



Chapter 2

Choices and trade-offs in the market

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

1) Scarcity_____.

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

Answer: A

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

2) The principle of opportunity cost is that _____.

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

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

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Difficulty: Moderate

3) The production possibility frontier shows the _____ combinations of two products that may be produced in a particular time period with available resources and current technology.

- A) minimum attainable
- B) maximum attainable
- C) only
- D) equitable

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

4) What is shown by the production possibility frontier model?

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

Answer: D

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

5) What assumption is made by the production possibility frontier model?

- A) Labour, capital, land and natural resources are unlimited in quantity.
- B) The economy produces only two products.
- C) Any level of the two products that the economy produces is currently possible.
- D) The level of technology is variable.

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

6) What are the attainable production points on a production possibility curve?

- A) The horizontal and vertical intercepts
- B) The points along the production possibility frontier
- C) The points outside the area enclosed by the production possibility frontier
- D) The points along and inside the production possibility frontier

Answer: D

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

7) What points are outside the production possibility frontier?

- A) Efficient
- B) Attainable
- C) Inefficient

D) Unattainable

Answer: D

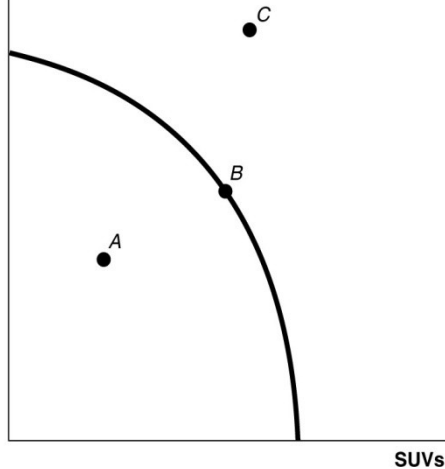
AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Figure 2.1
Roadsters



8) *Refer to Figure 2.1.* Point A is:

A) technically efficient.

B) unattainable with current resources.

C) inefficient in that not all resources are being used.

D) the equilibrium output combination.

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

9) *Refer to Figure 2.1.* Point B is:

A) technically efficient.

B) unattainable with current resources.

C) inefficient in that not all resources are being used.

D) the equilibrium output combination.

Answer: A

AACSB: Application of knowledge



Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

10) *Refer to Figure 2.1.* Point C is:

- A) technically efficient.
- B) unattainable with current resources.
- C) inefficient in that not all resources are being used.
- D) the equilibrium output combination.

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

11) In a production possibility frontier model, a point _____ the frontier is productively inefficient.

- A) along
- B) inside
- C) outside
- D) at either intercept of

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

12) Bella can produce either a combination of 60 silk roses and 80 silk leaves or a combination of 70 silk roses and 55 silk leaves. If she now produces 60 silk roses and 80 silk leaves, the opportunity cost of producing an additional 10 silk roses is:

- A) 2.5 silk leaves.
- B) 10 silk leaves.
- C) 25 silk leaves.
- D) 55 silk leaves.

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

13) Peter can produce either a combination of 20 bow ties and 30 neckties or a combination of 35 bow ties

and 15 neckties. If he now produces 35 bow ties and 15 neckties, what is the opportunity cost of producing an additional 15 neckties?

- A) 2 bow ties
- B) 15 bow ties
- C) 20 bow ties
- D) 35 bow ties

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

14) If the production possibility frontier is _____, then opportunity costs are constant as more of one good is produced.

- A) bowed out
- B) bowed in
- C) non-linear
- D) linear

Answer: D

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

15) What does a production possibility frontier with a bowed outward shape indicate?

- A) The possibility of inefficient production
- B) Constant opportunity costs as more and more of one good is produced.
- C) Increasing opportunity costs as more and more of one good is produced.
- D) Decreasing opportunity costs as more and more of one good is produced.

Answer: C

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

16) Increasing opportunity cost is represented by a _____ production possibility frontier.

- A) linear
- B) bowed in
- C) bowed out
- D) vertical



Answer: C

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

17) What is true about the slope of a production possibility frontier?

- A) It has no economic relevance or meaning.
- B) It is always constant.
- C) It is always varying.
- D) It measures the opportunity cost of producing one more unit of a good.

Answer: D

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

18) _____ marginal opportunity cost implies that the more resources already devoted to any activity, the payoff from allocating yet more resources to that activity increases by progressively smaller amounts.

- A) Increasing
- B) Decreasing
- C) Constant
- D) Negative

Answer: A

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

19) How would the production possibility frontier be graphed if opportunity costs are constant?

- A) As a ray from the origin
- B) As a positively sloped straight line
- C) As a negatively sloped curve bowed in toward the origin
- D) As a negatively sloped straight line

Answer: D

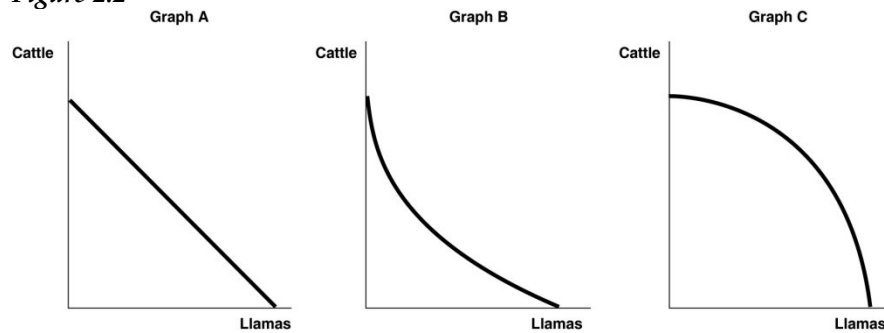
AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

Figure 2.2



20) *Refer to Figure 2.2.* Steve Vignetto raises cattle and llamas on his land. His land is equally suitable for raising either animal. The graph in Figure 2-2 that represents his production possibility frontier is:

- A) Graph A.
- B) Graph B.
- C) Graph C.
- D) either Graph B or Graph C.

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

21) *Refer to Figure 2.2.* Steve Vignetto raises cattle and llamas on his land. A portion of his land is more suitable for raising cattle, and the other portion is better suited for raising llamas. Which of the graphs in Figure 2-2 represents his production possibility frontier?

- A) Graph A.
- B) Graph B.
- C) Graph C.
- D) Either Graph B or Graph C.

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Table 2.1

Production choices for Tomaso's Trattoria

Choice	Quantity of Pizzas	Quantity of Calzones
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	Produced	Produced
A	48	0
B	36	15
C	24	30
D	12	45
E	0	60

22) *Refer to Table 2.1.* Assume Tomaso's Trattoria only produces pizzas and calzones. Where would a combination of 24 pizzas and 30 calzones appear_____.

- A) along Tomaso's production possibility frontier.
- B) inside Tomaso's production possibility frontier.
- C) outside Tomaso's production possibility frontier.
- D) at the horizontal intercept of Tomaso's production possibility frontier.

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

23) *Refer to Table 2.1.* Assume Tomaso's Trattoria only produces pizzas and calzones. Where would a combination of 36 pizzas and 30 calzones appear?

- A) Along Tomaso's production possibility frontier
- B) Inside Tomaso's production possibility frontier
- C) Outside Tomaso's production possibility frontier
- D) At the horizontal intercept of Tomaso's production possibility frontier

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

24) *Refer to Table 2.1.* Assume Tomaso's Trattoria only produces pizzas and calzones. Where would a combination of 24 pizzas and 15 calzones appear?

