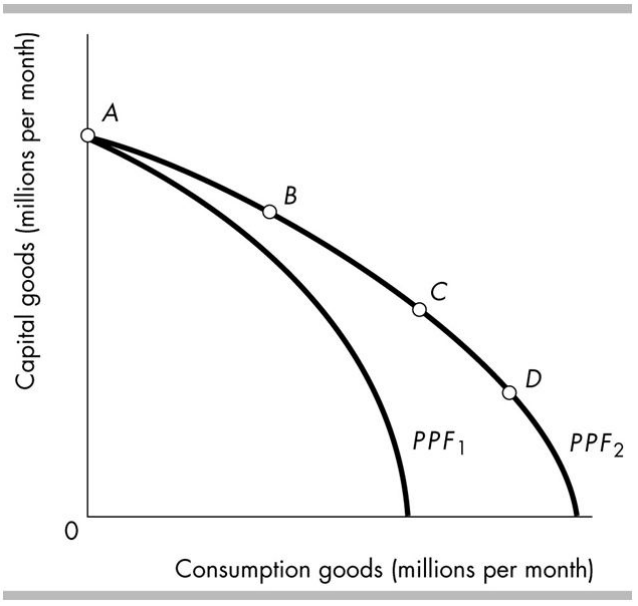


19) The opportunity cost of producing a unit of consumption goods at point *b* in the figure _____ point *a*. 19) _____

A) is greater than at
B) is the same as
C) is less than at
D) cannot be compared with

Answer: C

Explanation: A)
B)
C)
D)



20) In the above figure, in order for this country to move from production possibilities frontier PPF_1 to PPF_2, it might 20) _____

A) engage in exchange with other nations.
B) increase the average level of prices for all goods produced and consumed.
C) increase the skills and productivity of its work force.
D) put all unemployed resources to work producing desired output.

Answer: C
Explanation: A)
B)
C)
D)

21) Which of the following statements regarding the production possibilities frontier is true? 21) _____

A) Points inside the frontier are attainable.
B) Points outside the frontier are attainable.
C) Points on the frontier are less efficient than points inside the frontier.
D) None of the above because all of the above statements are false.

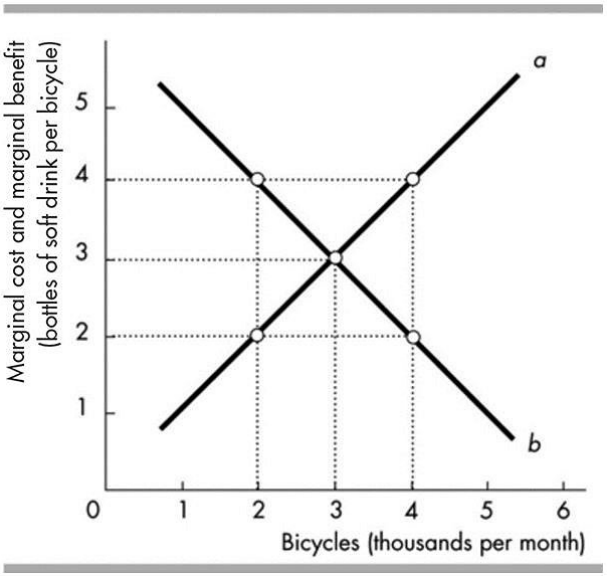
Answer: A
Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

22) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following is an example of a point that is inefficient? 22) _____

A) 0 chocolate bars and 100 cans of cola
B) 38 chocolate bars and 0 cans of cola
C) 20 chocolate bars and 80 cans of cola
D) 32 chocolate bars and 40 cans of cola

Answer: B
Explanation: A)
B)
C)
D)



23) In the above figure, when 2000 bicycles are produced each month, we can see that 23) _____

A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
B) more bicycles should be produced to reach the allocatively efficient level of output.
C) the economy is very efficient at the production of bicycles because the marginal benefit exceeds the marginal cost.
D) Both answers A and B are correct.

Answer: D
Explanation: A)
B)
C)
D)

24) Betty and Ann live on a desert island. With a day's labour, Ann can produce 8 fish or 4 coconuts; Betty can produce 6 fish or 2 coconuts. Ann's opportunity cost of producing 1 coconut is _____ and she should specialise in the production of _____. 24) _____

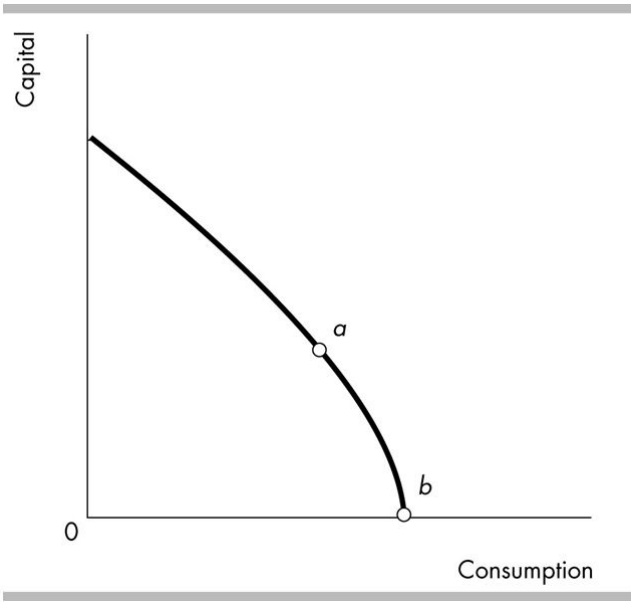
A) 0 fish per coconut; coconuts
B) 6 fish per coconut; coconuts
C) 8 fish per coconut; fish
D) 2 fish per coconut; coconuts

Answer: D
Explanation: A)
B)
C)
D)

25) A *PPF* bows outward because 25) _____

A) not all resources are equally productive in all activities.
B) resources are used inefficiently.
C) entrepreneurial talent is more abundant than human capital.
D) consumers prefer about equal amounts of the different goods.

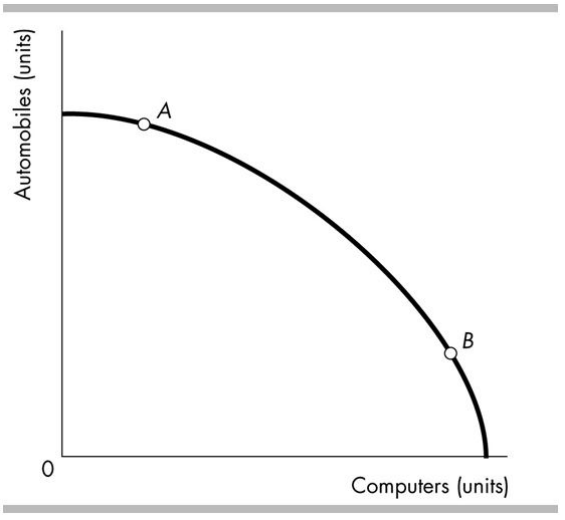
Answer: A
Explanation: A)
B)
C)
D)



26) Two countries, Alpha and Beta, have identical production possibilities frontiers. If Alpha produces at point *a* and Beta produces at point *b*, then 26) _____

A) Alpha's and Beta's economic growth rates will be the same.
B) Beta's economic growth rate will exceed Alpha's.
C) Beta's future consumption will be greater than Alpha's.
D) Alpha consumes less than Beta today, but it will grow faster than Beta.

Answer: D
Explanation: A)
B)
C)
D)



27) The bowed outward shape of the production possibilities frontier in the above figure indicates that 27) _____
A) computer technology is subject to the principle of decreasing costs.
B) some resources are better suited for producing computers.
C) the opportunity cost of producing more computers decreases as more computers are produced.
D) All of the above answers are correct.

Answer: B
Explanation: A)
B)
C)
D)

Country A		Country B	
Good *X* (units of *X*)	Good *Y* (units of *Y*)	Good *X* (units of *X*)	Good *Y* (units of *Y*)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

28) In the table above, country B is producing 4 units of *X* and 6 units of *Y*. For country B, the opportunity cost of producing an additional unit of *X* is 28) _____
A) 3/2 units of *Y* per unit of *X*.
B) 1 unit of *Y* per unit of *X*.
C) 4 units of *Y* per unit of *X*.
D) 2 units of *Y* per unit of *X*.

Answer: A
Explanation: A)
B)
C)
D)

29) If an economy is operating at a point inside the production possibilities frontier, then 29) _____
A) the *PPF* curve will shift inward.
B) society's resources are being inefficiently utilised.
C) economic policy must retard further growth of the economy.
D) society's resources are being used to produce too many consumer goods.

Answer: B
Explanation: A)
B)
C)
D)

30) Some time ago the government of China required many highly skilled technicians and scientists to engage in unskilled agricultural labour in order to develop "proper social attitudes." This policy probably caused China to produce 30) _____
A) inside its production possibilities frontier with respect to food, but outside with respect to high-technology goods.
B) inside its production possibilities frontier.
C) outside its production possibilities frontier with respect to food, but inside with respect to high-technology goods.
D) at an inappropriate point along its production possibilities frontier.

Answer: B
Explanation: A)
B)
C)
D)

31) Resource use is allocatively efficient when 31) _____
A) we produce the amount of the different goods we value most highly.
B) we produce the goods with the lowest opportunity cost.
C) we cannot produce more goods and services.
D) we produce the goods with the highest opportunity cost.

Answer: A
Explanation: A)
B)
C)
D)

32) A tradeoff is 32) _____
A) a transaction at a price either above or below the equilibrium price.
B) a constraint that requires giving up one thing to get another.
C) represented by a point outside a *PPF*.
D) represented by a point inside a *PPF*.

Answer: B
Explanation: A)
B)
C)
D)

33) A person has a comparative advantage in producing a particular good if that person 33) _____
A) has higher productivity in producing it than anyone else has.
B) has less desire to consume that good than anyone else has.
C) can produce it at lower opportunity cost than anyone else can.
D) has more human capital related to that good than anyone else has.

