
105 ■ — Which of the following is NOT an outcome of trade?
■ —
■ —

- People with different preferences are made better off. Incorrect
- Specialization and increased productivity develop. Incorrect
- A division of knowledge among trading partners develops. Incorrect
- People in poor countries are made worse off. (*True Answer*)Correct

106 ■ — Which of the following is NOT a reason trade increases wealth?
■ —
■ —

- to take advantage of differences in productivity Incorrect
- to take advantage of differences in preferences Incorrect
- to take advantage of differences in knowledge Incorrect
- to take advantage of differences in security (*True Answer*)Correct

107 ■ — Which of the following is NOT a commonly recognized benefit
■ —
■ — of trade?

- Trade makes people better off when preferences differ. Incorrect
- Trade creates the need for institutions such as the World Trade Organization. (*True Answer*)Correct
- Trade increases productivity through specialization and the division of knowledge. Incorrect
- Trade increases productivity through comparative advantage. Incorrect

108 ■ — Which of the following is NOT true of trade?
■ —
■ —

- Trade makes people better off when preferences differ. Incorrect
- Trade increases productivity through specialization and the division of knowledge. Incorrect
- Trade makes rich people richer and poor people poorer. (*True Answer*)Correct
- Trade increases productivity through comparative advantage. Incorrect

109 ■ — The benefits of trade include:
■ —
■ — I. higher output due to specialization.
II. higher output due to comparative advantage.

III. increased welfare when preferences differ.

- I and II only Incorrect
 - II and III only Incorrect
 - I and III only Incorrect
 - I, II, and III (*True Answer*)Correct
-

110 ■ ■ Which of the following statements is incorrect?
■ ■

- Trade makes people better off when preferences differ. Incorrect
 - Trade increases productivity through specialization and the division of knowledge. Incorrect
 - Non-fraudulent voluntary trade produces both winners and losers. (*True Answer*)Correct
 - Trade increases productivity through comparative advantage. Incorrect
-

111 ■ ■ Trade creates value because:
■ ■

- people get what they want. Incorrect
 - raw materials are transformed into finished products. Incorrect
 - people exchange things they do not want for things they do. (*True Answer*)Correct
 - idle resources are put to use. Incorrect
-

112 ■ ■ eBay creates value by:
■ ■

- helping sellers trick buyers into purchasing broken items. Incorrect
 - moving goods like broken laser pointers from people who don't want them to people who do. (*True Answer*)Correct
 - helping people with the same preferences find each other. Incorrect
 - moving toys from children who want them to children who don't. Incorrect
-

113 ■ ■ David sells his car, which he considers worthless, to Cameron
■ ■ for \$200. Which of the following statements is true?

- David and Cameron must have different preferences for the car. (*True Answer*)Correct

- This trade did not create value because Cameron is buying a car that David considers worthless. Incorrect
- Cameron is the only one made better off by the trade. Incorrect
- David is made better off by the trade, but Cameron is made worse off. Incorrect

114 ■ — Mark values his drum set at \$800 and Ella values her guitar at \$1,000. Suppose that Mark trades his drum set for Ella's guitar.

- This trade makes Ella worse off by \$200. Incorrect
- This trade makes Mark better off by \$200. Incorrect
- Mark must value Ella's guitar for at least \$1,000, and Ella must value Mark's drum set for at least \$800. Incorrect
- This trade creates value by moving the guitar and drum set to people who value them more. (*True Answer*)Correct

115 ■ — Which of the following is TRUE regarding trade?
 ■ — I. Trade creates value by moving goods from people that value them less to people that value them more.
 ■ — II. Trade makes everyone better off.
 ■ — III. The only potential losses from trade come when the seller values the good more than the buyer.

- I only Incorrect
- I and II only (*True Answer*)Correct
- I and III only Incorrect
- I, II, and III Incorrect

116 ■ — Facilitators of trade (such as Pierre Omidyar, the developer of eBay):

- may become very rich since they are creating value for many individuals. (*True Answer*)Correct
- find it very hard to profit from their services since they are not directly involved in the trades. Incorrect
- typically only profit from their services if they are able to obtain government patent rights. Incorrect
- are usually seen as taking advantage of consumers. Incorrect

117 ■ — Jim has an old (working) television that he would like to get rid of now that he has purchased a new high-definition, flat-screen television. The old television is no longer worth anything to him now that he has his new flat-screen TV. Veronica on the other hand has an even older television that has just broken down. She would pay up to \$50 for any working TV. Which of the following statements is NOT true?

- If Jim trades Veronica his old television for \$50, total value in society increases by \$50. Incorrect
 - If Jim trades Veronica his old television for \$50, both are better off but total value in society does not increase. (*True Answer*)Correct
 - If a middleman facilitates the \$50 trade between Jim and Veronica, but takes a \$10 finders' fee, Jim and Veronica will still both be better off. Incorrect
 - If Jim and Veronica do not trade, both are worse off than if they did trade. Incorrect
-

118 ■ — Which statement best describes why people choose to specialize?

- Training is too expensive to specialize in multiple occupations. Incorrect
 - Trade creates value. Incorrect
 - Specialization increases productivity. Incorrect
 - Specialization and trade allow them to consume more than they could produce individually. (*True Answer*)Correct
-

119 ■ — Division of knowledge, as discussed in the text, increases economic prosperity because:

I. Each person can develop extensive knowledge about a single activity.

II. The human brain's capacity to know everything about all productive activities is limited.

III. Specialized knowledge increases productivity, which increases total output.

- I and II only Incorrect
- I and III only Incorrect
- II and III only Incorrect
- I, II, and III (*True Answer*)Correct

120 ■ — Which of the following is least likely a consequence of the division of knowledge?

- The development of the computer tablet. Incorrect
 - A totally self-sufficient family farm. (*True Answer*)Correct
 - A new delivery method for cancer-fighting drugs. Incorrect
 - The provision of a new bike path in your community. Incorrect
-

121 ■ — A very small portion of people who use microwaves know how they work. This is an example of:

- a production possibility frontier. Incorrect

- specialization. (*True Answer*)Correct
 - absolute advantage. Incorrect
 - opportunity cost. Incorrect
-

122 ■ ■ ■ — If each of us had to grow our own food:

- civilization as we know it would collapse and billions of people would have much less food to eat. (*True Answer*)Correct
 - we would have more time for other pursuits. Incorrect
 - people would be richer since they would no longer have to spend money on groceries. Incorrect
 - the total amount of knowledge in society would increase since everyone would have to learn about farming. Incorrect
-

123 ■ ■ ■ — If instead of specialized doctors (neurologists, cardiologists, gastroenterologists, etc.) we had doctors who each knew the same things about all aspects of medicine it would be:

- better because we could just go to one doctor who could handle all our needs. Incorrect
 - better because total medical knowledge in society would increase. Incorrect
 - worse because the human brain is unlimited. Incorrect
 - worse because total medical knowledge in society would decrease. (*True Answer*)Correct
-

124 ■ ■ ■ — Which of the following statements is TRUE?

- — I. Trade allows people to specialize in their area of expertise, increasing society's output of goods and services.
 - — II. Specialization and the division of knowledge decreased with the fall of the Berlin Wall and opening of China's economy to the world.
 - — III. Society's knowledge is limited if everybody produces the same thing.
 - I only Incorrect
 - II and III only Incorrect
 - I and III only (*True Answer*)Correct
 - II only Incorrect
-

125 ■ ■ ■ — Division of knowledge refers to:

- dividing tasks into different subtasks and having one person perform all these subtasks. Incorrect
- people learning different tasks for which they each have a

comparative advantage. (*True Answer*)Correct

- assigning one person to learn all the different ways to perform the same task. Incorrect
 - limiting what each person knows about another person. Incorrect
-

126 ■ — As trade becomes more widespread, specialization _____,
■ — which in turn _____ productivity.

- decreases; decreases Incorrect
 - increases; increases (*True Answer*)Correct
 - decreases; increases Incorrect
 - increases; decreases Incorrect
-

127 ■ — Which of the following statements is true?
■ — I. Compared to a modern economy, the division of knowledge was greater in a primitive economy because every family grew its own food, made their own clothing, and constructed their own shelter.
II. Nobody understands the entire process of producing even the simplest of products in a modern economy, like a lead pencil.
III. The collapse of communism and the opening of the Chinese economy to the rest of the world have increased the division of knowledge, leading to increased world output.

- I only Incorrect
 - III only Incorrect
 - II and III only (*True Answer*)Correct
 - I, II, and III Incorrect
-

128 ■ — Many universities employ graduate students to teach
■ — introductory undergraduate courses, even though full professors at these universities have more experience and could potentially teach these courses better. Which of the following best explains why universities choose to utilize graduate students instead of full professors to teach their introductory courses?