- A) Along Tomaso's production possibility frontier
- B) Inside Tomaso's production possibility frontier
- C) Outside Tomaso's production possibility frontier
- D) At the horizontal intercept of Tomaso's production possibility frontier

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs



Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

25) *Refer to Table 2.1.* Assume Tomaso's Trattoria only produces pizzas and calzones. What type of opportunity costs does Tomasco face in the production of pizzas and calzones?

- A) Increasing
- B) Decreasing
- C) Constant
- D) Negative

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

Table 2.2

Production choices for Billie's Bedroom Shop

Choice	Quantity of Pillows Produced	Quantity of Blankets Produced
A	36	0
B	27	7
C	18	14
D	9	21
E	0	28

26) *Refer to Table 2.2.* Assume Billie's Bedroom Shop only produces pillows and blankets. A combination of 9 pillows and 21 blankets would appear_____.

- A) along Billie's production possibility frontier.
- B) inside Billie's production possibility frontier.
- C) outside Billie's production possibility frontier.
- D) at the vertical intercept of Billie's production possibility frontier.

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

27) *Refer to Table 2.2.* Assume Billie's Bedroom Shop only produces pillows and blankets. A combination of 9 pillows and 14 blankets would appear_____.

- A) along Billie's production possibility frontier.
- B) inside Billie's production possibility frontier.
- C) outside Billie's production possibility frontier.
- D) at the vertical intercept of Billie's production possibility frontier.

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

28) *Refer to Table 2.2.* Assume Billie's Bedroom Shop only produces pillows and blankets. Where would a combination of 5 pillows and 21 blankets appear?

- A) Along Billie's production possibility frontier
- B) Inside Billie's production possibility frontier
- C) Outside Billie's production possibility frontier
- D) At the vertical intercept of Billie's production possibility frontier

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

29) *Refer to Table 2.2.* Assume Billie's Bedroom Shop only produces pillows and blankets. Billie faces _____ opportunity costs in the production of pillows and blankets.

- A) increasing
- B) constant
- C) decreasing
- D) negative

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

30) An inward shift of a nation's production possibility frontier can occur due to_____.

- A) a reduction in unemployment.
- B) a natural disaster like a hurricane or bad earthquake.
- C) a change in the amounts of one good desired.



D) an increase in the labour force.

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

31) What does an outward shift of a nation's production possibility frontier represent?

A) Economic growth

B) Rising prices of the two goods on the production possibility frontier model

C) An impossible situation

D) A situation in which a country produces more of one good and less of another

Answer: A

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

32) Economic decline (negative growth) is represented on a production possibility frontier model by the production possibility frontier_____.

A) shifting outward.

B) shifting inward.

C) becoming steeper.

D) becoming flatter.

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

33) Without an increase in the supplies of factors of production, a nation can achieve economic growth_____.

A) by producing more high-value goods and less of low-value goods.

B) through technological advancement which enables more output with the same quantity of resources.

C) by lowering the prices of factors of production.

D) by increasing the prices of factors of production.

Answer: B

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

34) A nation's production possibility frontier would shift outward from_____.

- A) discovering a cheap way to convert sunshine into electricity.
- B) an increase in demand for the nation's products.
- C) a decrease in the unemployment rate.
- D) a law requiring workers to retire at age 50.

Answer: A

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Figure 2.3

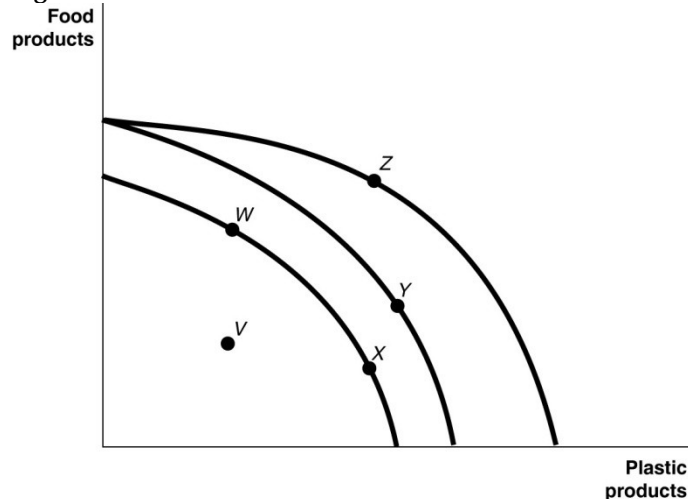


Figure 2.3 shows various points on three different production possibility frontiers for a nation.

35) *Refer to Figure 2.3.* A movement from X to Y:

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

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs



Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

- 36) *Refer to Figure 2.3.* A movement from Y to Z :
- A) represents an increase in the demand for plastic products.
 - B) could occur because of general technological advancements.
 - C) is the result of advancements in food production technology.
 - D) is the result of advancements in plastic production technology.

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

- 37) *Refer to Figure 2.3.* Consider the following events:
- a. an increase in the unemployment rate
 - b. a decrease in a nation's money supply
 - c. a war that kills a significant portion of a nation's population

Which of the events listed above could cause a movement from Y to W ?

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

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

- 38) *Refer to Figure 2.3.* Consider the following movements:
- a. from point V to point W
 - b. from point W to point Y
 - c. from point Y to point Z

Which of the movements listed above represents economic growth?

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

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

39) *Refer to Figure 2.3.* Consider the following events:

- a. a decrease in the unemployment rate
- b. general technological advancement
- c. an increase in consumer wealth

Which of the events listed above could cause a movement from V to W ?

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

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

40) *Refer to Figure 2.3.* Consider the following events:

- a. a reduction in the patent protection period to no more than 2 years
- b. a war that destroys a substantial portion of a nation's capital stock
- c. the lack of a secure and enforceable property rights system

Which of the events listed above could cause a movement from W to V ?

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

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

41) *Refer to Figure 2.3.* A movement from _____ could occur because of an influx of immigrant labour.

- A) W to V
- B) X to W
- C) W to Z
- D) Y to W

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

42) *Refer to Figure 2.3.* A movement from _____ is the result of negative technological change in plastic production.

- A) V to X
- B) X to W
- C) W to Z
- D) Z to Y

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

43) *Refer to Figure 2.3.* Consider the following events:

- a. a decrease in the unemployment rate
- b. an increase in a nation's money supply
- c. an influx of immigrant workers

Which of the events listed above could cause a movement from X to Z?

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

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

44) *Refer to Figure 2.3.* Consider the following movements:

- a. from point V to point W



- b. from point *W* to point *Y*
- c. from point *Y* to point *Z*

Which of the movements listed above represents advancements in technology with respect to only plastic production?

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

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

45) *Refer to Figure 2.3.* Consider the following events:

- a. an increase in the unemployment rate
- b. general technological advancement
- c. a decrease in consumer wealth

Which of the events listed above could cause a movement from *X* to *V*?

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

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

46) *Refer to Figure 2.3.* Consider the following events:

- a. an increase in the patent protection period to 30 years
- b. an increase of a nation's capital stock
- c. an improved property rights system

Which of the events listed above could cause a movement from *V* to *W*?