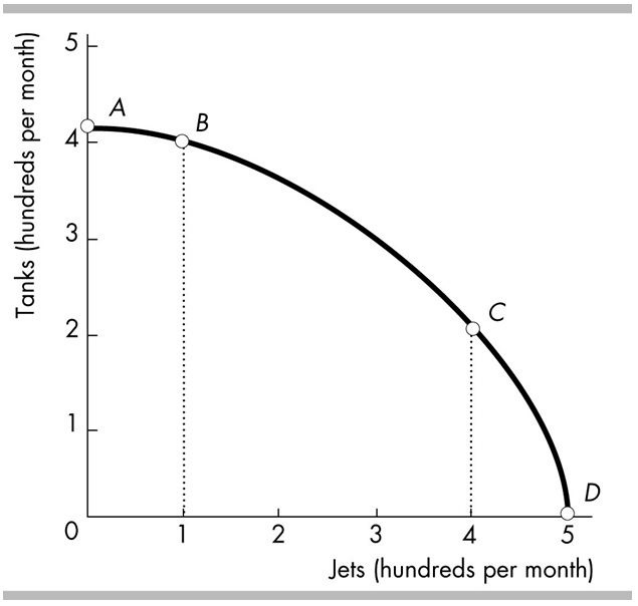
Answer: C
Explanation: A)
B)
C)
D)

34) Suppose Joe can prepare 20 sandwiches or 10 pizzas in an hour and Beth can produce 36 sandwiches or 27 pizzas. The concept of comparative advantage concludes that 34) _____
A) Beth should produce both goods because she can produce more of both goods in an hour than can Joe.
B) Beth should produce both goods and Joe should produce sandwiches.
C) Beth should produce sandwiches and Joe should produce pizza.
D) Beth should produce pizza and Joe should produce sandwiches.

Answer: D
Explanation: A)
B)
C)
D)

35) Suppose a scientific breakthrough made free solar power available in unlimited quantities in Australia. The effect of this invention would be to move 35) _____
A) the Australian production possibilities frontier outward.
B) Australia beyond its production possibilities frontier.
C) Australia inside its production possibilities frontier.
D) the Australian production possibilities frontier inward.

Answer: A
Explanation: A)
B)
C)
D)



36) In the above figure, which of the following is true regarding the movements from point *A* to *B* and from point *C* to *D*? 36) _____

I. The movement from point *A* to *B* shows that the economy has chosen to produce 100 more jets.
II. The movement from point *C* to *D* shows that the economy has chosen to produce 100 more jets.
III. The movements from point *A* to *B* and from point *C* to *D* have the same opportunity cost.

A) I and II B) I and III C) II and III D) I, II and III

Answer: A
Explanation: A)
B)
C)
D)

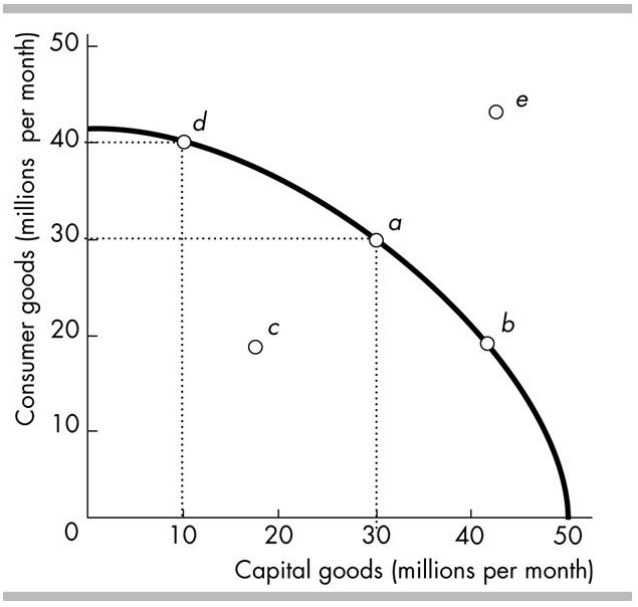
Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

37) Based on the above table, as the production of pizza increases, the opportunity cost of pizza in terms of forgone cases of cola 37) _____

A) increases. B) initially increases then decreases.
C) decreases. D) does not change.

Answer: A
Explanation: A)
B)
C)
D)

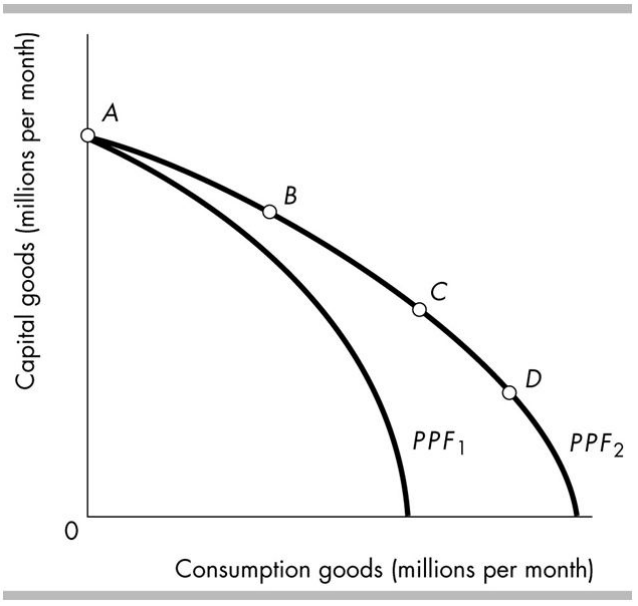


38) Refer to the production possibilities frontier in the figure above. Which production point is unattainable? 38) _____

A) Point *a* B) Point *b* C) Point *c* D) Point *e*

Answer: D

Explanation: A)
B)
C)
D)



39) In the above figure, once on PPF_2, a country would grow slowest by producing at point 39) _____
A) *C*. B) *B*. C) *D*. D) *A*.

Answer: C
Explanation: A)
B)
C)
D)

40) In goods markets _____ and in factor markets _____. 40) _____
A) firms sell to households; households sell to firms
B) households sell to firms; firms sell to households
C) households sell to firms; households sell to firms
D) firms sell to households; firms sell to households

Answer: A
Explanation: A)
B)
C)
D)

41) Homer and Teddy are stranded on a desert island. To feed themselves each day they can either catch fish or pick fruit. In a day, Teddy could pick 60 pieces of fruit or catch 20 fish. Homer could pick 100 pieces of fruit or catch 150 fish. Which of the following statements is correct? 41) _____
A) Homer has an absolute advantage in picking fruit and Teddy has an absolute advantage in catching fish.
B) Teddy has an absolute advantage in both catching fish and picking fruit.
C) Homer has an absolute advantage in catching fish and Teddy has an absolute advantage in picking fruit.
D) Homer has an absolute advantage in both catching fish and picking fruit.

Answer: D
Explanation: A)
B)
C)
D)

42) Production efficiency occurs when production 42) _____

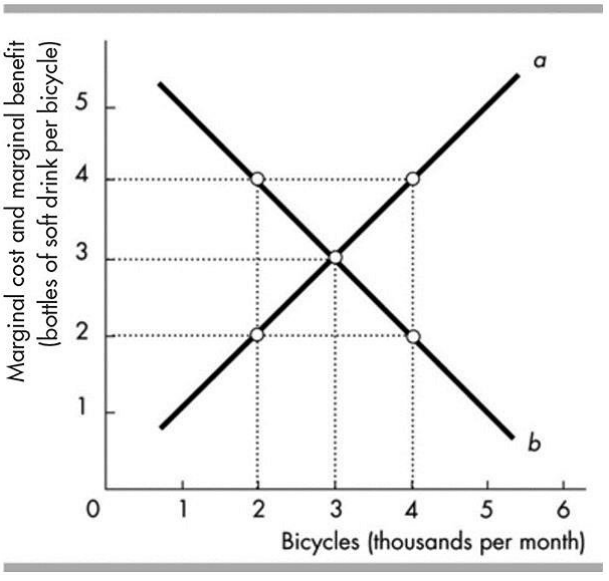
A) is on the production possibilities frontier.
B) is on the production possibilities frontier or inside it.
C) is at any attainable point.
D) is at a point beyond the production possibilities frontier.

Answer: A
Explanation: A)
B)
C)
D)

43) When resources are assigned to inappropriate tasks, the result will be producing at a point 43) _____

A) outside the *PPF*.
B) where the slope of the *PPF* is zero.
C) inside the *PPF*.
D) where the slope of the *PPF* is positive.

Answer: C
Explanation: A)
B)
C)
D)



44) In the above figure, curve *b* shows the 44) _____

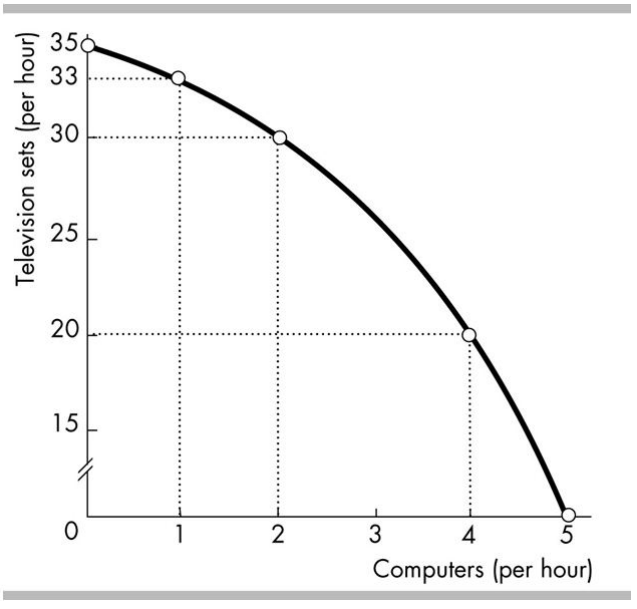
A) bottles of cola that people are *willing* to forgo to get another bicycle.
B) benefits of producing more bicycles is greater than the benefits of producing more cola.
C) bottles of cola that people *must* forgo to get another bicycle.
D) benefits of producing more cola is greater than the benefits of producing more bicycles.

Answer: A
Explanation: A)
B)
C)
D)

45) According to the principle of comparative advantage, if a rich country trades with a poor country, then 45) _____

A) the rich country will lose and the poor country will benefit.
B) the rich country will benefit and the poor country will lose.
C) both countries will benefit.
D) neither of the countries will benefit.