- Graduate students are cheaper. Incorrect
 - The opportunity cost of teaching an introductory course is higher for full professors than for graduate students. (*True Answer*)Correct
 - The opportunity cost of teaching an introductory course is higher for graduate students than for full professors. Incorrect
 - Introductory classes are the best place for graduate students to build their teaching skills. Incorrect
-

- 129 ■ — Which of the following situations would lead to more
■ — starvation?
- a world where everyone grows his or her own food and there is no trade (*True Answer*)Correct
 - a world with trade and lots of specialization Incorrect
 - a world with immense division of knowledge Incorrect
 - a world where only some people specialize in food and everyone else produces something else Incorrect
-
- 130 ■ — Which of the scenarios below best displays how international
■ — trade allows for specialization?
- You are better at mowing lawns than your neighbor who is better at gardening. Incorrect
 - Truck drivers stay awake on long routes by drinking Colombian coffee. Incorrect
 - The United States and Canada can both produce lumber, but the U.S. buys lumber from Canada because it has a greater yield per acre. (*True Answer*)Correct
 - Cuba does not have a comparative advantage in producing antibiotics, but due to economic sanctions, relies on its own supply of medicines. Incorrect
-
- 131 ■ — The main reason why specialization can raise productivity is
■ — that:
- knowledge in human brains is limited. (*True Answer*)Correct
 - some persons have more knowledge than others. Incorrect
 - it is always good to know less than more. Incorrect
 - it is impossible to learn anything well. Incorrect
-
- 132 ■ — Knowledge increases _____ and specialization
■ — _____ total output.
- education; increases Incorrect
 - productivity; increases (*True Answer*)Correct
 - perception; increases Incorrect
 - economies of scale; decreases Incorrect
-
- 133 ■ — Economic growth in the modern era is primarily due to the
■ — creation of new:
- inventions. Incorrect
 - money. Incorrect
 - nations. Incorrect

- knowledge. (*True Answer*)Correct
-

134 ■ — Specialization and trade:
■ —

- increase the costs of production because of decreased output. Incorrect
 - decrease the per-unit costs of production because of economies of scale associated with large-scale production. (*True Answer*)Correct
 - create diseconomies of scale, raising the per-unit costs of production. Incorrect
 - only work within countries, not across countries. Incorrect
-

135 ■ — Why is specialization so advantageous to trade?
■ — I. Through specialization, people and firms can achieve economies of scale.
II. Through specialization, people and firms can use specialized machinery and techniques.
III. Trade exists only between people and firms that have complete specialization in the goods they are best at producing.

- I only Incorrect
- I, II, and III Incorrect
- I and III only Incorrect
- I and II only (*True Answer*)Correct

136 ■ — The United States and the European Union are groups of semi-independent states that have come together under an agreement whereby resources can travel freely across borders and a common currency is in use. Which of the following statements best explains how this allows for the achievement of economies of scale?

- Each state or country can now target larger markets and can thus earn more export revenue. Incorrect
- States and countries no longer have to worry about borders impeding trade. Incorrect
- Each state or country can adopt large-scale production techniques that allow lower per unit costs of production. (*True Answer*)Correct
- The removal of trade borders and a common currency enhances trade between member states. Incorrect

137 ■ — Why does specialization become more profitable on a larger scale?
■ —

I. Large firms are more profitable than small firms.
II. Cost efficiencies become possible when the production scale

is significantly large relative to the cost of the machines being used.

III. Large-scale production justifies the acquisition of more knowledge on a specific activity.

- I and II only Incorrect
 - I, II, and III Incorrect
 - I and III only Incorrect
 - II and III only (*True Answer*)Correct
-

138 ■ — The benefits of economies of scale and increased competition to an economy include:

I. lower unit costs.

II. lower consumer prices.

III. lower output levels.

- I and II only (*True Answer*)Correct
 - II and III only Incorrect
 - I and III only Incorrect
 - I, II, and III Incorrect
-

139 ■ — Absolute advantage derives from which of the following?

- the lowest cost production (*True Answer*)Correct
 - the most suitable climate Incorrect
 - the least expensive labor force Incorrect
 - the best educated labor force Incorrect
-

140 ■ — Utilizing comparative advantage can best be exemplified as:

- your lawyer word-processing her own legal briefs. Incorrect
 - the CEO of Microsoft programming his own computer. Incorrect
 - the president of your university teaching a class again. Incorrect
 - a world-renowned chef hiring someone to cook meals for his family. (*True Answer*)Correct
-

141 ■ — Which of the following best describes the principle of comparative advantage?

- Some people can produce the same good better than other producers can. Incorrect
- Someone has the ability to produce the same good using fewer inputs than another producer. Incorrect
- Someone has the ability to produce the same good for the

lowest opportunity cost. (*True Answer*)Correct

- To produce more of one good, people have to produce less of another good. Incorrect
-

- 142 ☐ ☐ ☐ ☐ Jesse is good at math and excellent at making friends and Addae is equally good at both. Mathematically and socially challenged Jordan wants to hire tutors to help in each area. Who should tutor Jordan in which area to maximize Jordan's college experience?
- Jesse and Addae should tutor Jordan in both math and social skills. Incorrect
 - Jesse should teach math and Addae should teach how to make friends. Incorrect
 - Jesse and Addae should both teach how to make friends. Incorrect
 - Jesse should teach how to make friends and Addae should teach math. (*True Answer*)Correct
-

- 143 ☐ ☐ ☐ ☐ A country has an absolute advantage in production if:
- it can produce the same good using fewer inputs than another country. (*True Answer*)Correct
 - it can produce a good using fewer inputs than it takes another country to produce a different good. Incorrect
 - other countries can produce the same good using fewer inputs. Incorrect
 - it has the lowest opportunity cost of producing a good. Incorrect
-

- 144 ☐ ☐ ☐ ☐ To benefit from trade, a person should:
- specialize in an activity for which she has an absolute advantage. Incorrect
 - specialize in an activity for which she has a comparative advantage. (*True Answer*)Correct
 - do everything she possibly can. Incorrect
 - do nothing at all. Incorrect
-

- 145 ☐ ☐ ☐ ☐ The concept of comparative advantage implies that:
- there are winners and losers when people trade without specializing. Incorrect
 - people have to be self-sufficient. Incorrect
 - people can benefit from specializing and trading with each

other. (*True Answer*)Correct

- only those people who are productive benefit from trade. Incorrect

146 ■ — According to the textbook, the reason why Martha Stewart does not do her own ironing is that:

- she has never learned how to iron. Incorrect
- running her business enterprises just do not leave her enough time. Incorrect
- she does not have any real interest in ironing. Incorrect
- it costs her more to do her own ironing than to pay someone to iron. (*True Answer*)Correct

147 ■ — Which of the following best explains the term *specialization* with respect to trade?

- Specialization occurs when a people concentrate their productive resources on the goods and services they can produce most efficiently. (*True Answer*)Correct
- Specialization occurs when one person can produce more of a particular good than another person. Incorrect
- Specialization refers to the absolute advantage that a person enjoys in the production of goods and services. Incorrect
- Specialization refers to the ability of a person to produce more of a good than his or her trading partners. Incorrect

148 ■ — Owen Wilson is an actor who has acted in many action comedy films. In contrast, Tom Cruise has acted in many serious action films. How might the theory of specialization be applied to them?

- Owen Wilson has fully specialized in action comedy movies while Tom Cruise has fully specialized in serious action movies. Incorrect
- Due to filmography protectionism, Owen Wilson is unable to secure serious action roles, and Tom Cruise is unable to secure action comedy roles. Incorrect
- Casting directors see Owen Wilson as relatively better at action comedy roles and Tom Cruise as relatively better at serious action roles and cast them accordingly. (*True Answer*)Correct
- All of these statements are correct. Incorrect

149 ■ — Who wrote, “It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy”?

- Richard Nixon Incorrect
- Dr. Spock Incorrect
- Adam Smith (*True Answer*)Correct
- David Ricardo Incorrect

150 ■ — The ability of one producer to produce one good or service using fewer inputs than another producer is:

- comparative advantage. Incorrect
- absolute advantage. (*True Answer*)Correct
- opportunity cost. Incorrect
- competition. Incorrect

151 ■ — Suppose a famous baseball player, Alex Rodriguez, hires a high school student to paint his house. Which of the following is most likely TRUE?

- The opportunity cost of painting a house is higher for Alex Rodriguez than for the high school student. (*True Answer*)Correct
- The opportunity cost of painting a house is lower for Alex Rodriguez than for the high school student. Incorrect
- The opportunity cost of painting a house is the same for Alex Rodriguez as for the high school student. Incorrect
- The opportunity cost of painting a house is zero for Alex Rodriguez and is negative for the high school student. Incorrect

152 ■ — A producer has a comparative advantage over other producers if his production of the good involves:

- more inputs. Incorrect
- fewer inputs. Incorrect
- a higher opportunity cost. Incorrect
- a lower opportunity cost. (*True Answer*)Correct

153 ■ — Table: iPhone and iPod Production

	One iPhone	One iPod
Canadian labor units	3	4
United States labor units	2	2

Reference: Ref 2-1

(Table: iPhone and iPod Production) According to the table on iPhone and iPod Production, which of the following is TRUE?

- Canada has an absolute advantage in producing both iPhones and iPods. Incorrect
- The United States has an absolute advantage in producing both iPhones and iPods. (*True Answer*)Correct
- Canada has an absolute advantage in producing iPhones, and the United States has an absolute advantage in producing iPods. Incorrect
- The United States has an absolute advantage in producing iPhones, and Canada has an absolute advantage in producing iPods. Incorrect

154 ■ ■ ■ **Table: iPhone and iPod Production**

	One iPhone	One iPod
Canadian labor units	3	4
United States labor units	2	2

Reference: Ref 2-1

(Table: iPhone and iPod Production) According to the table on iPhone and iPod Production, the opportunity cost of producing one iPhone is:

- 4/3 of one iPod for Canada, and two iPods for the United States. Incorrect
- two iPods for Canada, and four iPods for the United States. Incorrect
- 3/4 of one iPod for Canada, and one iPod for the United States. (*True Answer*)Correct
- one iPod for Canada, and 3/4 of one iPod for the United States. Incorrect

155 ■ ■ ■ **Table: iPhone and iPod Production**

	One iPhone	One iPod
Canadian labor units	3	4
United States labor units	2	2

Reference: Ref 2-1

(Table: iPhone and iPod Production) According to the table on iPhone and iPod Production, which of the following is TRUE about Canadian and U.S. comparative advantages?