- A) a only
- B) a and b only
- C) a and c only



D) a, b, and c

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

47) The Great Depression of the 1930s, with a large number of workers and factories unemployed, would be represented in a production possibility frontier graph by:

A) a point inside the frontier.

B) a point outside the frontier.

C) a point on the frontier.

D) an intercept on either the vertical or the horizontal axis.

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

48) Suppose there is no unemployment in the economy and society decides that it wants more of one good. Which of the following statements is *true*?

A) It can only achieve this with an advance in technology.

B) It can increase output without giving up another good.

C) It can only achieve this with an increase in resource supplies.

D) It will have to give up production and consumption of some other good.

Answer: D

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

49) If society decides it wants more of one good and all resources are fully utilised, then_____.

A) it is unable to do this unless technology advances.

B) additional resource supplies will have to be found.

C) it has to give up some of another good and incur some opportunity costs.

D) more unemployment will occur.

Answer: C

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

50) According to the production possibility model, if more resources are allocated to the production of physical and human capital, then which of the following is likely to happen?

- A) Fewer goods will be produced for consumption today.
- B) The production possibility frontier will be shifted inward in the future.
- C) Future economic growth will decline.
- D) The country's total production will fall.

Answer: A

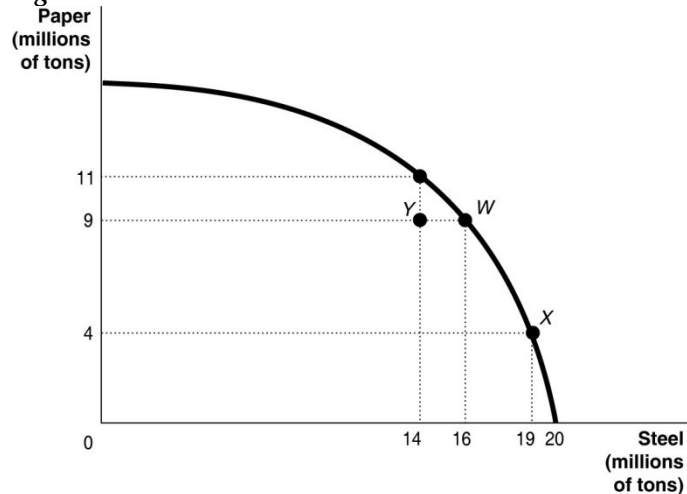
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Difficulty: Moderate

Figure 2.4



51) Refer to Figure 2.4. If the economy is currently producing at point Y, the opportunity cost of moving to point W is:

- A) 2 million tonnes of steel.
- B) zero.
- C) 9 million tonnes of paper.
- D) 16 million tonnes of paper.

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

52) Refer to Figure 2.4.

If the economy is currently producing at point *X*, the opportunity cost of moving to point *Y* is:

- A) 5 million tonnes of steel.
- B) 9 million tonnes of paper.
- C) 5 million tonnes of paper.
- D) 14 million tonnes of steel.

Answer: A

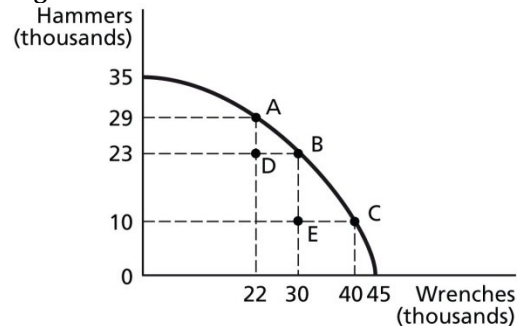
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Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Figure 2.5



53) Refer to Figure 2.5. What is the opportunity cost of moving to point *B* if the economy is currently producing at point *A*?

- A) 8 thousand wrenches
- B) 6 thousand hammers
- C) 30 thousand wrenches
- D) 23 thousand hammers

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

54) Refer to Figure 2.5. If the economy is currently producing at point *C*, what is the opportunity cost of moving to point *B*?

- A) 10 thousand wrenches
- B) 13 thousand hammers



- C) 30 thousand wrenches
- D) 23 thousand hammers

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

55) *Refer to Figure 2.5.* If the economy is currently producing at point *D*, what is the opportunity cost of moving to point *B*?

- A) 8 thousand wrenches
- B) 23 thousand hammers
- C) 30 thousand wrenches
- D) 0 hammers

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

56) *Refer to Figure 2.5.* If the economy is currently producing at point *E*, what is the opportunity cost of moving to point *B*?

- A) 13 thousand hammers
- B) 10 thousand hammers
- C) 30 thousand wrenches
- D) 0 wrenches

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

57) *Refer to Figure 2.5.* If the economy is currently producing at point *E*, what is the opportunity cost of moving to point *D*?

- A) 13 thousand hammers
- B) 10 thousand hammers
- C) 8 thousand wrenches
- D) 0 wrenches

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

58) What is the opportunity cost of taking a semester long economics class?

- A) The cost of tuition and fees only
- B) The value of the time spent in the classroom.
- C) Zero because there is no admission charged if you are enrolled in the course.
- D) Equal to the highest value of an alternative use of the time and money spent on the class.

Answer: D

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

59) Jane can bake either a combination of 25 cakes and 15 pies or a combination of 10 cakes and 20 pies. If she now bakes 10 cakes and 20 Pies, the opportunity cost of baking an additional 15 cakes is:

- A) 5 pies.
- B) 10 pies.
- C) 15 pies.
- D) 20 pies.

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Figure 2.6

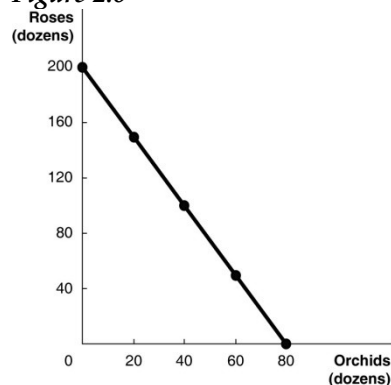


Figure 2.6 above shows the production possibility frontier for Vidalia, a nation that produces two goods,

roses and orchids.

60) *Refer to Figure 2.6.* What is the opportunity cost of 80 dozen orchids?

- A) 0 roses
- B) 2.5 dozen roses
- C) 40 dozen roses
- D) 200 dozen roses

Answer: D

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

61) *Refer to Figure 2.6.* What is the opportunity cost of 100 dozen roses?

- A) 0.8 dozen orchids
- B) 5 dozen orchids
- C) 40 dozen orchids
- D) 80 dozen orchids

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

62) *Refer to Figure 2.6.* Suppose Vidalia is currently producing 60 dozen orchids per period. How many roses is it also producing, assuming that resources are fully utilised?

- A) 40 dozen roses
- B) 50 dozen roses
- C) 60 dozen roses
- D) 100 dozen roses

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

63) *Refer to Figure 2.6.* Suppose Vidalia is currently producing 120 dozen roses per period. How many orchids is it also producing, assuming that resources are fully utilised?

- A) 20 dozen orchids
- B) 32 dozen orchids

- C) 44 dozen orchids
D) 68 dozen orchids

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Table 2.3

Production Choices for Dina's Cafe

Choice	Quantity of Sliders Produced	Quantity of Hot Wings Produced
A	160	0
B	120	50
C	80	100
D	40	150
E	0	200

64) *Refer to Table 2.3.* Assume Dina's Cafe only produces sliders and hot wings. A combination of 80 sliders and 100 hot wings would appear_____.