Answer: C
Explanation: A)
B)
C)
D)



46) In the figure above, the marginal cost of producing a computer 46) _____

A) is the same as the marginal cost of producing a television set.
B) stays the same as more computers are produced.
C) increases as more computers are produced.
D) decreases as more computers are produced.

Answer: C
Explanation: A)
B)
C)
D)

47) A nation's production possibilities frontier is bowed outward. Suppose that the government decides to increase the production of armaments by $20 billion, and that as a result the output of consumer goods falls by $20 billion. If a further $20 billion increase beyond the initial $20 billion increase in armaments output is sought, we can expect that the output of consumer goods and services will fall further by 47) _____

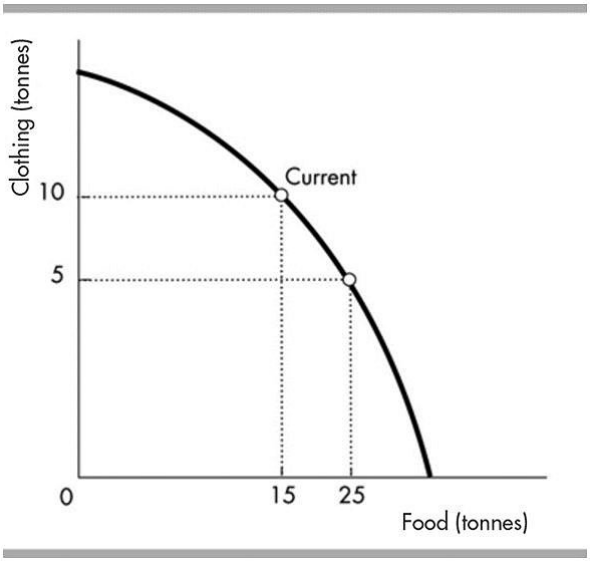
A) less than $20 billion.
B) more than $20 billion.
C) $20 billion.
D) There is not enough information to determine the answer.

Answer: B
Explanation: A)
B)
C)
D)

48) If property rights are not clearly defined and enforced, then 48) _____

A) resources are devoted to protecting possessions rather than to production.
B) incentives for specialisation based on comparative advantage are weakened.
C) some potential gains from specialisation and trade are lost.
D) All of the above answers are correct.

Answer: D
Explanation: A)
B)
C)
D)



49) The above figure illustrates that if this country wishes to move from its current production point (labelled "Current") and have 10 more tonnes of food, it can do this by producing 49) _____

A) 10 more tonnes of clothing.
B) 5 more tonnes of clothing.
C) 10 fewer tonnes of clothing.
D) 5 fewer tonnes of clothing.

Answer: D
Explanation: A)
B)
C)
D)

50) Suppose that the government is trying to decide between allocating its resources to build more dams or to build more freeways. In terms of forgone dams, as more freeways are constructed, the marginal benefit of additional freeways _____ and the marginal cost of additional freeways _____. 50) _____

A) increases; decreases
B) increases; increases
C) decreases; decreases
D) decreases; increases

Answer: D
Explanation: A)
B)
C)
D)

Quantity (pizzas per day)	Marginal benefit (cans per day)	Marginal cost (cans per day)
10	26	14
20	24	16
30	22	18
40	20	20
50	18	22
60	16	24
70	14	26

51) The table above shows the marginal benefit from pizza and the marginal cost of pizza in cans of cola forgone. The allocatively efficient quantity of pizza is _____ pizzas per day. 51) _____

A) 10 B) more than 70 C) 70 D) 40

Answer: D

Explanation: A)
B)
C)
D)

52) Individual economic decisions are coordinated by 52) _____

A) governments through adjustments in income taxes.
B) governments through adjustments in sales taxes.
C) markets through adjustments in sales levels.
D) markets through adjustments in prices.

Answer: D

Explanation: A)
B)
C)
D)

53) As an economy's capital stock increases, the economy 53) _____

A) gains an absolute advantage in the production of capital goods.
B) experiences economic growth.
C) generally decides to engage in international trade.
D) generally experiences increased unemployment of other resources, such as labour.

Answer: B

Explanation: A)
B)
C)
D)

54) Economic growth is the result of all of the following EXCEPT 54) _____

A) opportunity cost. B) technological change.
C) capital accumulation. D) investment in human capital.

Answer: A

Explanation: A)
B)
C)
D)

55) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. Both individuals will be better off if 55) _____

A) they don't trade as no one has the comparative advantage in either of the two goods.
B) they trade, no matter who trades sandwiches and who eggs.
C) Jerry trades sandwiches in exchange for eggs.
D) Tom trades sandwiches in exchange for eggs.

Answer: C
Explanation: A)
B)
C)
D)

56) Betty and Ann live on a desert island. With a day's labour, Ann can produce 6 fish or 4 coconuts; Betty can produce 3 fish or 1 coconut. Betty's opportunity cost of producing 1 fish is _____, and she should specialise in the production of _____. 56) _____

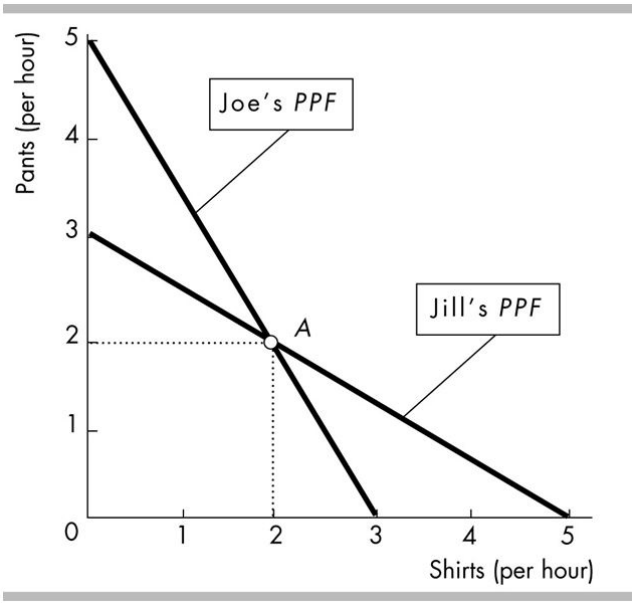
A) 1 coconut per fish; fish
B) 4 coconuts per fish; fish
C) 2/3 coconut per fish; coconuts
D) 1/3 coconut per fish; fish

Answer: D
Explanation: A)
B)
C)
D)

57) Marginal cost is the _____ one more unit of a good and _____ of the good increases. 57) _____

A) price that must be paid to consume; increases as consumption
B) opportunity cost of producing; increases as production
C) opportunity cost of producing; decreases as production
D) price that must be paid to consume; decreases as consumption

Answer: B
Explanation: A)
B)
C)
D)



58) In the figure above, Joe is producing at point *A*. Joe's opportunity cost of producing one shirt is 58) _____
A) 2 pairs of pants per shirt.
B) 3/5 of a pair of pants per shirt.
C) 5 pairs of pants per shirt.
D) 5/3 of a pair of pants per shirt.

Answer: A
Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

59) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following statements is true? 59) _____
A) Producing 30 chocolate bars and 38 cans of cola is only attainable with an increase in technology.
B) Producing 20 chocolate bars and 80 cans of cola is attainable, but inefficient.
C) Producing 40 chocolate bars and 0 cans of cola is unattainable and inefficient.
D) Producing 0 chocolate bars and 100 cans of cola is both attainable and efficient.

Answer: D
Explanation: A)
B)
C)
D)

60) The production possibilities frontier is the boundary between 60) _____
A) those wants that are limited and those that are unlimited.
B) those combinations of goods and services that can be produced and those that can be consumed.
C) those resources that are limited and those that are unlimited.
D) those combinations of goods and services that can be produced and those that cannot.

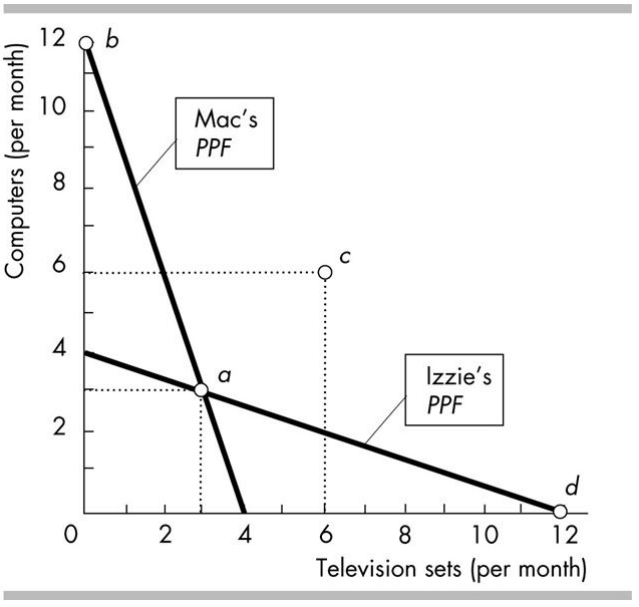
Answer: D
Explanation: A)
B)
C)
D)

61) In March a factory used new technology to produce its output. Then in August a fire destroyed half the factory. The new technology shifted the factory's *PPF* _____ and the fire shifted it _____. 61) _____
A) outward; outward
B) inward; outward
C) outward; inward
D) inward; inward

Answer: C
Explanation: A)
B)
C)
D)

62) When economic growth occurs, the 62) _____
A) production possibilities frontier shifts outward.
B) production possibilities frontier becomes steeper.
C) economy moves along its production possibilities frontier.
D) production possibilities frontier shifts outward but no longer limits the amount that can be produced.