- Canada has a comparative advantage in producing both iPhones and iPods. Incorrect

- The United States has a comparative advantage in producing both iPhones and iPods. Incorrect
 - Canada has a comparative advantage in producing iPhones, and the United States has a comparative advantage in producing iPods. (*True Answer*)Correct
 - Canada has a comparative advantage in producing iPods, and the United States has a comparative advantage in producing iPhones. Incorrect
-

- 156 ■ ■ ■ — According to the theory of comparative advantage, a country should specialize in producing a good that involves:
- more inputs than those in other countries. Incorrect
 - fewer inputs than those in other countries. Incorrect
 - a higher opportunity cost than that of other countries. Incorrect
 - a lower opportunity cost than that of other countries. (*True Answer*)Correct
-

- 157 ■ ■ ■ — Suppose France can produce four phones or three computers with one unit of labor, and Sweden can produce one phone or two computers with one unit of labor. If France can trade only with Sweden, then the theory of comparative advantage suggests that:
- France should specialize in producing phones and import computers from Sweden. (*True Answer*)Correct
 - France should specialize in producing computers and import phones from Sweden. Incorrect
 - France should produce both phones and computers, and import nothing from Sweden. Incorrect
 - France should import both phones and computers from Sweden. Incorrect
-

- 158 ■ ■ ■ — According to the theory of comparative advantage:
- every country can produce some good with a lower opportunity cost. (*True Answer*)Correct
 - every country should produce goods that involve high opportunity costs. Incorrect
 - some countries have a comparative advantage in producing every good. Incorrect
 - some countries should import every good from other countries. Incorrect
-

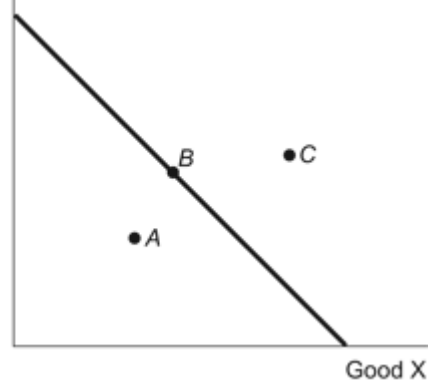
- 159 ■ ■ ■ — Which of the following statements shows how absolute advantage can be distinguished from comparative advantage?
- I. Absolute advantage refers to the ability to produce a good using fewer inputs, while comparative advantage is based on the monthly amount.
- II. Absolute advantage is based on the yearly production amount that a country can produce, while comparative advantage is based on the monthly production amount.
- III. Absolute advantage refers to the ability to produce a larger amount of goods with the same number of inputs, whereas comparative advantage refers to the ability to have the lowest opportunity cost of production.
- I and III only Incorrect
 - II and III only Incorrect
 - I, II, and III Incorrect
 - III only (*True Answer*)Correct
-

- 160 ■ ■ ■ — The real cost of producing a good is:
- the dollar cost of inputs used to make the item. Incorrect
 - the opportunity cost of producing the good. (*True Answer*)Correct
 - the resources that were used to make the good. Incorrect
 - the dollar amount it costs to sell the good. Incorrect
-

- 161 ■ ■ ■ — Comparative advantage is determined by which of the following?
- efficiency Incorrect
 - bargaining power Incorrect
 - opportunity cost (*True Answer*)Correct
 - productivity Incorrect
-

- 162 ■ ■ ■ — The theory of comparative advantage is:
- rarely relevant for identifying whether gains from trade can be obtained. Incorrect
 - always relevant for identifying whether gains from trade can be obtained. (*True Answer*)Correct
 - not true for nations, though it may be true for individuals. Incorrect
 - true for nations, but is not true for business or individuals. Incorrect
-

- 163 ■ ■ ■ Figure: PPF Goods X & Y
■ — Good Y

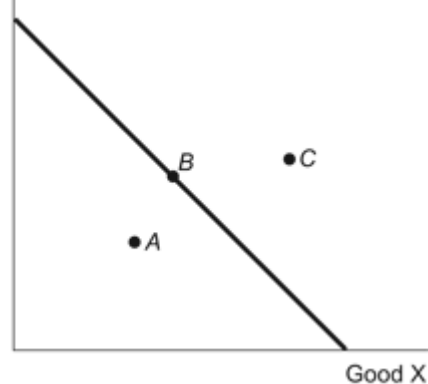


Reference: Ref 2-2

(Figure: PPF Goods X & Y) Refer to the figure. Which of the points representing various consumption possibilities for the country portrayed above is only attainable through foreign trade?

- Point A Incorrect
- Point B Incorrect
- Point C (*True Answer*) Correct

- 164 ■ ■ ■ Figure: PPF Goods X & Y
■ — Good Y



Reference: Ref 2-2

(Figure: PPF Goods X & Y) Refer to the figure. Point A represents an allocation of resources that is:

- efficient. Incorrect
- inefficient. (*True Answer*) Correct
- impossible. Incorrect
- the result of trade. Incorrect

- 165 ■ ■ ■ Suppose a country without any international trade opens its borders to international trade. How will its location on its production possibility frontier change?

- The country moves from inside the PPF to on the

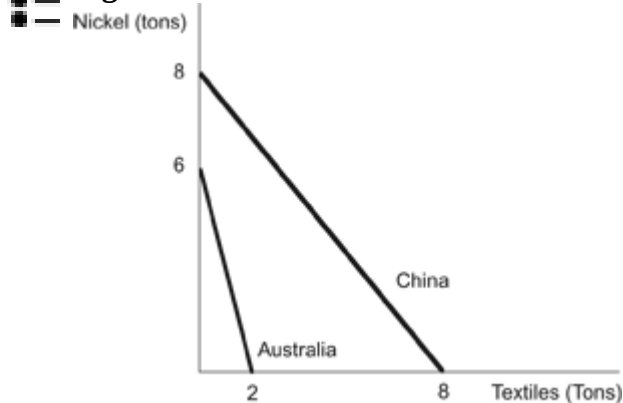
PPF. Incorrect

- The country moves from on the PPF to beyond the PPF. Incorrect

- The country moves along the PPF toward its comparative advantage. (True Answer)Correct

- The country moves along the PPF away from its comparative advantage. Incorrect

166 ■ — Figure: PPF Nickel & Textiles

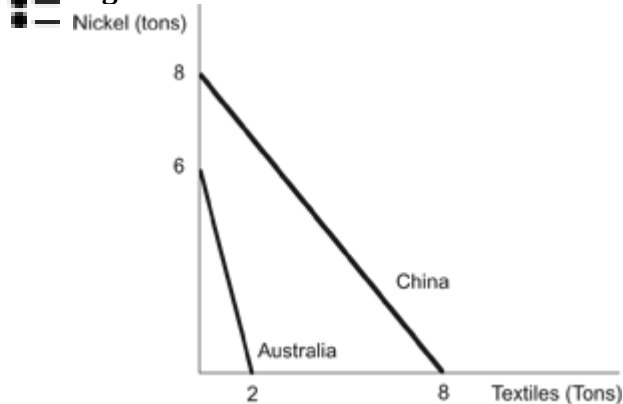


Reference: Ref 2-3

(Figure: PPF Nickel & Textiles) Refer to the figure. What is the maximum amount of nickel China can produce?

- 10 tons Incorrect
- 8 tons (True Answer)Correct
- 6 tons Incorrect
- 4 tons Incorrect

167 ■ — Figure: PPF Nickel & Textiles



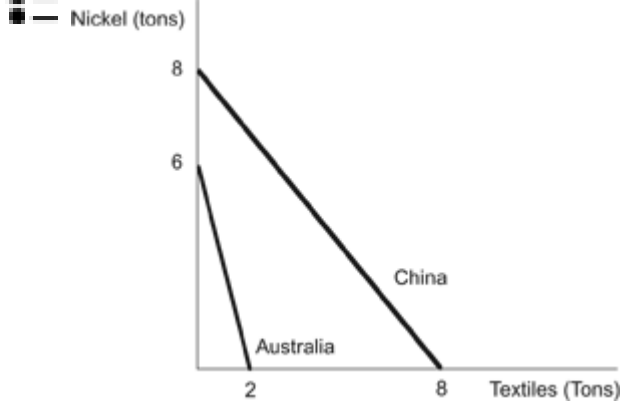
Reference: Ref 2-3

(Figure: PPF Nickel & Textiles) Refer to the figure. What is the maximum amount of textiles China can produce?

- 10 tons Incorrect
- 8 tons (True Answer)Correct

- 6 tons Incorrect
- 4 tons Incorrect

168 ■ ■ ■ Figure: PPF Nickel & Textiles



Reference: Ref 2-3

(Figure: PPF Nickel & Textiles) Refer to the figure. How many tons of textiles does Australia give up to produce one ton of nickel?