- A) along Dina's production possibility frontier.
B) inside Dina's production possibility frontier.
C) outside Dina's production possibility frontier.
D) at the vertical intercept of Dina's production possibility frontier.

Answer: A

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

65) *Refer to Table 2.3.* Assume Dina's Cafe only produces sliders and hot wings. A combination of 80 sliders and 50 hot wings would appear_____.

- A) along Dina's production possibility frontier.
B) inside Dina's production possibility frontier.
C) outside Dina's production possibility frontier.
D) at the vertical intercept of Dina's production possibility frontier.

Answer: B

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs



Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

66) *Refer to Table 2.3.* Assume Dina's Cafe only produces sliders and hot wings. A combination of 120 sliders and 100 hot wings would appear_____.

- A) along Dina's production possibility frontier.
- B) inside Dina's production possibility frontier.
- C) outside Dina's production possibility frontier.
- D) at the vertical intercept of Dina's production possibility frontier.

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

67) *Refer to Table 2.3.* Dina faces _____ opportunity costs in the production of sliders and hot wings.

- A) increasing
- B) decreasing
- C) constant
- D) negative

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Moderate

68) Suppose your expenses for this term are as follows: tuition: \$10 000, room and board: \$6000, books and other educational supplies: \$1000. Further, during the term, you can only work part-time and earn \$8000 instead of your full-time salary of \$20 000. What is the opportunity cost of going to university this term, assuming that your room and board expenses would be the same even if you did not go to university?

- A) \$11 000
- B) \$17 000
- C) \$23 000
- D) \$29 000

Answer: C

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.
Difficulty: Complex



69) What is the opportunity cost of going to an outdoor music festival?

- A) The enjoyment you receive from going to the festival.
- B) The value of the time spent at the festival.
- C) Equal to the highest value of an alternative use of the time and money spent on the festival.
- D) Zero because there is no overhead costs for an outdoor festival.

Answer: C

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

70) A decrease in the unemployment rate may be represented as a movement from a point on the production possibility frontier to a point outside the frontier.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

71) If a country is producing efficiently and is on the production possibility frontier, the only way to produce more of one good is to produce less of the other.

Answer: True

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

72) Any output combination outside a production possibility frontier is associated with unused or underutilised resources.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

73) An increase in the labour force shifts the production possibility frontier inwards over time.

Answer: False

AACSB: Analytical thinking



Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

74) If additional units of a good could be produced at a constant opportunity cost, the production possibility frontier would be bowed outward (concave).

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

75) On a diagram of a production possibility frontier, opportunity cost is represented by the production possibility frontier shifting outward.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

76) An increase in the unemployment rate may be represented as a movement from a point on the production possibility frontier to a different point on the frontier.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

77) If a country is producing efficiently and is on the production possibility frontier, the country can produce more of one good without producing less of the other good.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

78) Any output combination along a production possibility frontier is associated with fully utilised resources.

Answer: True

AACSB: Analytical thinking



Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

79) A decrease in population shifts the production possibility frontier outwards over time.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Basic

80) If additional units of a good could be produced at an increasing opportunity cost, the production possibility frontier would be linear.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

81) On a diagram of a production possibility frontier, economic growth is represented by the slope of the production possibility frontier.

Answer: False

AACSB: Analytical thinking

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

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

82) What is meant by the term 'opportunity cost'?

Answer: Opportunity cost is the highest-valued alternative that must be given up to engage in an activity.

AACSB: Written and oral communications

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

83) What is economic growth?

Answer: Economic growth refers to the ability of the economy to increase the production of goods and services.

AACSB: Written and oral communications

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

84) What is a production possibility frontier? What do points along the frontier represent? What do points inside and outside the frontier represent?

Answer: A production possibility frontier is a curve showing the maximum attainable combinations of two products that may be produced with available resources and current technology. Points along a production possibility frontier are attainable with the resources available and are efficient. Points inside the frontier are attainable but inefficient. Points outside the frontier are unattainable.

AACSB: Written and oral communications

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

85) What shape does a production possibility frontier take if it displays increasing opportunity costs? What shape does a production possibility frontier take if it displays constant opportunity costs? Which shape is most common in production situations?

Answer: A production possibility frontier which displays increasing opportunity costs is bowed out. A production possibility frontier which displays constant opportunity costs is linear. A bowed out production possibility frontier is most common in production situations.

AACSB: Written and oral communications

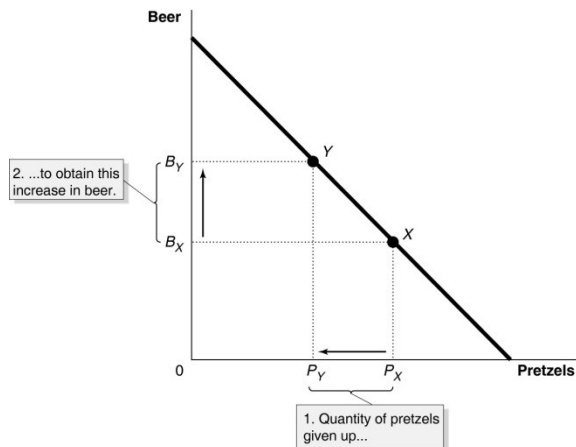
Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

- 86) a. Draw a production possibility frontier for a country that produces two goods, beer and pretzels. Assume that resources are equally suited to both tasks.
- b. Define opportunity costs.
- c. Use your production possibility frontier graph to demonstrate the principle of opportunity costs.
-

Answer: a. The PPF is linear to reflect the fact that resources are equally suited to both tasks.



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

AACSB: Application of knowledge

Topic: Production possibility frontiers and real-world trade-offs

Learning Objective: 2.1 Use a production possibility frontier to analyse opportunity costs and trade-offs.

Difficulty: Moderate

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

87) You have an absolute advantage whenever you_____.

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

Answer: B

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

88) The ability of an economy to increase the production of goods and services is:

- A) economic growth.
- B) competitive advantage.
- C) opportunity cost.
- D) comparative advantage.

Answer: A

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

Table 2.4

	Serena	Haley
Bracelets	8	9
Necklaces	16	12

Table 2.4 shows the output per week of two jewellers, Serena and Haley. They can either devote their time to making bracelets or making necklaces.

89) *Refer to Table 2.4.* Which of the following statements is *true*?

- A) Haley has an absolute advantage in making both products.
- B) Serena has an absolute advantage in making both products.
- C) Haley has an absolute advantage in making bracelets and Serena in making necklaces.
- D) Haley has an absolute advantage in making necklaces and Serena in making bracelets.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

90) *Refer to Table 2.4.* Haley's opportunity cost of making a bracelet is:

- A) 3/4 of a bracelet.
- B) 3 bracelets.
- C) 1 1/3 necklaces.
- D) 2 necklaces.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

91) *Refer to Table 2.4.* What is Haley's opportunity cost of making a necklace?

- A) 3/4 of a bracelet
- B) 3 bracelets



C) 1 1/3 necklaces

D) 2 necklaces

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

92) *Refer to Table 2.4.* What is Serena's opportunity cost of making a bracelet?