Answer: A
Explanation: A)
B)
C)
D)



63) In the figure above, suppose that Mac and Izzie specialise and trade to reach point *c*. Mac sends Izzie 63) _____

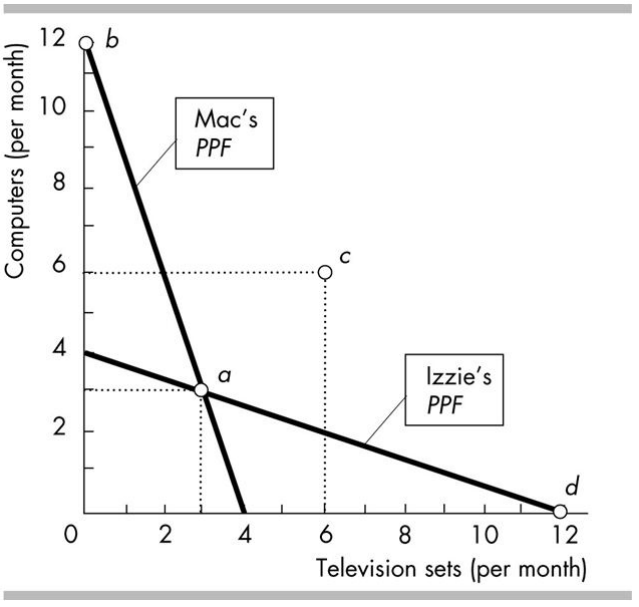
A) 12 computers in exchange for 6 TVs.
B) 6 computers in exchange for 12 TVs.
C) 12 computers in exchange for 12 TVs.
D) 6 computers in exchange for 6 TVs.

Answer: D
Explanation: A)
B)
C)
D)

64) Marginal cost 64) _____

A) remains constant as more is produced.
B) decreases as marginal benefits decrease.
C) increases as more is produced.
D) decreases as more is produced.

Answer: C
Explanation: A)
B)
C)
D)



65) In the figure above, suppose that Mac and Izzie trade and reach point *c*. Then 65) _____
A) Mac should produce at point *b* and Izzie should produce at point *d*.
B) Mac should produce at point *d* and Izzie should produce at point *b*.
C) Mac and Izzie should both produce at point *a*.
D) Mac and Izzie should both produce at point *c*.

Answer: A
Explanation: A)
B)
C)
D)

66) A computer software program is most strongly an example of 66) _____
A) intellectual property.
B) real property.
C) vicarious property.
D) fiat property.

Answer: A
Explanation: A)
B)
C)
D)

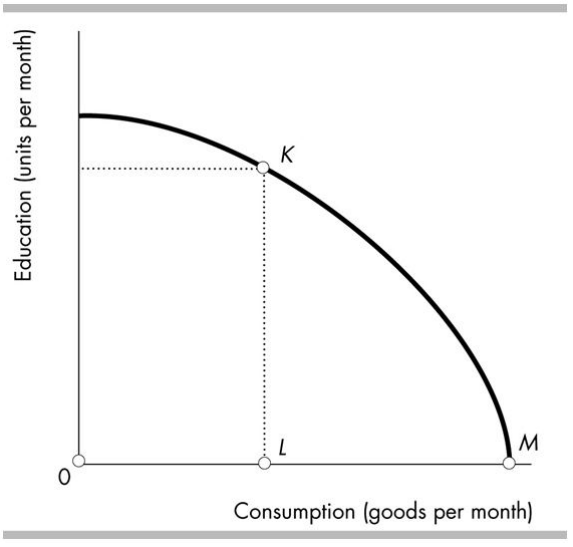
67) Resource use is allocatively efficient when marginal benefit is 67) _____
A) less than marginal cost.
B) greater than marginal cost.
C) equal to marginal cost.
D) at its maximum value.

Answer: C
Explanation: A)
B)
C)
D)

68) Marginal cost curves slope 68) _____

A) downward because of increasing opportunity cost.
B) downward because of decreasing opportunity cost.
C) upward because of increasing opportunity cost.
D) upward because of decreasing opportunity cost.

Answer: C
Explanation: A)
B)
C)
D)



69) Molly just graduated from high school. The figure shows her possibilities frontier. If Molly goes to university, she will move from point *M* to point *K*. In terms of consumption goods, Molly's opportunity cost of going to university is 69) _____

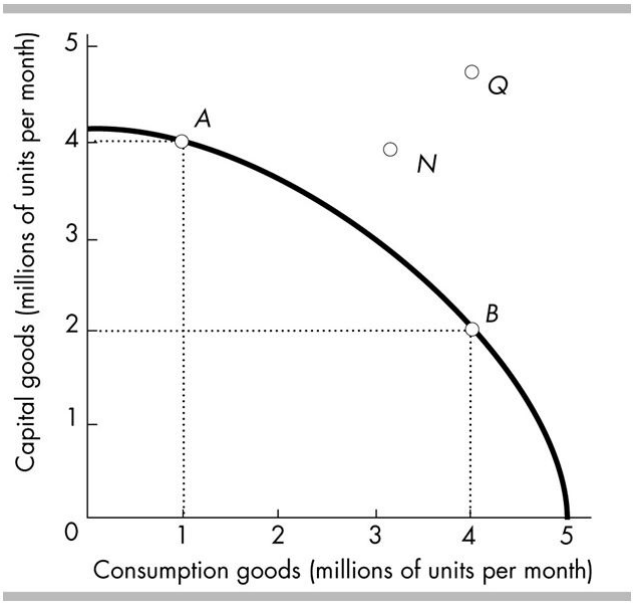
A) *OL.* B) *MK.* C) *LM.* D) *KL.*

Answer: C
Explanation: A)
B)
C)
D)

70) When operating on its *PPF*, a country can produce two tonnes of butter and 200 cars OR three tonnes of butter and 150 cars. The opportunity cost of one tonne of butter is _____ cars per tonne of butter. 70) _____

A) 50 B) 0.75 C) 300 D) 200

Answer: A
Explanation: A)
B)
C)
D)



71) In 2006, Country X and Country Y had the same production possibilities, illustrated in the figure above. Country X chose to produce at point *A*, while country Y chose to produce at point *B*. In 2012, most likely, Country X will be at a point such as _____ while Country Y will be at a point such as _____. 71) _____

A) *N*; *Q* B) *A*; *B* C) *Q; N* D) *B*; *A*

Answer: C

Explanation: A)
B)
C)
D)

72) Allocative efficiency occurs when 72) _____

A) we cannot produce more of any good without giving up some other good that we value more highly.
B) opportunity costs are decreasing.
C) marginal benefit exceeds marginal cost.
D) we cannot produce more of any one good without giving up some other good.

Answer: A

Explanation: A)
B)
C)
D)

73) Which of the following is true regarding markets? 73) _____

I. Economists define a market as a geographic location where trade occurs.

II. A market enables buyers and sellers to get information about each other and to buy and sell from each other.

III. Markets coordinate decisions through prices.

A) I only B) I and III C) II and III D) I, II and III

Answer: C

Explanation: A)
B)
C)
D)

74) Harry produces two balloon rides and four boat rides an hour. Harry could produce more balloon rides but to do so he must produce fewer boat rides. Harry is _____ his production possibilities frontier. 74) _____

A) producing either inside or on B) producing inside

C) producing on D) producing outside

Answer: C

Explanation: A)
B)
C)
D)

75) Jane produces only corn and cloth. Taking account of her preferences for corn and cloth 75) _____

A) makes her production possibilities frontier flatter.

B) makes her production possibilities frontier steeper.

C) makes her production possibilities frontier straighter.

D) does not affect her production possibilities frontier.

Answer: D

Explanation: A)
B)
C)
D)

76) We measure the marginal _____ of a good by what a _____ for another unit of the good. 76) _____

A) cost; person's preferences are B) cost; person is willing to pay

C) benefit; person must pay D) benefit; person is willing to pay

Answer: D

Explanation: A)
B)
C)
D)

77) The production possibilities frontier separates 77) _____
A) the combinations of goods that people value and those that they don't.
B) the types of goods that can be attained from those that can't be attained.
C) the goods and services people want from those they do not want.
D) the quantities of goods and services that can be produced from those that cannot be produced.

Answer: D
Explanation: A)
B)
C)
D)

78) Which of the following is NOT illustrated by a production possibilities frontier? 78) _____
A) Opportunity cost
B) The necessity for choice
C) Who gets the goods
D) Scarcity

Answer: C
Explanation: A)
B)
C)
D)

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

79) The above table shows production combinations on a country's production possibilities frontier. The opportunity cost of increasing the production of Y from 16 to 28 units is _____ units of good X. 79) _____
A) 6
B) 3
C) 12
D) There is no opportunity cost when moving from one point to another along a production possibilities frontier so none of the above answers is correct.

Answer: B
Explanation: A)
B)
C)
D)

80) When we cannot produce more of any good without giving up some other good that we value more highly, we have achieved 80) _____

A) the production point where the marginal benefit exceeds the marginal cost by as much as possible.
B) equity.
C) allocative efficiency.
D) economic growth.

Answer: C
Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

81) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* chocolate bar if Sweet-tooth Land moves from point C to point D? 81) _____

A) 3 cans of cola per chocolate bar
B) 30 cans of cola per chocolate bar
C) 10 cans of cola per chocolate bar
D) 1/3 can of cola per chocolate bar

Answer: A
Explanation: A)
B)
C)
D)

82) Comparative advantage is 82) _____

A) the ability to perform an activity at a lower opportunity cost than anyone else.
B) the ability to perform an activity at a zero opportunity cost.
C) the ability to perform an activity at a higher opportunity cost than anyone else.
D) another name for absolute advantage.

Answer: A
Explanation: A)
B)
C)
D)

83) Susan likes to drink colas. The _____ cola Susan drinks, the _____ of the last cola. 83) _____

A) less; higher the opportunity cost
B) more; higher the marginal benefit
C) less; lower the marginal benefit
D) more; lower the marginal benefit

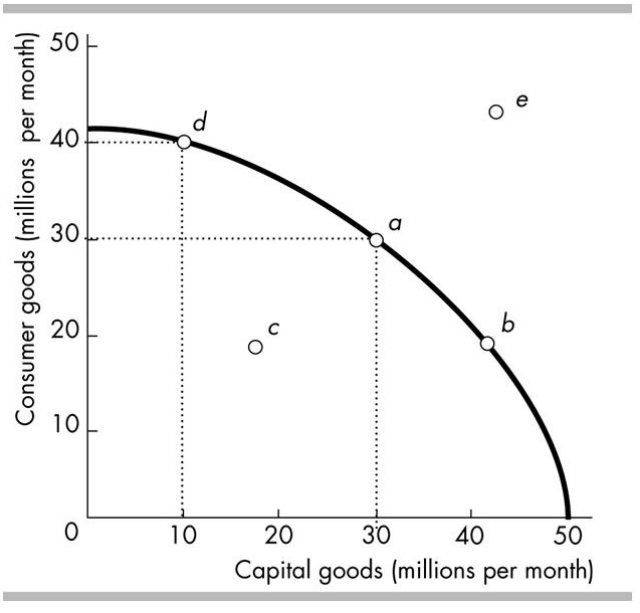
Answer: D
Explanation: A)
B)
C)
D)

84) If the marginal benefit of a good exceeds its marginal cost, 84) _____
A) we should produce less to achieve the allocatively efficient use of resources.
B) we should produce more to achieve the allocatively efficient use of resources.
C) we've achieved efficient resource use.
D) we cannot tell if more or less should be produced to achieve the allocatively efficient use of resources.