- $1/3$ (True Answer)Correct
- $1/2$ Incorrect
- 2 Incorrect
- 3 Incorrect

169 ■ ■ ■ The slope of the production possibilities frontier at a point indicates _____.

- the preferences of a country Incorrect
- a country's total gains from trade Incorrect
- a country's opportunity cost of production (True Answer)Correct
- a country's trade balance Incorrect

170 ■ ■ ■ The production possibility frontier shows:

- how society can produce more of one good without giving up the production of another good. Incorrect
- what people can consume given different combinations of goods produced. Incorrect
- the combinations of output that an economy can produce given its productivity and inputs. (True Answer)Correct
- the types of goods and services that society should produce to satisfy social interest. Incorrect

- 171 ■ ■ ■ On a production possibilities frontier a trade-off can be illustrated as:
- an outward shift. Incorrect
 - an inward shift. Incorrect
 - a movement from a point inside the frontier to one on the frontier. Incorrect
 - a movement along the frontier itself. (*True Answer*)Correct
-
- 172 ■ ■ ■ A fundamental idea behind the production possibilities frontier is:
- the idea of absolute advantage. Incorrect
 - the presence of trade-offs in production. (*True Answer*)Correct
 - that economic growth is unlimited. Incorrect
 - that incentives matter. Incorrect
-
- 173 ■ ■ ■ Which of the following is NOT true regarding the production possibilities frontier (PPF)?
- The PPF shows the combination of goods that a country can produce given its current productivity and supply of resources. Incorrect
 - The PPF illustrates the trade-offs that exist in the production of goods. Incorrect
 - The PPF shows that gains from trade are maximized when countries produce those goods for which they have the absolute advantage in production. (*True Answer*)Correct
 - The PPF illustrates the fundamental ideas of scarcity and opportunity cost. Incorrect
-
- 174 ■ ■ ■ The production possibilities frontier shows:
- the combinations of outputs a country can produce given its resources and productivity. (*True Answer*)Correct
 - the combinations of inputs that a country has given its outputs and productivity. Incorrect
 - the combinations of outputs and resources that a country possesses given its productivity. Incorrect
 - the maximum level of a country's productivity given its resources and outputs. Incorrect
-
- 175 ■ ■ ■ A country has a comparative advantage in a good if:
- it can produce more of that good than any other

country. Incorrect

- it does not have an absolute advantage in that good. Incorrect
 - it has the lowest opportunity cost of producing that good. (True Answer)Correct
 - no other country is willing to buy that good from it. Incorrect
-

176 ■ — Traders should specialize in the good in which:

- they have the lowest opportunity cost. (True Answer)Correct
 - they have an absolute advantage. Incorrect
 - their trading partner has the lowest opportunity cost. Incorrect
 - they do not have an absolute advantage. Incorrect
-

177 ■ — Suppose the United States is more productive than China at producing both T-shirts and cell phones. The theory of comparative advantage suggests that consumption in both countries will:

- increase if the United States produces both goods. Incorrect
 - increase if each country produces the good for which it has the lowest opportunity cost. (True Answer)Correct
 - not change if China produces either T-shirts or cell phones. Incorrect
 - remain the same since nothing can be done to increase production in the two countries. Incorrect
-

178 ■ — The opportunity cost of producing a particular good refers to:

- how much of something else must be given up to produce one additional unit of the good. (True Answer)Correct
 - how much of a good can be produced with the existing technology and resources. Incorrect
 - the total cost of production, including wages, for all units of the good. Incorrect
 - the marginal cost of production in order to produce one additional unit of the good. Incorrect
-

179 ■ — Anita is a wonderful baker and can bake 10 cakes in a day, but then has no time left to make cookies. If she bakes only cookies, she can make 200 cookies in a day. John can make equally delicious cakes and cookies but can only make seven cakes or 100 cookies in a day. Based on this information, which of the

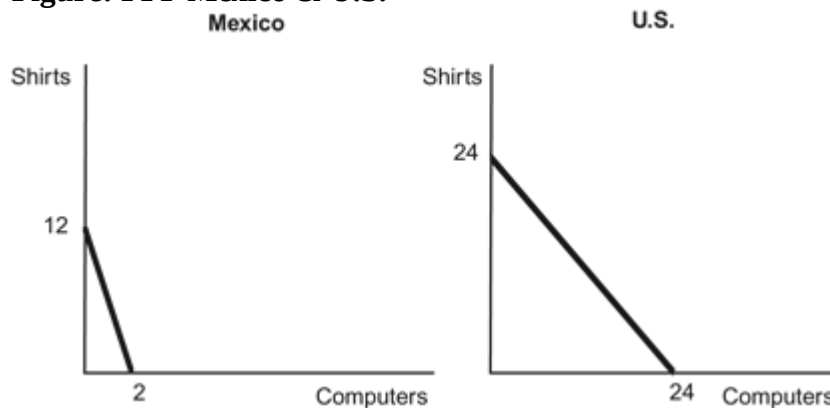
following statements is true?

- Anita has the comparative advantage in the production of cakes. Incorrect
- John has the comparative advantage in the production of cakes. (True Answer) Correct
- John has the absolute advantage in the production of cookies. Incorrect
- Anita has the comparative advantage in the production of both cakes and cookies. Incorrect

180 ■ ■ ■ Anita is a wonderful baker and can bake 10 cakes in a day, but then has no time left to make cookies. If she bakes only cookies, she can make 200 cookies in a day. John can make equally delicious cakes and cookies but can only make seven cakes or 100 cookies in a day. Based on this information, which of the following statements is true?

- Anita should split her time between cakes and cookies. John should bake cakes. Incorrect
- Anita should bake cakes and John should bake cookies. Incorrect
- Anita and John should split their time equally between cakes and cookies. Incorrect
- Anita should bake cookies and John should bake cakes. (True Answer) Correct

181 ■ ■ ■ Figure: PPF Mexico & U.S.



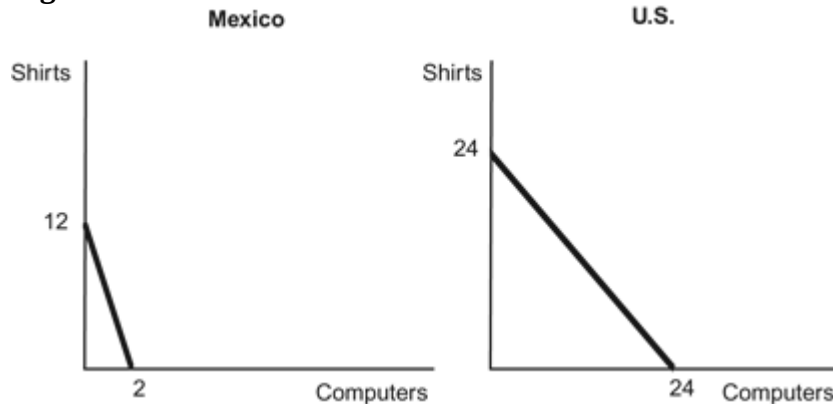
Reference: Ref 2-4

(Figure: PPF Mexico & U.S.) Use the figure in which both Mexico and the United States each have 24 units of labor. The opportunity costs of producing one computer are:

- six shirts for Mexico and one shirt for the United States. (True Answer) Correct

- 1/6 of a shirt for both Mexico and the United States. Incorrect
- one shirt for Mexico and 1/6 of a shirt for the United States. Incorrect
- six shirts for both Mexico and the United States. Incorrect

182 ■ ■ ■ Figure: PPF Mexico & U.S.

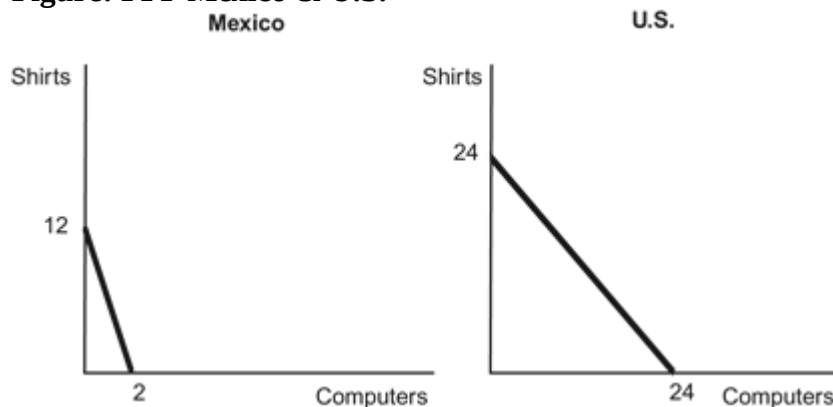


Reference: Ref 2-4

(Figure: PPF Mexico & U.S.) Use the figure in which both Mexico and the United States each have 24 units of labor. The opportunity costs of producing one shirt are:

- one computer for Mexico and 1/6 of a computer for the United States. Incorrect
- 1/6 of a computer for Mexico and one computer for United States. (True Answer)Correct
- one computer for both Mexico and the United States. Incorrect
- 1/6 of computer for both Mexico and the United States. Incorrect

183 ■ ■ ■ Figure: PPF Mexico & U.S.



Reference: Ref 2-4

(Figure: PPF Mexico & U.S.) Use the above figure in which

both Mexico and the United States each have 24 units of labor.
Mexico has a comparative advantage in _____ and the United States has a comparative advantage in _____.