A) 2 necklaces

B) 1/2 of a bracelet

C) 1/2 of a necklace

D) 3/4 of a bracelet

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

93) *Refer to Table 2.4.* What is Serena's opportunity cost of making a necklace?

A) 2 necklaces

B) 1/2 of a bracelet

C) 1/2 of a necklace

D) 3/4 of a bracelet

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

94) *Refer to Table 2.4.* Which of the following statements is *true*?

A) Haley has a comparative advantage in making both products.

B) Serena has a comparative advantage in making both products.

C) Haley has a comparative advantage in making bracelets and Serena in making necklaces.

D) Haley has a comparative advantage in making necklaces and Serena in making bracelets.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Complex

Table 2.5

	Fred	Barney
Pogo Sticks	24	28
Unicycles	8	14

Table 2.5 shows the output per month of two people, Fred and Barney. They can either devote their time to making pogo sticks or making unicycles.

95) *Refer to Table 2.5.* Which of the following statements is *true*?

- A) Fred has an absolute advantage in making both products.
- B) Barney has an absolute advantage in making both products.
- C) Barney has an absolute advantage in making pogo sticks and Fred in making unicycles.
- D) Barney has an absolute advantage in making unicycles and Fred in making pogo sticks.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

96) *Refer to Table 2.5.* What is Fred's opportunity cost of making a pogo stick?

- A) 1/3 unicycle
- B) 3 unicycles
- C) 6/7 pogo stick
- D) 1/2 unicycle

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

97) *Refer to Table 2.5.* What is Fred's opportunity cost of making a unicycle?

- A) 1/3 pogo stick
- B) 3 pogo sticks
- C) 1/2 unicycle
- D) 1.3 pogo sticks

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.



Difficulty: Moderate

98) *Refer to Table 2.5.* What is Barney's opportunity cost of making a pogo stick?

- A) 1/2 unicycle
- B) 2 unicycles
- C) 1/3 unicycle
- D) 1.4 pogo sticks

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

99) *Refer to Table 2.6.* What is Barney's opportunity cost of making a unicycle?

- A) 1/2 pogo stick
- B) 2 pogo sticks
- C) 1.75 unicycles
- D) 2.8 pogo sticks

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

100) *Refer to Table 2.5.* Which of the following statements is *true*?

- A) Fred has a comparative advantage in making both products.
- B) Barney has a comparative advantage in making both products.
- C) Barney has a comparative advantage in making pogo sticks and Fred in making unicycles.
- D) Barney has a comparative advantage in making unicycles and Fred in making pogo sticks.

Answer: D

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Complex

101) Comparative advantage means the ability to produce a good or service_____.

- A) at a lower selling price than any other producer.
- B) at a lower opportunity cost than any other producer.
- C) of a higher quality than any other producer.
- D) at a higher profit level than any other producer.



Answer: B

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

102) Specialising in the production of a good or service in which one has a comparative advantage enables a country to do all of the following *except*:

- A) engage in mutually beneficial trade with other nations.
- B) increase the variety of products that it can consume with no increase in resources.
- C) consume a combination of goods that lies outside its own production possibility frontier.
- D) produce a combination of goods that lies outside its own production possibility frontier.

Answer: D

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Complex

103) For each bottle of wine that Italy produces, it gives up the opportunity to make 10 kilograms of cheese. France can produce 1 bottle of wine for every 25 kilograms of cheese it produces. Which of the following is *true* about the comparative advantage between the two countries?

- A) Italy has the comparative advantage in cheese.
- B) Italy has the comparative advantage in wine.
- C) France has the comparative advantage in wine and cheese.
- D) France has the comparative advantage in wine.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

Figure 2.7

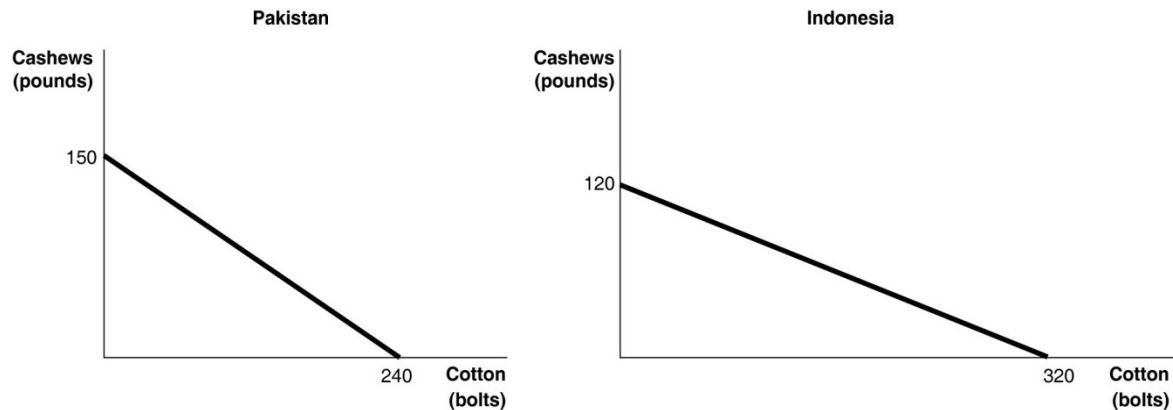


Figure 2.7 shows the production possibility frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

104) *Refer to Figure 2.7.* What is the opportunity cost of producing 1 bolt of cotton in Pakistan?

- A) $\frac{3}{8}$ of a kilogram of cashews
- B) $\frac{5}{8}$ of a kilogram of cashews
- C) $1\frac{3}{5}$ kilograms of cashews
- D) 150 kilograms of cashews

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

105) *Refer to Figure 2.7.* What is the opportunity cost of producing 1 bolt of cotton in Indonesia?

- A) $\frac{3}{8}$ of a kilogram of cashews
- B) $\frac{5}{8}$ of a kilogram of cashews
- C) $2\frac{2}{3}$ kilograms of cashews
- D) 120 kilograms of cashews

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

106) *Refer to Figure 2.7.* What is the opportunity cost of producing 1 kilogram of cashews in Pakistan?

- A) $\frac{3}{8}$ of a bolt of cotton
- B) $\frac{5}{8}$ of a bolt of cotton



C) $1 \frac{3}{5}$ bolts of cotton

D) 240 bolts of cotton

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

107) *Refer to Figure 2.7.* What is the opportunity cost of producing 1 kilogram of cashews in Indonesia?

A) $\frac{3}{8}$ of a bolt of cotton

B) $\frac{5}{8}$ of a bolt of cotton

C) $2 \frac{2}{3}$ bolts of cotton

D) 320 bolts of cotton

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

108) *Refer to Figure 2.7.* Which country has a comparative advantage in the production of cotton?

A) Indonesia

B) They have equal productive abilities

C) Pakistan

D) Neither country

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

109) *Refer to Figure 2.7.* Which country has a comparative advantage in the production of cashews?

A) Indonesia

B) They have equal productive abilities

C) Pakistan

D) Neither country

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

110) *Refer to Figure 2.7.* If the two countries have the same amount of resources and the same technological knowledge, which country has an absolute advantage in the production of cotton?

- A) Indonesia
- B) They have the same advantage
- C) Pakistan
- D) Cannot be determined

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

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

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

Answer: B

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

Table 2.6

	One Digital Camera	Wheat (per kilo)
China	100 hours	4 hours
South Korea	60 hours	3 hours

Table 2.6 shows the number of labour hours required to produce a digital camera and a kilo of wheat in China and South Korea.