Answer: B
Explanation: A)
B)
C)
D)

85) The term "market" refers to 85) _____
A) physical structures only.
B) trading arrangements that have been approved by the government.
C) locations where buyers and sellers physically meet.
D) any arrangement that enables buyers and sellers to get information and trade with one another.

Answer: D
Explanation: A)
B)
C)
D)



86) Refer to the production possibilities frontier in the figure above. Suppose a country is producing at point *a*. A movement to point _____ means that the country _____. 86) _____
A) *b*; is producing at an inefficient point.
B) *e*; is not operating efficiently
C) *d*; gives up 10 million consumer goods.
D) *d*; must give up 20 million capital goods

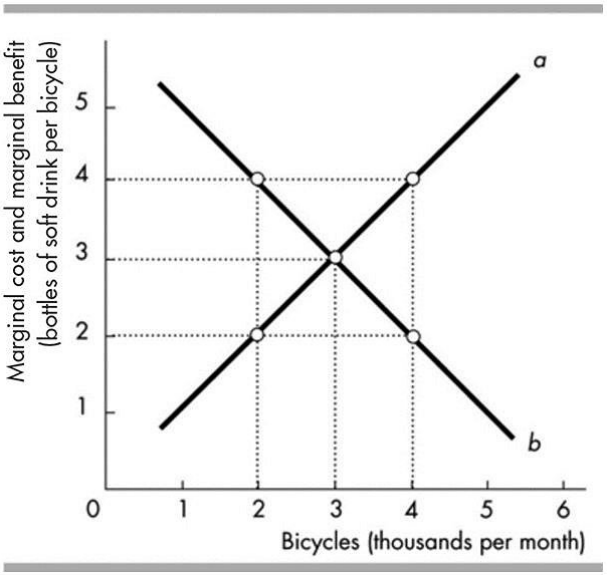
Answer: D
Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

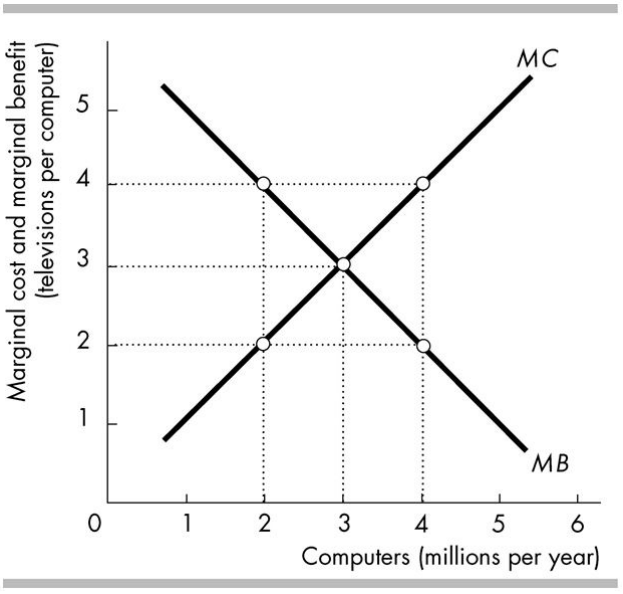
87) In the above table, the opportunity cost of the 2nd pizza is 87) _____
A) 0 cases of cola. B) 95 cases of cola. C) 80 cases of cola. D) 15 cases of cola.

Answer: D
Explanation: A)
B)
C)
D)



88) In the above figure, the curve labelled *a* is the _____ curve and the curve labelled *b* is the _____ curve. 88) _____
A) marginal cost; marginal benefit
B) production possibilities frontier; trade line
C) marginal benefit; trade line
D) marginal cost; trade line

Answer: A
Explanation: A)
B)
C)
D)



89) In the figure above, at the allocatively efficient level of computer production consumers are willing to give up 89) _____

A) 3 televisions per computer.
B) more than 3 televisions per computer.
C) 0 televisions per computer.
D) between 0 and 3 televisions per computer.

Answer: A
Explanation: A)
B)
C)
D)

90) Economic growth comes from 90) _____

A) capital accumulation and the avoidance of opportunity cost.
B) people willing to increase their skills, in which case, economic growth is free.
C) producing more goods than people want to consume.
D) capital accumulation and technological advance.

Answer: D
Explanation: A)
B)
C)
D)

91) When producing at a production efficient point, 91) _____

A) we face a tradeoff and incur an opportunity cost.
B) our choice of the goods can be either on or within the production possibilities frontier.
C) we can satisfy our all wants.
D) the opportunity cost of another good is zero.

Answer: A
Explanation: A)
B)
C)
D)

92) Suppose that a typical German factory can produce 20 cameras or one computer in an hour, and that a typical American factory can produce 10 cameras or one computer in an hour. Germany wishes to purchase computers from the United States in exchange for cameras. What is the maximum number of cameras per computer that Germany would be willing to pay the United States? 92) _____

A) 20 cameras per computer
B) 1 camera per computer
C) 10 cameras per computer
D) 2 cameras per computer

Answer: A
Explanation: A)
B)
C)
D)

93) Technological progress makes the production possibilities frontier 93) _____

A) become less linear and more bowed.
B) become more linear and less bowed.
C) shift outward from the origin.
D) shift inward toward the origin.

Answer: C
Explanation: A)
B)
C)
D)

94) The production possibilities frontier is 94) _____

A) upward sloping and reflects tradeoffs in choices.
B) downward sloping and reflects tradeoffs in choices.
C) downward sloping and reflects unlimited choices.
D) upward sloping and reflects unlimited choices.

Answer: B
Explanation: A)
B)
C)
D)

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

95) The above table shows production combinations on a country's production possibilities frontier. A movement from _____ involves the *greatest* opportunity cost of increasing the production of good Y. 95) _____

A) point B to point A
B) point C to point B
C) point E to point D
D) point D to point C

Answer: A
Explanation: A)
B)
C)
D)

96) While producing on the production possibilities frontier, if additional units of a good could be produced at a constant opportunity cost, the production possibilities frontier would be 96) _____

A) bowed inward.
B) a straight line.
C) bowed outward.
D) positively sloped.

Answer: B
Explanation: A)
B)
C)
D)

Country A		Country B	
Good *X* (units of *X*)	Good *Y* (units of *Y*)	Good *X* (units of *X*)	Good *Y* (units of *Y*)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

97) In the table above, country A is producing 4 units of *X* and 8 units of *Y* and country B is producing 4 units of *X* and 6 units of *Y*. Regarding the production of good *X* 97) _____

A) country A has an absolute advantage.
B) country B has a comparative advantage.
C) country B has an absolute advantage.
D) country A has a comparative advantage.

Answer: B
Explanation: A)
B)
C)
D)

	Don's production possibilities	Bob's production possibilities
Pens	10	5
Pencils	20	15

98) The above table shows the number of pencils or pens that could be produced by Don and Bob in an hour. This schedule shows that 98) _____

A) Bob has an absolute advantage in the production of pencils, and Don has an absolute advantage in the production of pens.
B) Don has an absolute advantage in the production of pencils, and Bob has an absolute advantage in the production of pens.
C) Don has a comparative advantage in the production of both pencils and pens.
D) Bob has a comparative advantage in the production of pencils.

Answer: D
Explanation: A)
B)
C)
D)

Country A		Country B	
Good *X* (units of *X*)	Good *Y* (units of *Y*)	Good *X* (units of *X*)	Good *Y* (units of *Y*)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

99) In the table above, country A is producing 4 units of *X* and 8 units of *Y* and country B is producing 4 units of *X* and 6 units of *Y*. The opportunity cost of producing more of 99) _____
A) good *Y* is lower in country A.
B) good *X* is the same for both countries.
C) good *X* is lower in country A.
D) good *Y* is the same for both countries.

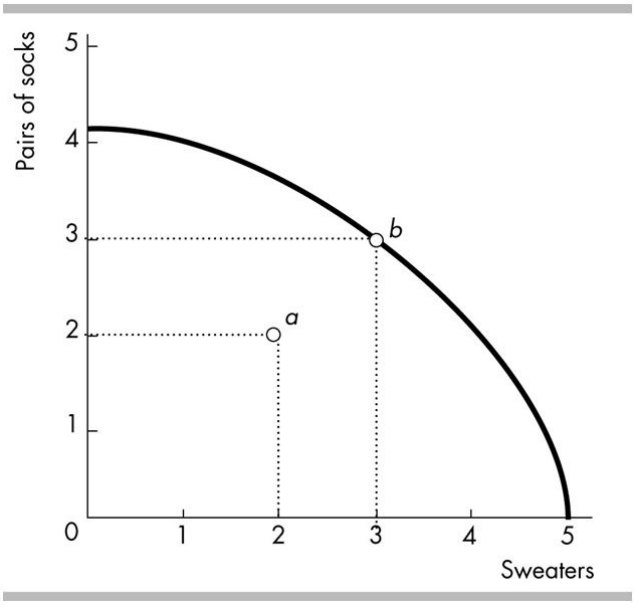
Answer: A
Explanation: A)
B)
C)
D)

100) Which of the following is true regarding marginal benefit? 100) _____
I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.
II. Marginal benefit increases as more of a good is consumed.
A) I and II B) II only C) I only D) Neither I nor II

Answer: D
Explanation: A)
B)
C)
D)

101) Markets are <u>BEST</u> defined as 101) _____
A) arrangements where buyers and sellers get together to buy and sell.
B) places where people can inspect goods and services carefully.
C) specific geographic locations where people get together to buy and sell.
D) hypothetical constructs used to analyse how people form their tastes and preferences.