- computers; shirts Incorrect
- shirts; computers (*True Answer*)Correct
- computers; computers Incorrect
- shirts; shirts Incorrect

184 ■ ■ ■ Table: Production Possibilities for the United States and Mexico

	Corn (millions of tons)	Potatoes (millions of tons)
United States	50	10
Mexico	40	5

Reference: Ref 2-5

(Table: Production Possibilities for the United States and Mexico)
According to the table on Production Possibilities for the United States and Mexico, Mexico has an absolute advantage in _____ and a comparative advantage in _____.

- neither good; corn (*True Answer*)Correct
- corn; potatoes Incorrect
- potatoes; corn Incorrect
- neither good; potatoes Incorrect

185 ■ ■ ■ Table: Production Possibilities for the United States and Mexico

	Corn (millions of tons)	Potatoes (millions of tons)
United States	50	10
Mexico	40	5

Reference: Ref 2-5

(Table: Production Possibilities for the United States and Mexico)
According to the table on Production Possibilities for the United States and Mexico, the United States has an absolute advantage in _____ and a comparative advantage in _____.

- both goods; corn Incorrect
- both goods; potatoes (*True Answer*)Correct
- potatoes; corn Incorrect
- nothing; potatoes Incorrect

186 ■ ■ ■ Table: Production Possibilities for the United States and Mexico

	Corn (millions of tons)	Potatoes (millions of tons)
--	-------------------------	-----------------------------

United States	50	10
Mexico	40	5

Reference: Ref 2-5

(Table: Production Possibilities for the United States and Mexico)
According to the table on Production Possibilities for the United States and Mexico, Mexico's opportunity cost of producing each ton of potatoes is _____, while the United States' opportunity cost of producing each ton of potatoes is _____.

- 0.125 tons of potatoes; 0.2 tons of potatoes Incorrect
- eight tons of corn; 0.2 tons of potatoes Incorrect
- eight tons of corn; five tons of corn (*True Answer*)Correct
- five tons of corn; 0.2 tons of corn Incorrect

187 ■ ■ ■

Table: Production Possibilities for the United States and Mexico		
	Corn (millions of tons)	Potatoes (millions of tons)
United States	50	10
Mexico	40	5

Reference: Ref 2-5

(Table: Production Possibilities for the United States and Mexico) Using the table on Production Possibilities for the United States and Mexico, assume each country specializes in the good for which it has a comparative advantage. Which of the following answers identifies a trade price that both countries would find acceptable? (Units are in tons.)

- 0.2 potato for one corn < Trade price < five corns for one potato Incorrect
- 0.125 potato for one corn, < Trade price < eight potatoes for one corn Incorrect
- five corns for one potato < Trade price < eight corns for one potato (*True Answer*)Correct
- 0.125 potato for one corn, < Trade price < five potatoes for one corn Incorrect

188 ■ ■ ■

Table: Production Possibilities for Kenya and Sri Lanka		
	Beans (millions of tons)	Tea (millions of tons)
Kenya	100	200
Sri Lanka	150	450

Reference: Ref 2-6

(Table: Production Possibilities for Kenya and Sri Lanka)
According to the table on Production Possibilities for Kenya and Sri Lanka, Kenya's opportunity cost of producing beans is _____ while Sri Lanka's opportunity cost of producing beans is _____.

- 0.5 teas; 0.33 teas Incorrect
- two teas; 0.33 teas Incorrect
- 200 teas; 450 teas Incorrect
- two teas; three teas (*True Answer*)Correct

189	  	Table: Production Possibilities for Kenya and Sri Lanka									
		<table><tr><th></th><th>Beans (millions of tons)</th><th>Tea (millions of tons)</th></tr><tr><td>Kenya</td><td>100</td><td>200</td></tr><tr><td>Sri Lanka</td><td>150</td><td>450</td></tr></table>		Beans (millions of tons)	Tea (millions of tons)	Kenya	100	200	Sri Lanka	150	450
	Beans (millions of tons)	Tea (millions of tons)									
Kenya	100	200									
Sri Lanka	150	450									

Reference: Ref 2-6

(Table: Production Possibilities for Kenya and Sri Lanka)
According to the table on Production Possibilities for Kenya and Sri Lanka, Kenya should produce _____ and Sri Lanka should produce _____.

- beans; tea (*True Answer*)Correct
- tea; beans Incorrect
- both goods; neither good Incorrect
- neither good; both goods Incorrect

190	  	Table: Production Possibilities for Kenya and Sri Lanka									
		<table><tr><th></th><th>Beans (millions of tons)</th><th>Tea (millions of tons)</th></tr><tr><td>Kenya</td><td>100</td><td>200</td></tr><tr><td>Sri Lanka</td><td>150</td><td>450</td></tr></table>		Beans (millions of tons)	Tea (millions of tons)	Kenya	100	200	Sri Lanka	150	450
	Beans (millions of tons)	Tea (millions of tons)									
Kenya	100	200									
Sri Lanka	150	450									

Reference: Ref 2-6

(Table: Production Possibilities for Kenya and Sri Lanka)
According to the table on Production Possibilities for Kenya and Sri Lanka, which of the following answers identifies a trade price that both countries would find acceptable? (Units are in tons.)

- 0.5 bean for one tea < Trade price < two teas for one bean Incorrect

- 0.5 bean for one tea < Trade price < three beans for one tea Incorrect
- two teas for one bean < Trade price < three teas for one bean (*True Answer*)Correct
- 0.3 bean for one tea < Trade price < two beans for one tea Incorrect

191 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta
Italy	10	4	4	10
Belgium	2	8	20	5

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, the opportunity cost of 1 pound of linen for Italy is:

- 10 pounds of pasta. Incorrect
- 1/4 pound of pasta Incorrect
- 4 pounds of pasta Incorrect
- 2 1/2 pounds of pasta (*True Answer*)Correct

192 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta
Italy	10	4	4	10
Belgium	2	8	20	5

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, the opportunity cost of 1 pound of linen for Belgium is:

- 5 pounds of pasta. Incorrect
- 4 pounds of pasta. Incorrect
- 1/4 pound of pasta. (*True Answer*)Correct
- 20 pound of pasta. Incorrect

193 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta
Italy	10	4	4	10
Belgium	2	8	20	5

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, the opportunity cost of 1 pound of pasta for Italy is:

- 2/5 pound of linen. (True Answer)Correct
- 4 pounds of linen. Incorrect
- 1/4 pound of linen. Incorrect
- 2 hours of labor. Incorrect

194 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta
Italy	10	4	4	10
Belgium	2	8	20	5

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, the opportunity cost of 1 pound of pasta for Belgium is:

- 5 pounds of linen. Incorrect
- 20 pounds of linen. Incorrect
- 1/4 pound of linen. Incorrect
- 4 pounds of linen. (True Answer)Correct

195 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta
Italy	10	4	4	10

Belgium	2	8	20	5
---------	---	---	----	---

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, Italy has comparative advantage in:

- both goods, while Belgium has comparative advantage in neither good. Incorrect
- linen, while Belgium has comparative advantage in pasta. Incorrect
- pasta, while Belgium has comparative advantage in linen. (*True Answer*) Correct
- neither good, while Belgium has comparative advantage in both goods. Incorrect

196 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta
Italy	10	4	4	10
Belgium	2	8	20	5

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, Italy and Belgium both could benefit if Italy were to specialize in:

- neither good, and Belgium were to specialize in both goods. Incorrect
- both goods, and Belgium were to specialize in neither good. Incorrect
- pasta, and Belgium were to specialize in linen. (*True Answer*) Correct
- linen, and Belgium were to specialize in pasta. Incorrect

197 ■ ■ ■ Table: Production Possibilities for Italy and Belgium

■ ■ Labor Hours Needed to Make One

	Pound of:		Pounds produced in 40 hours:	
	Linen	Pasta	Linen	Pasta

Italy	10	4	4	10
Belgium	2	8	20	5

Reference: Ref 2-7

(Table: Production Possibilities for Italy and Belgium)

According to the table on Production Possibilities for Italy and Belgium, Belgium should specialize in linen production because it:

- has an absolute advantage in producing linen and pasta. Incorrect
- can do so at a greater opportunity cost. Incorrect
- has a comparative advantage in producing linen. (*True Answer*) Correct
- already can produce enough pasta to meet demand. Incorrect

- 198 ■ ■ ■ Table: Production in the United States and Germany
 ■ ■ ■ Labor units required to produce:

	One Clock	One Sofa
United States	2	5
Germany	3	9

Reference: Ref 2-8

(Table: Production in the United States and Germany)

According to the table, the opportunity cost of producing one sofa in the United States is _____, and the opportunity cost of producing one sofa in Germany is _____.

- two clocks; three clocks Incorrect
- 10 clocks; 27 clocks Incorrect
- 0.4 clocks; 0.33 clocks Incorrect
- 2.5 clocks; three clocks (*True Answer*) Correct

- 199 ■ ■ ■ Table: Production in the United States and Germany
 ■ ■ ■ Labor units required to produce:

	One Clock	One Sofa
United States	2	5
Germany	3	9

Reference: Ref 2-8

(Table: Production in the United States and Germany)

According to the table, the opportunity cost of producing one clock in the United States is _____, and the opportunity cost of producing one clock in Germany is _____.