112) *Refer to Table 2.6.* Does either China or South Korea have an absolute advantage and if so, in what product?

- A) South Korea has an absolute advantage in wheat.



- B) China has an absolute advantage in wheat.
- C) South Korea has an absolute advantage in both products.
- D) China has an absolute advantage in digital cameras.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

113) *Refer to Table 2.6.* What is China's opportunity cost of producing one digital camera?

- A) 0.04 kilos of wheat
- B) 4 kilos of wheat
- C) 25 kilos of wheat
- D) 40 kilos of wheat

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

114) *Refer to Table 2.6.* What is South Korea's opportunity cost of producing one digital camera?

- A) 0.05 kilos of wheat
- B) 20 kilos of wheat
- C) 25 kilos of wheat
- D) 60 kilos of wheat

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

115) *Refer to Table 2.6.* What is China's opportunity cost of producing one kilo of wheat?

- A) 0.04 units of a digital camera
- B) 4 digital cameras
- C) 25 digital cameras
- D) 40 digital cameras

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.



Difficulty: Moderate

116) *Refer to Table 2.6.* What is South Korea's opportunity cost of producing one kilo of wheat?

- A) 60 digital cameras
- B) 20 digital cameras
- C) 5 digital cameras
- D) 0.05 units of a digital camera

Answer: D

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

117) *Refer to Table 2.6.* China has a comparative advantage in the production of:

- A) wheat.
- B) digital cameras.
- C) both products.
- D) neither product.

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

118) *Refer to Table 2.6.* South Korea has a comparative advantage in the production of:

- A) wheat.
- B) digital cameras.
- C) both products.
- D) neither product.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

119) *Refer to Table 2.6.* If the two countries specialise and trade, who should export wheat?

- A) There is no basis for trade between the two countries.
- B) China
- C) South Korea
- D) They should both be exporting wheat.



Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

120) *Refer to Table 2.6.* If the two countries specialise and trade, who should export digital cameras?

A) There is no basis for trade between the two countries.

B) China

C) South Korea

D) They should both be importing digital cameras.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

121) If the best surgeon in town is also the best at cleaning swimming pools, then according to economic reasoning, this person should_____.

A) pursue the activity he enjoys more.

B) specialise in cleaning swimming pools because it is more labour-intensive.

C) split his time evenly between being a surgeon and cleaning swimming pools.

D) specialise in being a surgeon because its opportunity cost is lower.

Answer: D

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

122) Rayburn Reed is a highly talented photographer. He has chosen to specialise in photography because of all of the following *except*:

A) he obviously has a comparative advantage in photography.

B) his opportunity cost of pursuing another career is very low.

C) for him, this is the most lucrative way to purchase the products that he wants to consume.

D) his photographs are highly esteemed by art lovers who are willing to pay very high prices.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Difficult

Table 2.7

	Tammi	Horace
Dogs Groomed	20	12
Cats Bathed	10	8

Table 2.7 shows the output per day of two pet groomers, Tammi and Horace. They can either devote their time to grooming dogs or bathing cats.

123) *Refer to Table 2.7.* Which of the following statements is *true*?

- A) Horace has an absolute advantage in both tasks.
- B) Tammi has an absolute advantage in both tasks.
- C) Horace has an absolute advantage in dog grooming and Tammi in cat bathing.
- D) Horace has an absolute advantage in cat bathing and Tammi in dog grooming.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

124) *Refer to Table 2.7.* What is Horace's opportunity cost of grooming a dog?

- A) Half a bathed cat
- B) Two bathed cats
- C) Two-thirds of a bathed cat
- D) One and a half bathed cats

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

125) *Refer to Table 2.7.* What is Horace's opportunity cost of bathing a cat?

- A) Half a groomed dog
- B) Two groomed dogs
- C) Two-thirds of a groomed dog
- D) One and a half groomed dogs

Answer: D

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.



Difficulty: Moderate

126) *Refer to Table 2.7.* What is Tammi's opportunity cost of grooming a dog?

- A) Half a bathed cat
- B) Two bathed cats
- C) Two-thirds of a bathed cat
- D) One and a half bathed cats

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

127) *Refer to Table 2.7.* What is Tammi's opportunity cost of bathing a cat?

- A) Half a groomed dog
- B) Two groomed dogs
- C) Two-thirds of a groomed dog
- D) One and a half groomed dogs

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

128) *Refer to Table 2.7.* Which of the following statements is *true*?

- A) Horace has a comparative advantage in both tasks.
- B) Tammi has a comparative advantage in both tasks.
- C) Horace has a comparative advantage in grooming dogs and Tammi in bathing cats.
- D) Horace has a comparative advantage in bathing cats and Tammi in grooming dogs.

Answer: D

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Complex

129) For each surfboard that Australia produces, it gives up the opportunity to make 25 boomerangs. New Zealand can produce 1 surfboard for every 15 boomerangs it produces. Which of the following is *true* about the comparative advantage between the two countries?

- A) Australia has the comparative advantage in surfboards.
- B) Australia has the comparative advantage in boomerangs.

C) New Zealand has the comparative advantage in surfboards and boomerangs.

D) New Zealand has the comparative advantage in boomerangs.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

Table 2.8

	One Motorcycle	One Guitar
Ireland	20 hours	4 hours
Scotland	8 hours	2 hours

Table 2.8 shows the number of labour hours required to produce a motorcycle and a guitar in Ireland and Scotland.

130) *Refer to Table 2.8.* Does either Ireland or Scotland have an absolute advantage and if so, in what product?

A) Scotland only has an absolute advantage in guitars.

B) Ireland only has an absolute advantage in guitars.

C) Scotland has an absolute advantage in both products.

D) Ireland only has an absolute advantage in motorcycles.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

131) *Refer to Table 2.8.* What is Ireland's opportunity cost of producing one motorcycle?

A) 0.2 guitar

B) 5 guitars

C) 8 guitars

D) 32 guitars

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

132) *Refer to Table 2.8.* What is Scotland's opportunity cost of producing one motorcycle?



- A) 0.25 guitar
- B) 4 guitars
- C) 12 guitars
- D) 16 guitars

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

133) *Refer to Table 2.8.* What is Ireland's opportunity cost of producing one guitar?

- A) 0.2 motorcycle
- B) 5 motorcycles
- C) 8 motorcycles
- D) 32 motorcycles

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

134) *Refer to Table 2.8.* What is Scotland's opportunity cost of producing one guitar?

- A) 0.25 motorcycle
- B) 4 motorcycles
- C) 12 motorcycles
- D) 16 motorcycles

Answer: A

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

135) *Refer to Table 2.8.* Ireland has a comparative advantage in the production of:

- A) both products.
- B) guitars.
- C) motorcycles.
- D) neither product.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade



Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.
Difficulty: Moderate

136) *Refer to Table 2.8.* Scotland has a comparative advantage in the production of:

- A) both products.
- B) guitars.
- C) motorcycles.
- D) neither product.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

137) *Refer to Table 2.8.* If the two countries specialise and trade, who should export guitars?

- A) There is no basis for trade between the two countries.
- B) Ireland
- C) Scotland
- D) They should both be exporting guitars.