Answer: A
Explanation: A)
B)
C)
D)

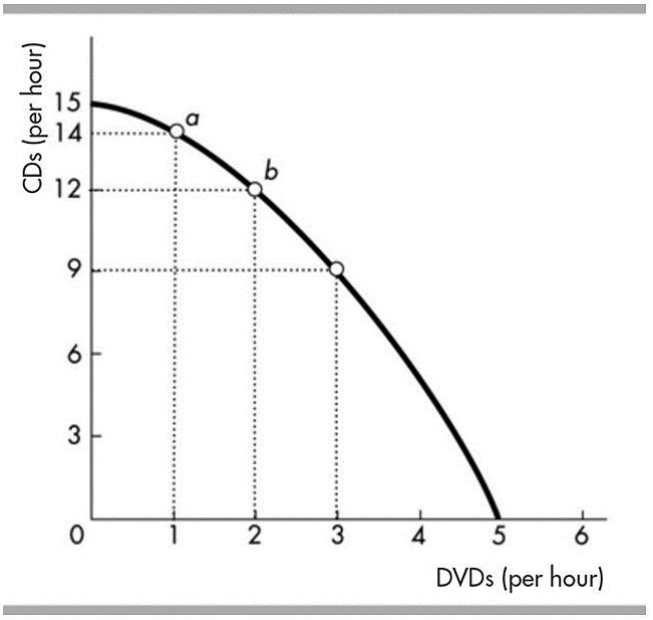


102) The opportunity cost of moving from point *a* to point *b* in the above figure is 102) _____

A) 2 sweaters.
B) 3/2 pairs of socks per sweater.
C) zero.
D) 3 pairs of socks.

Answer: C

Explanation: A)
B)
C)
D)



103) In the above figure, at point *b* what is the opportunity cost of producing 2 more CDs? 103) _____

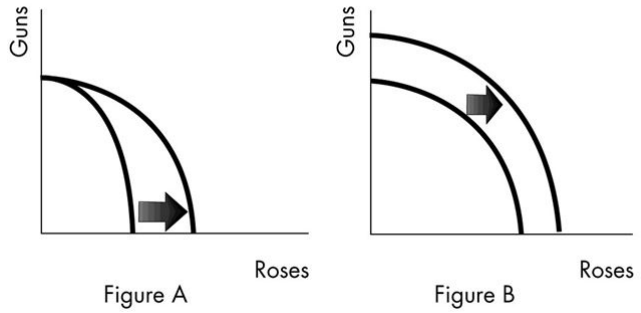
A) 1 DVD per CD.
B) 6 DVDs per CD.
C) 1/2 DVD per CD.
D) There is no opportunity cost.

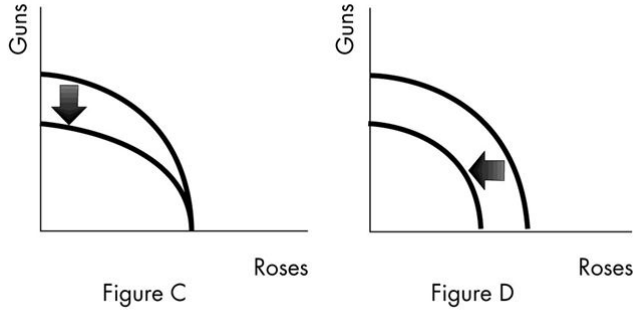
Answer: C
Explanation: A)
B)
C)
D)

104) The production possibilities frontier 104) _____

A) depicts the boundary between those combinations of goods and services that can be produced and those that cannot, given resources and the current state of technology.
B) is a model that assumes there is no scarcity and no opportunity cost.
C) shows how many goods and services are consumed by each person in a country.
D) is a graph with price on the vertical axis and income on the horizontal axis.

Answer: A
Explanation: A)
B)
C)
D)





105) Based on the above diagram, which figure shows the impact of a decrease in the population available to work? 105) _____

A) Figure B B) Figure C C) Figure D D) Figure A

Answer: C

Explanation: A)
B)
C)
D)

106) An expansion of the production possibilities frontier is 106) _____

A) called economic growth.
B) a free gift of nature.
C) something that has occurred only rarely in history.
D) proof that scarcity is not a binding constraint.

Answer: A

Explanation: A)
B)
C)
D)

107) In one day, Sue can change the oil on 20 cars or change the tyres on 20 cars. In one day, Fred can change the oil on 20 cars or change the tyres on 10 cars. Sue's opportunity cost of changing oil is _____ than Fred's and her opportunity cost for changing tyres is _____ than Fred's. 107) _____

A) greater; greater B) less; greater C) greater; less D) less; less

Answer: C

Explanation: A)
B)
C)
D)

108) When an economy produces at its allocatively efficient production point, 108) _____

A) resources are not limited.
B) scarcity is not a problem.
C) a society can increase the production of all goods.
D) a society can increase the production of one good only by decreasing the production of some other good that is valued more highly.

Answer: D

Explanation: A)
B)
C)
D)

109) Agnes can produce either 1 unit of *X* or 1 unit of *Y* in an hour, while Brenda can produce either 2 units of *X* or 4 units of *Y* in an hour. 109) _____

A) Brenda has an absolute advantage in the production of *X* and *Y*.
B) Brenda cannot gain from trade.
C) Brenda has a comparative advantage in the production of *X*.
D) Agnes has a comparative advantage in the production of *Y*.

Answer: A

Explanation: A)
B)
C)
D)

110) In order for societies to reap the gains from trade, it is necessary to 110) _____

A) foster economic growth. B) define and enforce property rights.
C) distribute resources equally. D) achieve productive efficiency.

Answer: B

Explanation: A)
B)
C)
D)

Blue Violet's production possibilities			Orange Rose's production possibilities		
Teapots (number per week)		Coffeepots (number per week)	Teapots (number per week)		Coffeepots (number per week)
150	&	0	75	&	0
100	&	25	50	&	50
50	&	50	25	&	100
0	&	75	0	&	150

111) Two countries, Blue Violet and Orange Rose, produce only two goods: teapots and coffeepots. The table above gives their production possibilities. _____ has a comparative advantage in teapots and _____ has a comparative advantage in coffeepots. 111) _____

A) Orange Rose; Orange Rose
B) Blue Violet; Orange Rose
C) Orange Rose; Blue Violet
D) Blue Violet; Blue Violet

Answer: B
Explanation: A)
B)
C)
D)

112) Suppose the country of Popcorn produces only jets and corn. If Popcorn cannot produce any more jets without giving up corn, we say that Popcorn has achieved 112) _____

A) the highest marginal benefit.
B) the highest opportunity cost.
C) production efficiency.
D) the lowest marginal cost.

Answer: C
Explanation: A)
B)
C)
D)

113) A country possesses a comparative advantage in the production of a good if 113) _____

A) it possesses an absolute advantage in the production of this good.
B) it is able to produce more of this good per hour than any other country.
C) the opportunity cost in terms of forgone output of alternative goods is lower for this country than it is for its trading partners.
D) All of the above.

Answer: C
Explanation: A)
B)
C)
D)

Camel rides (per day)	Marginal benefit (tubes of sunscreen)	Marginal cost (tubes of sunscreen)
1	20	11
2	18	12
3	16	13
4	14	14
5	12	15
6	10	16

114) Leisure Land produces only sunscreen and camel rides. The table shows the marginal benefit and marginal cost schedules for sunscreen and camel rides. The allocatively efficient number of camel rides is 114) _____

A) 6 rides per day because that is the maximum number of rides.
B) 1 ride per day because the marginal benefit exceeds the marginal cost by as much as possible.
C) 4 rides per day.
D) 2 rides per day.

Answer: C
Explanation: A)
B)
C)
D)

115) A person has a comparative advantage in an activity whenever he or she 115) _____

A) can do the activity in less time than anyone else.
B) can do everything better than anyone else.
C) can perform the activity at a lower opportunity cost than anyone else.
D) has an absolute advantage in the activity.

Answer: C
Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

116) In the above table, the production of 3 pizzas and 35 cases of cola is 116) _____
A) feasible but would involve unemployed or misallocated resources.
B) possible only if the economy produces with maximum efficiency.
C) possible only if there is inflation.
D) impossible unless more resources become available.

Answer: A
Explanation: A)
B)
C)
D)

117) After cyclone Yasi devastated parts of Queensland in 2011, we can be sure that the production possibilities frontier for that area temporarily 117) _____
A) became flatter.
B) shifted outward, away from the origin.
C) became steeper.
D) shifted inward, toward the origin.

Answer: D
Explanation: A)
B)
C)
D)

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

118) The above table shows production combinations on a country's production possibilities frontier. Which of the following is an example of a point that is unattainable? 118) _____
A) 6 units of good X and 28 units of good Y.
B) 10 units of good X and 16 units of good Y.
C) 3 units of good X and 35 units of good Y.
D) 0 units of good X and 40 units of good Y.

Answer: B
Explanation: A)
B)
C)
D)

119) When we choose a particular option, we must give up alternative options. The highest-valued alternative forgone is the _____ of the option chosen. 119) _____

A) comparative advantage
B) nonmonetary cost
C) absolute advantage
D) opportunity cost

Answer: D
Explanation: A)
B)
C)
D)

120) A factor market is a market in which 120) _____

A) households buy goods and services.
B) firms sell the services of the factors of production.
C) households sell the services of the factors of production they control.
D) firms sell goods and services.

Answer: C
Explanation: A)
B)
C)
D)

121) When a nation has a comparative advantage in the production of a particular good, 121) _____

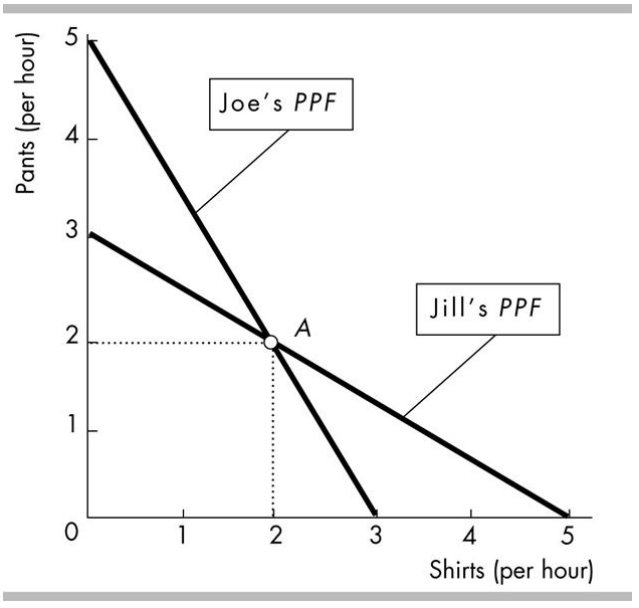
A) the opportunity cost of producing that good is higher than that of other goods.
B) the comparative advantage encourages self-sufficiency.
C) the nation tends to avoid specialisation.
D) the nation can gain from trade.