- five sofas; nine sofas Incorrect
- 0.4 sofas; 0.33 sofa (*True Answer*) Correct
- five clocks; nine clocks Incorrect
- 2.5 clocks; three clocks Incorrect

200 ■ — Table: Production in the United States and Germany

■ — Labor units required to produce:

	One Clock	One Sofa
United States	2	5
Germany	3	9

Reference: Ref 2-8

(Table: Production in the United States and Germany)

According to the table, which of the following statements is true?

- The United States has a comparative advantage in clocks. Incorrect
- Germany has an absolute advantage in clocks and sofas. Incorrect
- The United States has a comparative advantage in sofas. (*True Answer*) Correct
- The United States has a comparative advantage in clocks and sofas. Incorrect

201 ■ — (Table: Production in France and Italy) According to the table, France should specialize in producing _____, and Italy should specialize in producing _____.

Table: Production in France and Italy

Labor units required to produce:

	One Bag of Truffles	One Pair of Wool Socks
France	1	1
Italy	2	4

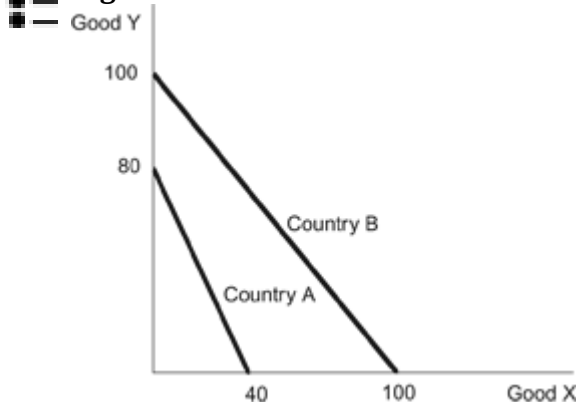
- truffles; wool socks Incorrect
- wool socks; truffles (*True Answer*) Correct

- truffles; truffles Incorrect
- wool socks; wool socks Incorrect

- 202 ■ ■ ■ In Colombia, it takes three workers to produce two pounds of coffee. In Mexico, it takes four workers to produce one pound of coffee. Therefore:
- Colombia has a comparative advantage in the production of coffee. Incorrect
 - Mexico has a comparative advantage in the production of coffee. Incorrect
 - in Colombia, the opportunity cost of producing one pound of coffee is two-thirds. Incorrect
 - Colombia has an absolute advantage in the production of coffee. (True Answer) Correct

- 203 ■ ■ ■ Which of the following statements is TRUE?
- ■ ■ I. It is virtually impossible for a country to be the low-cost producer of all goods and services.
 - ■ ■ II. The benefits of trade depend on absolute advantage, not comparative advantage.
 - ■ ■ III. A country could have a comparative advantage in producing everything.
- I and II only Incorrect
 - I only (True Answer) Correct
 - II only Incorrect
 - III only Incorrect

- 204 ■ ■ ■ Figure: Countries A & B



Reference: Ref 2-9

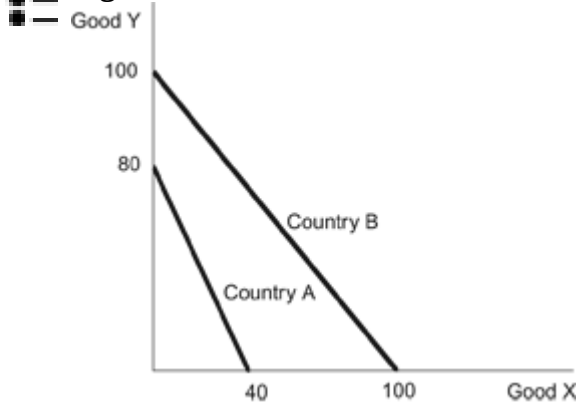
(Figure: Countries A & B) Refer to the figure. According to the diagram about countries A & B, which of the following statements is correct?

- I. Country A has a comparative advantage in Good Y.
- II. Country B has an absolute advantage in both goods.

III. Country B has a comparative advantage in Good X.

- I and II only Incorrect
- I and III only Incorrect
- II and III only Incorrect
- I, II, and III (*True Answer*)Correct

205 ■ ■ ■ Figure: Countries A & B

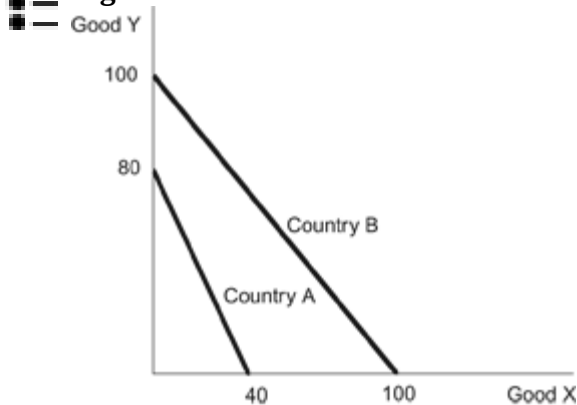


Reference: Ref 2-9

(Figure: Countries A & B) Refer to the figure regarding countries A & B. The opportunity cost of producing Good X in Country A is _____ and in Country B it is _____ meaning that Country _____ should specialize in producing Good X and Country _____ in Good Y.

- 2Y; 1Y; B; A (*True Answer*)Correct
- 1/2Y; 1Y; B; A Incorrect
- 1/2Y; 1Y; A; B Incorrect
- 2Y; 1Y; A; B Incorrect

206 ■ ■ ■ Figure: Countries A & B



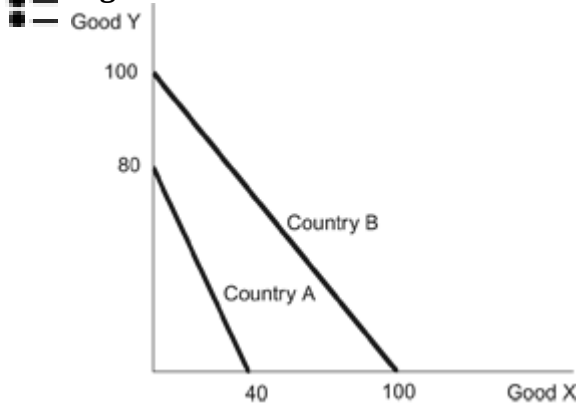
Reference: Ref 2-9

(Figure: Countries A & B) Refer to the figure regarding

countries A & B. If both countries depicted fully allocate all of their labor towards the good in which they have a comparative advantage, the combined production for the two countries would be _____ units of Good X, and _____ units of Good Y.

- 100; 80 (*True Answer*)Correct
- 70; 90 Incorrect
- 40; 100 Incorrect
- 100; 100 Incorrect

207 ■ ■ ■ Figure: Countries A & B



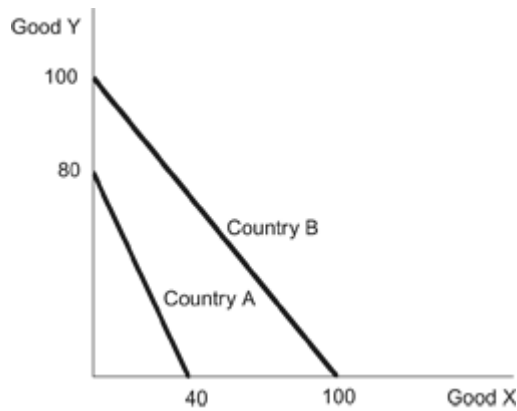
Reference: Ref 2-9

(Figure: Countries A & B) Refer to the figure regarding countries A & B. Assume that each country begins by allocating half its labor force to the production of each good. Through trade with each other, each country could increase its consumption of both goods if Country A moved part of its labor force to the production of Good _____ and Country B moved part of its labor force to the production of Good _____.

- X; X Incorrect
- X; Y Incorrect
- Y; Y Incorrect
- Y; X (*True Answer*)Correct

208 ■ ■ ■ Figure: Countries A & B





Reference: Ref 2-9

(Figure: Countries A & B) Refer to the figure regarding countries A & B. If each country allocated half of its labor force to the production of each good before trade and were to then each specialize in their comparative advantage and allocate 75 percent of its labor force to the production of that good, world production of Good X would change by _____ and the production of Good Y by _____.

- 40; 50 Incorrect
- 25; -5 Incorrect
- 15; -5 (True Answer) Correct
- 50; 40 Incorrect

209 ■ = Which of the following best characterizes the relationship between the parties to a trade and the gains from trade?