Answer: B

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

138) *Refer to Table 2.8.* If the two countries specialise and trade, who should export motorcycles?

- A) There is no basis for trade between the two countries.
- B) Ireland
- C) Scotland
- D) They should both be importing motorcycles.

Answer: C

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

139) As women's wages have risen relative to men's wages, the opportunity cost to women of doing housework has _____ than has the opportunity cost to men.

- A) increased less
- B) increased more



C) decreased more

D) decreased less

Answer: B

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

140) If Sanjaya can shuck more oysters in one hour than Tatiana, then Sanjaya has a comparative advantage in shucking oysters.

Answer: False

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

141) The basis for trade is comparative advantage, not absolute advantage.

Answer: True

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

142) If a country produces only two goods, it is possible to have a comparative advantage in the production of both those goods.

Answer: False

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

143) In a two-good, two country world, if one country has an absolute advantage in the production of both goods, it cannot benefit by trading with the other country.

Answer: False

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate



144) For a person to have a comparative advantage in producing a product, she must be able to produce that product at a lower opportunity cost than her competitors.

Answer: True

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

145) It is possible to have a comparative advantage in producing a good or service without having an absolute advantage.

Answer: True

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

146) If Tanisha can audit more tax returns in one hour than Libby, then Tanisha has an absolute advantage in auditing tax returns.

Answer: True

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

147) If a country produces only two goods, then it is not possible to have an absolute advantage in the production of both those goods.

Answer: False

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

148) In a two-good, two country world, if one country has an absolute advantage in the production of both goods, it must also have a comparative advantage in the production of both goods.

Answer: False

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate



149) If the opportunity cost of producing more of one good remains the same as more of that good is produced, then the production method is inefficient.

Answer: False

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

150) It is possible to have an absolute advantage in producing a good or service without having a comparative advantage.

Answer: True

AACSB: Analytical thinking

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

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

151) What is comparative advantage? What is absolute advantage?

Answer: Comparative advantage is the ability of an individual, firm, or country to produce a good or service at a lower opportunity cost than competitors. Absolute advantage is the ability of an individual, firm, or country to produce more of a good or service than competitors, using the same amount of resources.

AACSB: Written and oral communications

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Basic

152) Is it possible for a firm to have an absolute advantage in producing something without having a comparative advantage? Why or why not?

Answer: Yes, a firm can have an absolute advantage without having a comparative advantage. A firm may be able to produce more of a good or service than its competitors, but that does not necessarily mean it can produce the good or service at a lower opportunity cost than its competitors.

AACSB: Written and oral communications

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Moderate

Table 2.9

	One Motorcycle	One Guitar
Ireland	10 hours	2.5 hours
Scotland	9 hours	2 hours

153) *Refer to Table 2.9.* This table shows the number of labour hours required to produce a motorcycle and a guitar in Ireland and Scotland.

- Which country has an absolute advantage in the production of motorcycles?
- Which country has an absolute advantage in the production of guitars?
- What is Ireland's opportunity cost of producing one motorcycle?
- What is Scotland's opportunity cost of producing one motorcycle?
- What is Ireland's opportunity cost of producing one guitar?
- What is Scotland's opportunity cost of producing one guitar?
- If each country specialises in the production of the product in which it has a comparative advantage, who should produce motorcycles?
- If each country specialises in the production of the product in which it has a comparative advantage, who should produce guitars?

Answer: a. Scotland has an absolute advantage in the production of motorcycles.

- Scotland has an absolute advantage in the production of guitars.
- Ireland's opportunity cost of producing one motorcycle is 4 guitars.
- Scotland's opportunity cost of producing one motorcycle is 4.5 guitars
- Ireland's opportunity cost of one guitar is 0.25 motorcycle.
- Scotland's opportunity cost of one guitar is 0.22 motorcycle.
- Ireland should specialise in producing motorcycles.
- Scotland should specialise in producing guitars.

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Complex

Table 2.10

	Digital Camera	Wheat (bushels)
China	100 hours	5 hours
South Korea	90 hours	3 hours

154) *Refer to Table 2.10.* This table shows the number of labour hours required to produce a digital cameras and a bushel of wheat in China and South Korea.

- a. Which country has an absolute advantage in the production of digital cameras?
 - b. Which country has an absolute advantage in the production of wheat?
 - c. What is China's opportunity cost of producing one digital camera?
 - d. What is South Korea's opportunity cost of producing one digital camera?
 - e. What is China's opportunity cost of producing one kilogram of wheat?
 - f. What is South Korea's opportunity cost of producing one kilogram of what?
 - g. If each country specialises in the production of the product in which it has a comparative advantage, who should produce digital cameras?
 - h. If each country specialises in the production of the product in which it has a comparative advantage, who should produce wheat?
-

Answer: a. South Korea has an absolute advantage in the production of digital cameras.
b. South Korea has an absolute advantage in wheat production.
c. China's opportunity cost of producing one digital camera is 20 bushels of wheat.
d. South Korea's opportunity cost of producing one digital camera is 30 bushels of wheat
e. China's opportunity cost of one bushel of wheat is 0.05 units of a digital camera.
f. South Korea's opportunity cost of one bushel of wheat is 0.03 units of a digital camera.
g. China should specialise in producing digital cameras.
h. South Korea should specialise in producing wheat.

AACSB: Application of knowledge

Topic: Comparative advantage and trade

Learning Objective: 2.2 Understand comparative advantage and explain how it is the basis for trade.

Difficulty: Complex

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

155) Which of the following is *not* a factor of production?

- A) An acre of farmland
- B) A drill press in a machine shop
- C) The manager of the local tire shop
- D) \$1000 in cash

Answer: D

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

156) Which of the following is an example of a factor of production?

- A) An oven in a bakery
- B) A share of General Motors' stock



- C) A credit card
- D) A \$500 Treasury bond

Answer: A

AACSB: Application of knowledge

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

157) Which of the following is an example of a factor of production?

- A) Stock issued by Dell
- B) The computers exported by Dell
- C) A computer produced by Dell
- D) A worker hired by Dell

Answer: D

AACSB: Application of knowledge

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

158) If a commercial dairy farm wants to raise funds to purchase feeding troughs, it does so in the_____.

- A) output market.
- B) product market.
- C) factor market.
- D) dairy products market.

Answer: C

AACSB: Application of knowledge

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

159) In which market are the natural resources used in production made available?

- A) Goods and services market
- B) Product market
- C) Government market
- D) Factor market

Answer: D

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.



Difficulty: Basic

160) In which market would you purchase a new pair of jeans?

- A) Factor market
- B) Input market
- C) Product market
- D) Resource market

Answer: C

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

161) Wages is the resource income earned by those who supply_____.

- A) labour.
- B) capital.
- C) natural resources.
- D) entrepreneurship.

Answer: A

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

162) Which of the following statements about an entrepreneur is *false*?

- A) Organises the other factors of production into a working unit
- B) Develops the vision for the firm and funds the producing unit
- C) Sells his entrepreneurial services in the output market
- D) Risks the personal funds provided

Answer: C

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

163) Who wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*, published in 1776?

- A) John Maynard Keynes.
- B) Karl Marx.
- C) Alfred Marshall.
- D) Adam Smith.



Answer: D

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

164) Adam Smith's behavioural assumption about humans was that people_____.

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

Answer: B

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

165) Which of the following countries does *not* come close to the free market benchmark?