Answer: D
Explanation: A)
B)
C)
D)

122) Increasing opportunity cost occurs along a production possibilities frontier because 122) _____

A) increasing wants need to be satisfied.
B) in order to produce more of one good decreasing amounts of another good must be sacrificed.
C) resources are not equally productive in all activities.
D) production takes time.

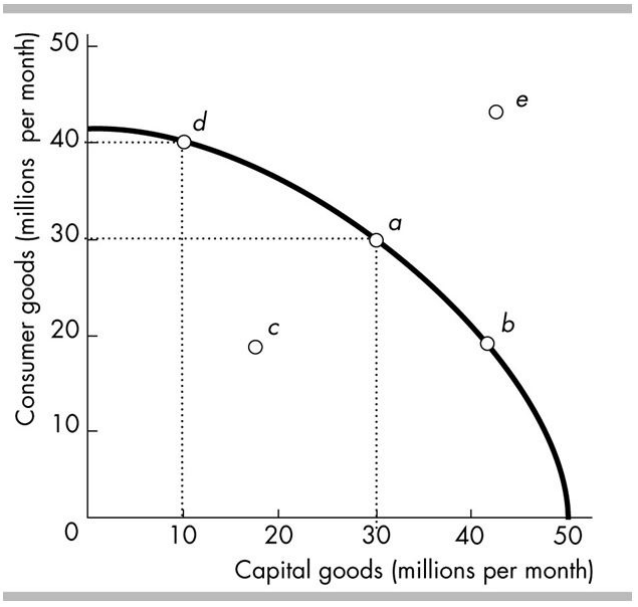
Answer: C
Explanation: A)
B)
C)
D)



123) In the figure above, Jill is producing at point *A*. Jill's opportunity cost producing one pair of pants is 123) _____

A) 2 shirts per pair of pants.
B) 3 shirts per pair of pants.
C) 5/3 of a shirt per pair of pants.
D) 3/5 of a shirt per pair of pants.

Answer: A
Explanation: A)
B)
C)
D)



124) Refer to the production possibilities frontier in the figure above. Production point _____ represents an _____ production point. 124) _____

A) *b*; unattainable. B) *e*; inefficient. C) *c*; unattainable. D) *c*; inefficient.

Answer: D

Explanation: A)
B)
C)
D)

125) Marginal benefit curves slope _____ and marginal cost curves slope _____. 125) _____

A) downward; downward B) upward; downward
C) upward; upward D) downward; upward

Answer: D

Explanation: A)
B)
C)
D)

Point	Production of grain (tonnes)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

126) The table above lists six points on the production possibilities frontier for grain and cars. Given this information, which of the following combinations is unattainable? 126) _____

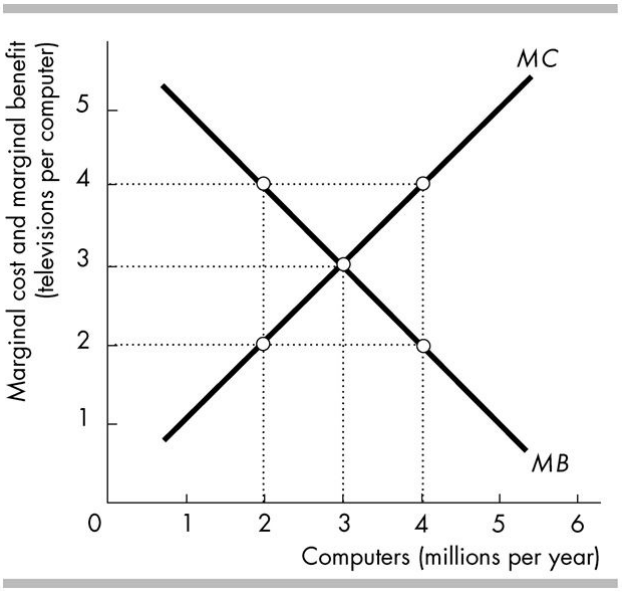
A) 7 tonnes of grain and 10 cars
B) 4 tonnes of grain and 26 cars
C) 6 tonnes of grain and 18 cars
D) 2 tonnes of grain and 27 cars

Answer: B
Explanation: A)
B)
C)
D)

127) A production possibilities frontier does NOT illustrate 127) _____

A) the exchange of one good or service for another.
B) opportunity cost.
C) attainable and unattainable points.
D) the limits on production imposed by our limited resources and technology.

Answer: A
Explanation: A)
B)
C)
D)



128) In the figure above, if 4 million computers are produced per year then the _____ should be produced to achieve the allocatively efficient use of resources. 128) _____

A) marginal cost of a computer exceeds the marginal benefit of a computer, so fewer computers
B) marginal benefit of a computer exceeds the marginal cost of a computer, so more computers
C) marginal cost of a computer exceeds the marginal benefit of a computer, so more computers
D) marginal benefit of a computer exceeds the marginal cost of a computer, so fewer computers

Answer: A
Explanation: A)
B)
C)
D)

129) When producing goods and services along a *PPF*, tradeoffs exist because 129) _____

A) society has only a limited amount of productive resources.
B) buyers and sellers often must negotiate prices.
C) human wants and needs are limited at a particular point in time.
D) not all production is efficient.

Answer: A
Explanation: A)
B)
C)
D)

130) Consider a production possibilities frontier with corn on the vertical axis and cars on the horizontal. Unusually good weather for growing corn shifts 130) _____

A) the vertical intercept upward but does not shift the horizontal intercept.
B) the horizontal intercept rightward and the vertical intercept upward.
C) the horizontal intercept rightward but does not shift the vertical intercept.
D) neither the horizontal intercept nor the vertical intercept.

Answer: A
Explanation: A)
B)
C)
D)

131) The marginal benefit from a good is the amount a person is willing to pay for 131) _____

A) one more unit of the good.
B) one more unit of the good divided by the number of units purchased.
C) all of the units of the good the person consumes divided by the number of units he or she purchases.
D) all of the good the person consumes.

Answer: A
Explanation: A)
B)
C)
D)

Point	Production of grain (tonnes)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

132) The table above lists six points on the production possibilities frontier for grain and cars. From this information you can conclude that production is inefficient if this economy produces 132) _____

A) 4 tonnes of grain and 26 cars.
B) 8 tonnes of grain and 10 cars.
C) 6 tonnes of grain and 18 cars.
D) 2 tonnes of grain and 27 cars.

Answer: D
Explanation: A)
B)
C)
D)

133) Two social institutions that are essential for trade to be organised are _____. 133) _____

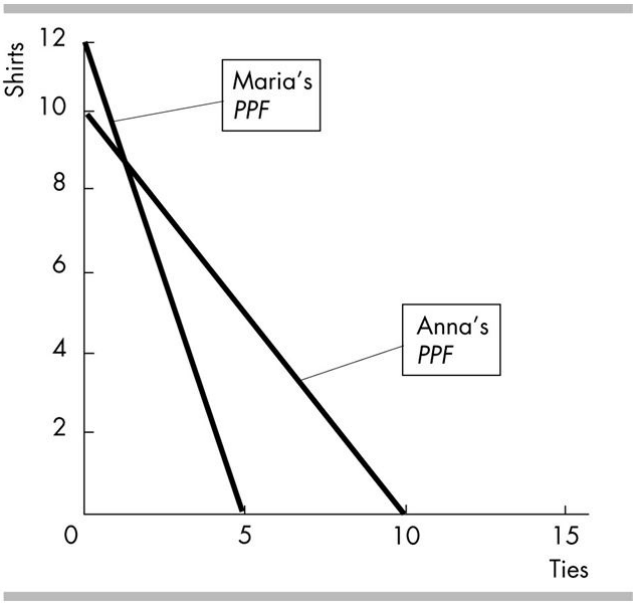
A) markets and property rights
B) businesses and banks
C) property rights and laws
D) markets and banks

Answer: A
Explanation: A)
B)
C)
D)

134) Marginal benefit is the 134) _____

A) amount of one good or service that a person gains when another good or service is consumed.
B) minimum amount a person is willing to pay for one more unit of a good or service.
C) benefit that a person receives from consuming one more unit of a good or service.
D) dollars sacrificed to purchase a good or service.

Answer: C
Explanation: A)
B)
C)
D)



135) Anna and Maria produce shirts and ties. The figure above shows Anna's *PPF* and Maria's *PPF*. Anna and Maria can achieve the gains from trade if Anna produces _____ and Maria produces _____. 135) _____

A) only ties; shirts and ties
B) shirts; ties
C) shirts and ties; only ties
D) ties; shirts

Answer: D
Explanation: A)
B)
C)
D)

136) Which of the following describes comparative advantage? 136) _____

A) Firm A can produce a good at a cost of $3 and Firm B can produce the same good at a cost of $4.

B) Jane can type 50 words per minute and Joe can type 60 words per minute.

C) To produce a tonne of wheat Farmer John must give up 2 tonnes of corn, whereas Farmer Ben must give up 3 tonnes of corn.

D) Company A can produce 4 boxes of cereal in a day, whereas Company B can produce 5 boxes of cereal in a day.