- Gains from trade are fueled by differences in preferences and differences in opportunity costs of production. (True Answer) Correct
- Gains from trade are fueled by differences in preferences only. Incorrect
- Gains from trade are fueled by differences in opportunity costs of production only. Incorrect
- Gains from trade are greatest when there are no differences between the two parties to trade. Incorrect

210 ■ = Two countries that specialize in their comparative advantage and trade with each other will increase:

- I. wages in both countries.
- II. total output in both countries.
- III. living standards in both countries.
- I and II only Incorrect
- II and III only Incorrect
- II only Incorrect

- I, II, and III (*True Answer*)Correct
-

- 211 ■ — With 24 units of labor and no trade Brazil produces and
■ — consumes eight units of sugar cane and two iPods. Sugar cane costs \$50/unit, and iPods cost \$200. After specialization and trade, Brazil consumes 8 units of sugar cane and four iPods. What are wages in Brazil?
- \$33 without trade and \$50 with trade (*True Answer*)Correct
 - \$50 without trade and \$75 with trade Incorrect
 - \$50 without trade and \$33 with trade Incorrect
 - \$33 without trade and \$75 with trade Incorrect
-

- 212 ■ — With 24 units of labor and no trade Brazil produces and
■ — consumes eight units of sugar cane and two iPods. Sugar cane costs \$50/unit, and iPods cost \$200. After specialization and trade, Brazil consumes eight units of sugar cane and four iPods. What are wages in Brazil?
- \$33 without trade and \$50 with trade (*True Answer*)Correct
 - \$50 without trade and \$75 with trade Incorrect
 - \$50 without trade and \$33 with trade Incorrect
 - \$33 without trade and \$75 with trade Incorrect
-

- 213 ■ — When a rich country that has absolute advantages in all
■ — products begins trading with a poor country the wages in:
- the rich country will go down and the wages in the poor country will go up. Incorrect
 - both countries will go up. (*True Answer*)Correct
 - both countries will go down. Incorrect
 - the rich country will go up and the wages in the poor country will go down. Incorrect
-

- 214 ■ — Workers in high-productivity countries fear trade because they
■ — think they cannot compete with workers in low-productivity countries. Workers in low-productivity countries fear trade because they think they cannot compete with workers in high-productivity countries. Which set of fears is justified?
- The fears of workers in high-productivity countries are justified, but the fears of workers in low-productivity countries are not. Incorrect
 - The fears of workers in low-productivity countries are justified, but the fears of workers in high-productivity countries are not. Incorrect
 - Both sets of fears are justified. Incorrect
 - Neither set of fears is justified. (*True Answer*)Correct
-

215 ■ ■ ■ — According to the theory of trade, if two countries trade with each other:

- consumption in one country will fall and wages will also fall. Incorrect
 - wage costs will remain low if both countries specialize in producing the goods for which they have a comparative advantage. Incorrect
 - trade raises the labor productivity and wages of both countries. (*True Answer*)Correct
 - wages in the country with a comparative advantage will rise and wages in the country without a comparative advantage will fall. Incorrect
-

216 ■ ■ ■ — Trade tends to:

- increase wages in developed countries, but decrease wages in lesser-developed countries. Incorrect
 - decrease wages in developed countries, but increase wages in lesser-developed countries. Incorrect
 - decrease wages in all countries. Incorrect
 - increase wages in all countries. (*True Answer*)Correct
-

217 ■ ■ ■ — Wage rates are primarily based on the:

- level of comparative advantage. Incorrect
 - extent to which the country is involved in trade with other countries. Incorrect
 - productivity of labor. (*True Answer*)Correct
 - institutional factors present. Incorrect
-

218 ■ ■ ■ — Which of the following is TRUE regarding trade and wages?

- Trade can increase wages by increasing the productivity of labor. Incorrect
 - Trade helps to equalize wages between high- and low-productivity countries. Incorrect
 - Low-productivity nations have lower wages than high-productivity nations whether they trade or not. (*True Answer*)Correct
 - Trade directly increases productivity, which in turn increases wages. Incorrect
-

219 ■ ■ ■ Which of the following statements is TRUE?

- Trade makes workers in high productivity countries less productive. Incorrect
 - Trade causes workers in low-wage countries receive an even lower wage. Incorrect
 - Specialization and trade raise wages in both countries party to the trade. (*True Answer*)Correct
 - Specialization and trade raise productivity but not wages. Incorrect
-

220 ■ ■ ■ If labor in China is less productive than labor in the United States in all areas of production, then:

- both the United States and China can benefit from trade. (*True Answer*)Correct
 - neither nation can benefit from trade. Incorrect
 - China can benefit from trade but not the United States. Incorrect
 - the United States can benefit from trade but not China Incorrect
-

221 ■ ■ ■ According to the theory of comparative advantage, the reason wages are lower in China than in the United States is:

- the higher cost of living in the United States. Incorrect
 - lower productivity in China. (*True Answer*)Correct
 - the lower opportunity cost to work in China. Incorrect
 - more trade restrictions in the United States. Incorrect
-

222 ■ ■ ■ Angela and Ed are married. Angela can do \$40 worth of household chores per hour, and Ed can do \$15 worth of household chores per hour. In the labor market, Ed can earn \$30/hour and Angela can earn \$40/hour. The theory of comparative advantage suggests that:

- Ed should specialize in household production and Angela should specialize in market work. Incorrect
 - Angela should specialize in household production and Ed should specialize in market work. (*True Answer*)Correct
 - Angela should specialize in both household production and market work. Incorrect
 - Ed should specialize in both household production and market work. Incorrect
-

223 ■ ■ Which of the following statements is TRUE?
■ ■

- Only a high-wage country can benefit by trading with a low-wage country. Incorrect
 - A high-wage country cannot benefit by trading with a low-wage country. Incorrect
 - Trade raises the wages of workers in low- and high-wage countries. (*True Answer*)Correct
 - There is an inverse relationship between productivity and wages. Incorrect
-

224 ■ ■ The principles of comparative advantage, specialization, and
■ ■ trade apply to:

- I. individuals.
 - II. communities.
 - III. regions.
 - IV. nations.
 - I and II only Incorrect
 - I, II, and III only Incorrect
 - II, III, and IV only Incorrect
 - I, II, III, and IV (*True Answer*)Correct
-

225 ■ ■ According to Adam Smith:
■ ■

- trade is a way for rich people to exploit poor people. Incorrect
 - trade within a nation benefits people but international trade does not. Incorrect
 - trade does not benefit anyone, either at home or abroad. Incorrect
 - people buy goods for which they have higher opportunity costs than others. (*True Answer*)Correct
-

226 ■ ■ Adam Smith said, "It is the maxim of every prudent master of a
■ ■ family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor." Which of the following concepts best illustrates what Smith wanted to convey in this statement?

- comparative advantage (*True Answer*)Correct
- incentives matter Incorrect
- scarcity Incorrect
- production possibilities frontier Incorrect

227 ■ — Adam Smith advocated the benefits of:
■ —

- protectionism. Incorrect
- trade tariffs over trade quotas. Incorrect
- international trade. (*True Answer*)Correct
- comparative advantage. Incorrect

228 ■ — Which of the following has NOT played a significant role in
■ — recent developments leading to increased trade and globalization?

- lower transportations costs Incorrect
- theory of absolute advantage (*True Answer*)Correct
- integration of world markets Incorrect
- increased communication speed Incorrect

229 ■ — The development of shipping containers enabled companies to
■ — move freight quickly between ships, trucks, and trains by loading a single large container with many different goods and then moving the container. Before the container, freight had to be loaded and unloaded one palette, barrel, or box at a time. What impact did the shipping container have on globalization? Why?

- an increase, because it allowed faster spread of communication Incorrect
- an increase, because it decreased transportation costs (*True Answer*)Correct
- a decrease, because it caused many dock workers to lose their job Incorrect
- a decrease, because it caused the amount of human cooperation to fall Incorrect

230 ■ — Globalization is best described as:
■ —

- a new process that grows intermittently. Incorrect
- an old process that has consistently grown. Incorrect
- an old process that has grown intermittently. (*True Answer*)Correct
- an old process that has declined over time. Incorrect

231 ■ — Tutoring Web sites like GrowingStars.com:
■ —

- have been evaluated and endorsed by the textbook authors. Incorrect

- are possible because Americans have a comparative advantage in tutoring. Incorrect
 - illustrate how the Internet can increase globalization. (*True Answer*)Correct
 - were first developed during the Roman Empire. Incorrect
-

232 ■ ■ ■ The trade networks of the Roman Empire:

- fell apart in the Medieval era, leading to the Dark Ages. (*True Answer*)Correct
 - were not of great importance even before the Dark Ages. Incorrect
 - show that globalization is a new phenomenon. Incorrect
 - did not facilitate the transport of goods from different parts of the world. Incorrect
-

233 ■ ■ ■ Increased trade has led to:

- increased globalization of world economies. (*True Answer*)Correct
 - a more equal distribution of wealth across countries. Incorrect
 - a decline in human cooperation. Incorrect
 - more specialization and less globalization. Incorrect
-

234 ■ ■ ■ Which of the following statements is TRUE?