- A) Canada
- B) North Korea
- C) Germany
- D) Singapore

Answer: B

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

166) To what does Adam Smith's invisible hand refer?

- A) The government's unobtrusive role in ensuring that the economy functions efficiently
- B) Property ownership laws and the rule of the court system
- C) The process by which individuals acting in their own self-interest bring about a market outcome that benefits society as a whole
- D) The laws of nature that influence economics decisions

Answer: C

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate



167) Which of the following is *not* a critical function of the government in facilitating the operation of a market economy?

- A) Protecting private property
- B) Enforcing property rights
- C) Ensuring an equal distribution of income to all citizens
- D) Enforcing contracts

Answer: C

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

168) An example of a factor or production is:

- A) a necklace produced by a jewellery manufacturer.
- B) 50 shares of Google stock.
- C) the security guard at the local bank.
- D) \$1000 in casino chips.

Answer: C

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

169) Which of the following is a factor of production?

- A) A bottle of wine produced by a vineyard
- B) A vintner hired by a vineyard
- C) A loan granted to a vineyard
- D) The wine exported by a vineyard

Answer: B

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

170) If a brewery wants to raise funds to purchase a new fermenting tank, it would do so in what market?

- A) Factor market
- B) Output market
- C) Product market
- D) Alcoholic beverages market

Answer: A



AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

171) When you purchase a new set of spurs you do so in the_____.

A) resource market.

B) product market.

C) input market.

D) factor market.

Answer: B

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

Write 'True' if the statement is correct and 'False' if the statement is incorrect.

172) The payment received by suppliers of entrepreneurial skills is called interest.

Answer: False

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

173) Entrepreneurs bring together the factors of production to produce goods and services.

Answer: True

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

174) In a free market there are virtually no restrictions or, at best, few restrictions on how factors of production can be employed.

Answer: True

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

175) Crude oil is not an example of a factor of production, but when crude oil is processed into petrol, it is



a factor of production.

Answer: False

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

176) Each person goes about her daily business seeking to maximise her own self interests. In doing so, she contributes to the welfare of society at large. This is the idea underlying Adam Smith's 'invisible hand.'

Answer: True

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

177) The payment received by suppliers of entrepreneurial skills is called wages.

Answer: False

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

178) In economics, the term 'free market' refers to a market where products are traded but not sold.

Answer: False

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

179) In a free market there are significant restrictions on how a good or service can be produced or sold.

Answer: False

AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

180) A bed of oysters is not an example of a factor of production but the shucked oysters used to make oyster stew is a factor of production.

Answer: False



AACSB: Analytical thinking

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Moderate

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

181) What is the difference between product markets and factor markets?

Answer: Product markets are markets for goods and services. Factor markets are markets for the factors of production, which are the inputs used to make goods and services.

AACSB: Written and oral communications

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

182) What is meant by the term 'free market'?

Answer: A free market is a market with few government restrictions on how a good or service can be produced or sold or on how factors of production can be employed.

AACSB: Written and oral communications

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Basic

183) How does Adam Smith's idea of the 'invisible hand' apply to the various parts, made by many different manufacturers in many different countries, that are used by Apple to produce an iPad?

Answer: Smith used the 'invisible hand' reference to explain why markets provide consumers with desired products and services. In the case of the iPad, the invisible hand of the market has led these parts manufacturers to contribute their knowledge and resources to the process that ultimately results in a product available for sale in Australia and around the world.

AACSB: Written and oral communications

Topic: The market system

Learning Objective: 2.3 Explain the basic idea of how a market system works.

Difficulty: Complex

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



184) To what does the term 'property rights' refer?

- A) The physical possession of a house or any other property which the owner legally purchased
- B) The ability to exercise control over one's own resources within the confines of the law
- C) The government's right to appropriate land from wealthy land owners to redistribute to peasants
- D) The right of a business not to have its assets confiscated by the government in the event that the business is accused of committing fraud

Answer: B

AACSB: Analytical thinking

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Basic

185) The primary purpose of _____ is to encourage the expenditure of funds on research and development to create new products.

- A) centrally planned economies
- B) government-run health care
- C) nationalising oil companies
- D) patents and copyrights

Answer: D

AACSB: Analytical thinking

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Basic

186) What is a major factor contributing to the slow growth rate of less developed economies?

- A) The lack of well-defined and enforceable property rights
- B) The lack of natural resources
- C) The lack of workers
- D) The high rate of illiteracy

Answer: A

AACSB: Analytical thinking

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Moderate

187) What does a successful market economy require?

- A) A government-controlled banking system and government price controls
- B) Well-defined property rights and an independent court system to adjudicate disputes based on the law
- C) Generous unemployment benefits and paid medical leave for everyone in the labour force
- D) An equitable distribution of income and limits on immigration



Answer: B

AACSB: Analytical thinking

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Moderate

188) Consider the following items:

- a. the novel *The DaVinci Code* by Dan Brown
- b. the 'The Spirited Shipper,' an innovative wine shipping box
- c. a Swiss chef's award-winning recipe
- d. an original fabric design, for example, the fabric used for 'Coach' bags and luggage

Which of the items listed is an example of intellectual property?

- A) a and b only
- B) a, b, and c
- C) a and d only
- D) all of the items listed

Answer: D

AACSB: Application of knowledge

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Moderate

189) Consider the following items:

- a. the album '21' by Adele
- b. a Dutch horticulturalist's new method for cultivating hybrid tulips
- c. Rolls Royce's 'Spirit of Ecstasy' hood ornament design
- d. the sale of Tumi luggage at a Macy's department store

Which of the items listed is an example of intellectual property?

- A) a and b only
- B) a, b, and c
- C) a and d only
- D) all of the items listed

Answer: B

AACSB: Application of knowledge

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Moderate



190) Stricter laws and regulations to protect intellectual property rights_____.

- A) will help to create a more successful market system.
- B) will only benefit those companies whose intellectual property rights have in the past been ignored.
- C) will tend to have little impact on an economy since intellectual property is not tangible.
- D) will create a stronger and more successful black market for intellectual property.

Answer: A

AACSB: Analytical thinking

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Basic

191) If a nation changes its laws to more actively enforce intellectual property rights, all of the following will most likely take place *except*:

- A) more software companies will choose to export their products to that country.
- B) more filmmakers will choose to do business in that country.
- C) the black market for intellectual property will become more prosperous in that country.
- D) foreign investment in that country will increase.

Answer: C

AACSB: Analytical thinking

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Moderate

192) Because the copyright on the L. Frank Baum book *The Wonderful Wizard of Oz* expired many years ago, the actual written words from the book are in the public domain. Publishers who now choose to sell their own versions of the book_____.

- A) can claim copyright of Baum's words if they are the first to publish the book after the original copyright expired.
- B) can claim copyright of Baum's words no matter how many versions are published, since the original is in the public domain.
- C) cannot claim copyright of Baum's words since they are in the public domain, but can claim copyright on any new design or illustrations created for the book.
- D) cannot claim copyright of Baum's words, or on any new design or illustrations created for the book, since the original written words are in the public domain.

Answer: C

AACSB: Application of knowledge

Topic: The legal basis of a successful market system

Learning Objective: 2.4 Understand why property rights are necessary for a well-functioning market.

Difficulty: Moderate