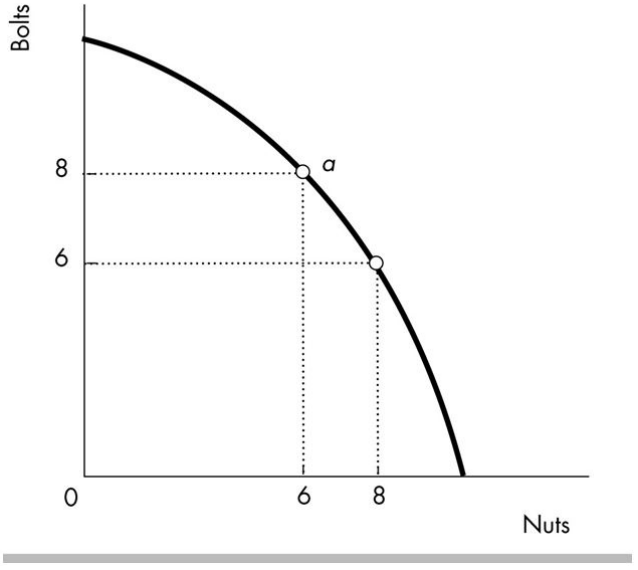
Answer: C

Explanation: A)

B)

C)

D)



137) Victor currently produces nuts and bolts at point *a* in the figure. Victor's marginal cost of producing an additional nut is _____. 137) _____

A) 1 bolt per nut

B) 8/6 bolts per nut

C) 8 bolts per nut

D) 1/2 bolt per nut

Answer: A

Explanation: A)

B)

C)

D)

138) In a world lacking property rights, it would be _____ to realise the gains from trade and there would be _____ specialisation. 138) _____

A) harder; more B) harder; less C) easier; more D) easier; less

Answer: B

Explanation: A)

B)

C)

D)

139) The kitchen manager at an Italian restaurant is deciding what assignments he should give to his two cooks, John and David. John can make 25 pizzas or 40 servings of pasta per hour and David can make 20 pizzas or 30 servings of pasta. Which of the following should be the manager's choice? 139) _____

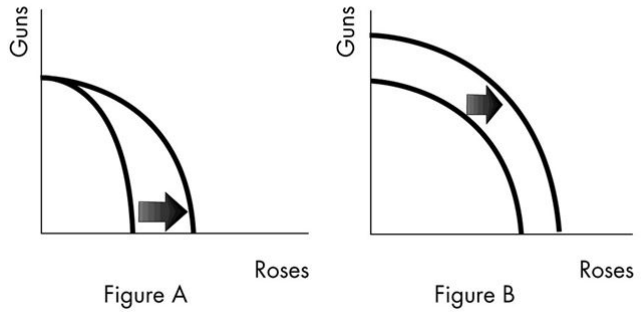
A) John will make pizza because he has comparative advantage in making pizza.
B) David will make pizza because he has comparative advantage in making pizza.
C) Fire David because he is not as productive as John. John will do both jobs.
D) John and David both will spend half their time making pizza and half their time making pasta because each has a comparative advantage in making pizza.

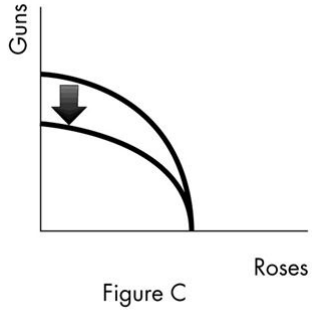
Answer: B
Explanation: A)
B)
C)
D)

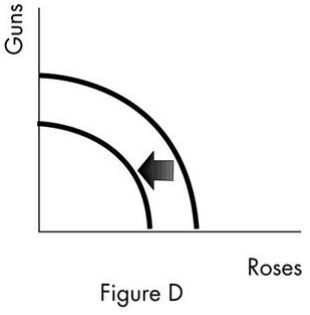
140) In one week Alice can produce 5 pairs of shoes or 4 bookshelves while Roger can produce 10 pairs of shoes or 6 bookshelves. Alice has _____ advantage in producing _____. 140) _____

A) an absolute; shoes
B) a comparative; bookshelves
C) a comparative; shoes
D) an absolute; bookshelves

Answer: B
Explanation: A)
B)
C)
D)







141) Which figure shows the impact of scientists developing a more powerful fertiliser? 141) _____

A) Figure C B) Figure D C) Figure A D) Figure B

Answer: C

Explanation: A)
B)
C)
D)

142) Opportunity cost is <u>BEST</u> defined as 142) _____

A) a situation in which one individual cannot have an absolute advantage over another individual in the production of all goods.
B) the highest-valued alternative that is forgone when choosing among various alternatives.
C) the amount of money that an individual is willing to pay to purchase a good that means a great deal to that person.
D) the amount of money lost by one individual in an exchange process so that another individual might gain.

Answer: B

Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

143) In the above table, the production of 3 pizzas and 80 cases of cola is 143) _____
A) possible only if there is inflation.
B) possible only if the economy produces with maximum efficiency.
C) impossible unless more resources become available or technology improves.
D) feasible but would involve unemployed or misallocated resources.

Answer: C
Explanation: A)
B)
C)
D)

144) The idea of comparative advantage implies that people or countries 144) _____
A) can consume at a point outside their production possibilities frontier.
B) should specialise in the production of goods.
C) can gain from trading.
D) All of the above.

Answer: D
Explanation: A)
B)
C)
D)

145) Marginal benefit curves slope 145) _____
A) upward, but not because of increasing opportunity cost.
B) downward because of increasing opportunity cost.
C) upward because of increasing opportunity cost.
D) downward because of decreasing marginal benefit.

Answer: D
Explanation: A)
B)
C)
D)

146) The opportunity cost of producing one tonne of wheat for Country Gamma is four tonnes of corn. The opportunity cost of producing one tonne of wheat for Country Beta is eight tonnes of corn. Which country has the comparative advantage in the production of wheat? 146) _____

A) Beta
B) Gamma
C) Neither country has a comparative advantage.
D) Both countries have the comparative advantage.

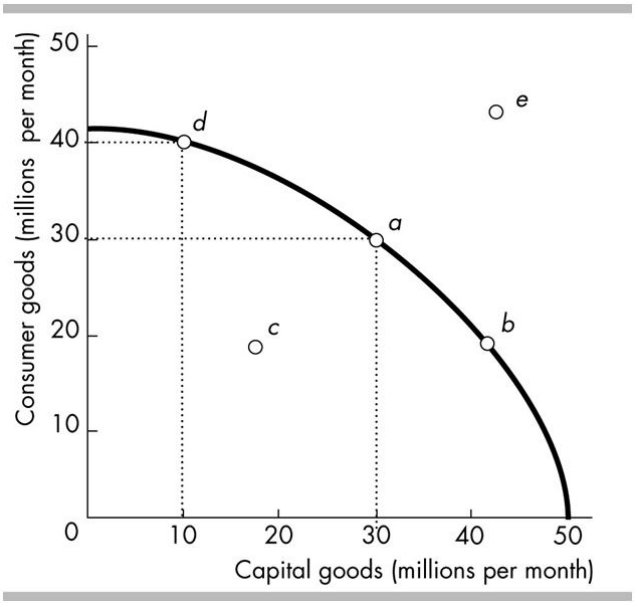
Answer: B
Explanation: A)
B)
C)
D)

Point	Production of grain (tonnes)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

147) The table above lists six points on the production possibilities frontier for grain and cars. What is the opportunity cost of producing the 5th tonne of grain? 147) _____

A) 16 cars per tonnes of grain
B) 2 cars per tonnes of grain
C) 6 cars per tonnes of grain
D) 3 cars per tonnes of grain

Answer: D
Explanation: A)
B)
C)
D)



148) In the figure above, moving from production at point *d* to production at point *a* requires 148) _____
A) decreasing the output of consumer goods in order to boost the output of capital goods.
B) both capital accumulation and a decrease in unemployment.
C) a decrease in unemployment.
D) technological change.

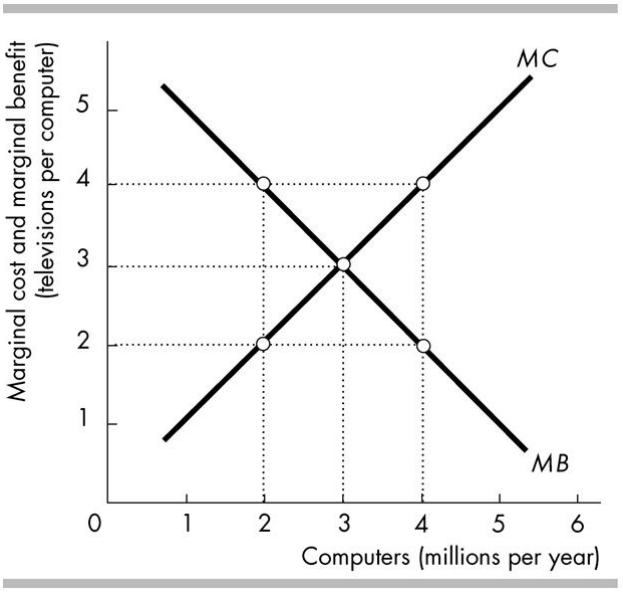
Answer: A
Explanation: A)
B)
C)
D)

149) A key factor that leads to economic growth is 149) _____
A) increasing current consumption.
B) human capital accumulation.
C) avoiding the opportunity cost of investment.
D) Both answers A and B are correct.

Answer: B
Explanation: A)
B)
C)
D)

150) The social arrangements that govern the ownership, use and disposal of property are referred to as 150) _____
A) private enterprise. B) capitalism.
C) the double coincidence of wants. D) property rights.

Answer: D
Explanation: A)
B)
C)
D)



151) In the figure above, the allocatively efficient output of computers is 151) _____

A) 3 million per year.
B) 4 million per year.
C) the largest amount possible.
D) 2 million per year.

Answer: A

Explanation: A)
B)
C)
D)

152) The opportunity cost of more capital goods today is 152) _____

A) fewer consumer goods today.
B) fewer capital goods in the future.
C) fewer consumer goods in the future.
D) more unemployed resources in the future.

Answer: A

Explanation: A)
B)
C)
D)

Answer Key
Testname: C2

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

Answer Key
Testname: C2

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

Answer Key
Testname: C2

101) A
102) C
103) C
104) A
105) C
106) A
107) C
108) D
109) A
110) B
111) B
112) C
113) C
114) C
115) C
116) A
117) D
118) B
119) D
120) C
121) D
122) C
123) A
124) D
125) D
126) B
127) A
128) A
129) A
130) A
131) A
132) D
133) A
134) C
135) D
136) C
137) A
138) B
139) B
140) B
141) C
142) B
143) C
144) D
145) D
146) B
147) D
148) A
149) B
150) D

151) A
152) A