- ■ I. If a country does not trade, its knowledge is approximately equal to that used by one brain.
 - ■ II. The basic idea of trade is to buy the things that would cost you a lot to make, and sell the things that you can make at a low opportunity cost.
 - ■ III. Trade leads to specialization, which in turn increases in productivity.
 - II and III only Incorrect
 - III only Incorrect
 - II only Incorrect
 - I, II, and III (*True Answer*)Correct
-

235 If it was impossible to have a comparative advantage, there would be no gains from trade.

- True
 - False (*True Answer*)
-

- 236 Trade refers to the exchange of goods or services between two parties.
- True
 - False (*True Answer*)
-
- 237 Trade refers to the exchange of goods and services between at least two different nations.
- True
 - False (*True Answer*)
-
- 238 Trade works best when it is between people who share similar preferences.
- True
 - False (*True Answer*)
-
- 239 Trade makes people better off only when they all have the same preferences.
- True
 - False (*True Answer*)
-
- 240 Trades are considered zero-sum transactions because if one person gains, the other must lose an equal amount.
- True
 - False (*True Answer*)
-
- 241 Large cities should have more professional closet organizers than small cities.
- True (*True Answer*)
 - False
-
- 242 The human brain has no limits, so the division of knowledge decreases the total knowledge in society.
- True
 - False (*True Answer*)
-
- 243 Trade increases productivity because trade allows people to specialize.
- True
 - False (*True Answer*)
-

244 **Although trade increases productivity, it decreases society's collective knowledge because each person specializes in a very limited number of things.**

- True
 - False (*True Answer*)
-

245 **Without trade, specialization is impossible.**

- True (*True Answer*)
 - False
-

246 **In a world with trade, no one can afford to specialize.**

- True
 - False (*True Answer*)
-

247 **If you have a comparative advantage in washing dishes, then you also have an absolute advantage in washing dishes.**

- True
 - False (*True Answer*)
-

248 **When comparing two countries with two goods each, if one country has a comparative advantage in one good, the other country will have a comparative advantage in the other good.**

- True (*True Answer*)
 - False
-

249 **Comparative advantage occurs when an individual's opportunity cost for producing the same good or service is lower than that of another individual.**

- True (*True Answer*)
 - False
-

250 **Countries can benefit from trading with one another because trade allows each country to specialize in doing what it does best.**

- True (*True Answer*)
 - False
-

251 **If a country's domestic price of a good is lower than the world price, then that country has a comparative advantage in producing that good.**

- True (*True Answer*)
- False

-
- 252 **Trading increases the amount a single country can produce.**
- True
 - False (*True Answer*)
-
- 253 **The production possibilities frontier shows all the combinations of goods that a country can produce given its productivity and supply of inputs.**
- True
 - False (*True Answer*)
-
- 254 **The production possibilities frontier has a negative slope and illustrates the notion of trade-offs: As more units of one good are produced, fewer resources are left to produce the other good.**
- True (*True Answer*)
 - False
-
- 255 **A production possibilities frontier shows the cost of the different goods that a country can produce.**
- True
 - False (*True Answer*)
-
- 256 **According to the theory of comparative advantage, a country specializes in producing what it can produce for a lower opportunity cost than another country.**
- True (*True Answer*)
 - False
-
- 257 **Everyone, from the most to the least skilled to the most and least educated, can benefit from trade.**
- True (*True Answer*)
 - False
-
- 258 **A country has a comparative advantage in producing one good if its labor cost is lower than that for other countries.**
- True
 - False (*True Answer*)
-
- 259 **If a country has an absolute advantage in both items when compared to another country, there can never be any benefit for them to trade.**

- True
 - False (*True Answer*)
-

- 260 U.S. pharmaceutical companies sell drugs to Kenya, and Kenyan farmers sell flowers to the U.S. This pattern of trade suggests that the U.S. is the low-opportunity-cost producer of drugs and Kenya is the low-opportunity-cost producer of flowers.
- True (*True Answer*)
 - False
-

- 261 In Spain it takes 10 workers to produce one barrel of wine and four workers to produce one yard of cloth. Thus, the opportunity cost of producing one barrel of wine is 2.5 yards of cloth.
- True (*True Answer*)
 - False
-

- 262 Trade causes wages in countries with high productivity to increase and wages in countries with low productivity to decrease.
- True
 - False (*True Answer*)
-

- 263 Specialization in its comparative advantage and trading with other nations benefits a country in terms of its total output, but not individuals when it comes to their wages.
- True
 - False (*True Answer*)
-

- 264 Specializing in one's comparative advantage and trading with others will make individuals better off, but may not make countries better off.
- True
 - False (*True Answer*)
-

- 265 Evidence from history shows that when the volume of trade expands, the result is prosperity.
- True (*True Answer*)
 - False
-

- 266 Globalization is the advance of human cooperation across national boundaries.
- True (*True Answer*)

- False

267 Trade increases competition for domestic producers and results in lower prices of domestic goods.

- True (*True Answer*)
- False

268  What are the three major benefits of trade? Explain briefly.

- *Trade requires people or countries to specialize. The first benefit of trade comes when people with differing preferences are made better off from their voluntary trades. The second benefit of trade comes from increased productivity as a result of specialization and the division of knowledge. Specialization followed by trade greatly increases productivity. The third benefit of trade comes from taking advantage of differences in opportunity costs. According to the theory of comparative advantage, people or countries can specialize in producing goods that involve the lowest opportunity costs. As a result, everyone can benefit from trade.*

269  Your professor hires a teaching assistant to grade student assignments even though he may do the task faster and perhaps more accurately. How can you explain this behavior using the theory of comparative advantage?

- *According to the theory of comparative advantage, people specialize in what involves the lowest opportunity cost. The professor can grade student assignments faster so that he has an absolute advantage. However, the opportunity cost of grading student assignments may be higher for the professor than for the teaching assistant, so that the teaching assistant has a comparative advantage in grading assignments. On the other hand, the professor might have comparative advantages in other teaching activities, such as lecturing. So, the reason for the professor to hire a teaching assistant to grade assignments is consistent with the theory of comparative advantage.*

270  In a two-country world of Japan and Korea, suppose Japan can produce 600 radios or 300 TV sets in one day with all its available resources, while Korea can produce 100 radios or 200 TV sets in one day with all its available resources. According to the theory of comparative advantage, what would be the possible gain in this world if the two countries specialize and

trade with each other?

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For Japan, the opportunity cost of producing one radio is half of one TV set, and the opportunity cost of producing one TV set is two radios. For Korea, the opportunity cost of producing one radio is two TV sets, and the opportunity cost of producing one TV set is half of one radio. Suppose each of the two countries produces 100 TV sets and uses other available resources to produce radios: Japan can produce 400 radios and Korea can produce 50 radios. In this case, without trade the total world production is 450 radios and 200 TV sets. However, because the opportunity cost of producing radios is lower for Japan than for Korea, Japan has a comparative advantage in producing radios. Because the opportunity cost of producing TV sets is lower for Korea than for Japan, Korea has a comparative advantage in producing TV sets. According to the theory of comparative advantage, Japan should specialize in producing radios and import TV sets from Korea, while Korea should specialize in producing TV sets and import radios from Japan. As a result of specialization and trade, the total consumption in this two-country world is 600 radios and 200 TV sets. Compared to the case without trade, there is a gain of 150 radios.

271



James and Linda must prepare a presentation for their marketing class. As part of their presentation, they must do a marketing plan and prepare 40 PowerPoint slides. It would take James 5 hours to do the required plan and 5 hours to prepare the slides. It would take Linda 6 hours to do the plan and 10 hours to prepare the slides.

- How much time would it take the two to complete the project if they divide the writing of the marketing plan equally and the development of the slides equally?
- How much time would it take the two to complete the project if they use comparative advantage and specialize in writing the marketing plan or preparing slides?
- If James and Linda have the same opportunity cost of \$5 per hour, is there a better solution than for each to specialize?

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a. If both tasks are divided equally, it will take 5.5 hours to write the marketing plan and 7.5 hours to work on the slides. This is a total of 13 hours of work.

b. If Linda specializes in writing the marketing plan and James specializes in preparing slides, it will take 11 hours to complete the project.

c. If Linda specializes in working on the marketing plan, her opportunity cost will be \$30; hence, Linda would be better off if she paid James any amount less than \$30 to do the marketing plan. Since James's opportunity cost of doing the marketing plan is only \$25, he would be better off if Linda paid him between \$25 and \$30 to do the marketing plan. In this case, the total time spent on the project would be 10 hours.

- 272  In Narnia, one binky can be produced with two workers and one sippy cup can be produced with 0.25 workers. In Bedrock, one binky can be produced with one worker and one sippy cup can be produced with 0.50 workers.
- What is the opportunity cost of producing one sippy cup in Narnia and in Bedrock?
 - Which country has the comparative advantage in sippy cups?
 - Suppose that each country has 100 workers and completely specializes in its comparative advantage. How many units of output of sippy cups and binkys will each country produce?
 - Before trade, Narnia produces 25 binkys and 200 sippy cups, and Bedrock produces 50 binkys and 100 sippy cups. Show how specialization and free trade can make each country better off than it was before the trade situation.
-
- The opportunity cost in Narnia is 0.125 binkys, and the opportunity cost in Bedrock is 0.5 binkys.*
 - Narnia has the comparative advantage in sippy cups.*
 - Narnia will produce 400 sippy cups and 0 binkys, and Bedrock will produce 100 binkys and 0 sippy cups.*
 - If the countries agree to trade 150 sippy cups for 30 binkys, each country will be better off than when they didn't trade. Narnia will consume 250 (400 – 150) sippy cups and 30 binkys, and Bedrock will consume 70 binkys (100 – 30) and 150 sippy cups.*
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- 273  Briefly describe a few activities that a typical student might do on any given day that reflect the effects of globalization.

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This answer could of course be personalized, but an example answer might be as follows:

Globalization allows us to enjoy goods from around the world, and expand the variety of goods we consume as well as interact more with people from other countries and regions. A student wakes up in the morning to the ring of an alarm clock made in China. That student may then have breakfast that includes Colombian coffee, cereal that uses corn made in the United States, and bananas grown in Honduras. The student wears a

shirt that has a “Made in Bangladesh” label. The student then picks up his or her textbooks made with paper that came from trees grown in Canada, and goes to class where the teacher is a visiting instructor from Turkey. In class the student sits between two other students from Iraq and Kenya. Later in the evening, the student unwinds by playing games on a Nintendo Wii made in Japan. Dinner might consist of Indian cuisine, and dessert might be Italian tiramisu. Finally, the student goes back to bed and sleeps under a blanket made in Korea.