Chapter 02 Choice, Opportunity Costs, and Specialization

Student: _____

1. Shirley can choose between peanut butter pretzels and caramel coated popcorns for her evening snack. According to economists, her _____ cost of consuming caramel coated popcorns would be the forgone peanut butter pretzels.
A. internal
B. opportunity
C. average
D. transaction
E. social

2. In economics, the concept of opportunity cost is:
A. negated by ensuring that the government has a role in a capitalist society.
B. defined to be the highest-valued alternative that must be forgone when a choice is made.
C. best illustrated by knowing why consumers choose one good over another.
D. quantifiable only if you know the real dollar prices of the goods and services you are giving up to consume something.
E. the methodology that government economists use to determine the total amount of the national debt.

3. Jane wins $100,000 in the lottery and immediately uses her winnings to open up a donut shop. Her direct costs are $50,000, and she puts the remaining money in a savings account earning 10 percent annual interest. Alternatively, Jane could have placed all her lottery winnings in the 10 percent savings account. Jane's total cost is:
A. $60,000.
B. $50,000.
C. $160,000.
D. $45,000.
E. $55,000.

4. If you have a choice of consuming either two apples, three oranges, or one candy bar, the opportunity cost of the candy bar is:
A. two apples.
B. three oranges.
C. two apples and three oranges.
D. two apples or three oranges, whichever you value more.
E. the difference in the prices of the three options.

5. Which economic concept is the closest parallel to the saying “There’s no free lunch”?
A. Specialization
B. Unlimited wants
C. Underutilization of resources
D. Opportunity costs
E. Overutilization of resources

6. Opportunity cost is best defined as:
A. the sum of all alternatives given up when a choice is made.
B. the money spent once a choice is made.
C. the highest-valued alternative given up when a choice is made.
D. the difference between the cost price and the selling price of a good.
E. the cost of capital resources used in the production of additional capital.

7. Which of the following is an example of opportunity cost?
A. The Chinese food that you gave up when you chose to eat Italian food.
B. The tuition that you pay to attend college.
C. For a professor of economics, the pleasure that he or she derives from teaching economics.
D. Sweets given up by a person who would never eat them even if he or she could.
E. The price paid for a ticket when you go to the movies.

8. Nicky makes $25,000 a year as a sales clerk. He then decides to quit his job to enter an MBA program full-time (assume Nicky doesn’t work in the summer or hold any part-time jobs). His tuition, books, living expenses, and fees total $15,000 a year. Given this information, the annual total cost of Nicky's MBA studies is:
A. $10,000.
B. $30,000.
C. $40,000.
D. $15,000.
E. $25,000.

9. Which of the following is related to the concept of trade-off used in economics?
A. The tuition you pay to attend college
B. Paying a high price for a movie ticket on the first day of screening
C. Not having enough information available to make a rational decision
D. Giving up one good or activity in order to obtain some other good or activity
E. Having your cake and eating it too

10. The giving up of a good or activity in order to obtain some other good or activity is called:
A. a tradeoff.
B. a cost analysis.
C. a random choice.
D. an opportunity cost.
E. a sunk cost.

11. Which of the following best describes a tradeoff?
A. An office executive enrolling into a management course to develop her skills.
B. An investor buying stocks of a start-up company.
C. A businessman investing a portion of company profits in research and development.
D. A college student sacrificing a few hours of study time to work at the town cafeteria.
E. A worker purchasing a new car with her bonus earnings.

12. The city of Austin can buy roads or light rail. If 10 miles of roads cost $1 million and 2 miles of light rail cost $10 million, what is the city's opportunity cost of 1000 miles of roads?
A. $100 million
B. 2 miles of light rail
C. 200 miles of light rail
D. $50 million
E. $1,000 million

13. The tradeoffs facing a society can be illustrated in a graph known as the:
A. production operations curve.
B. production cost curve.
C. production cost model.
D. production cost forecast curve.
E. production possibilities curve.

14. When constructing a production possibility curve for an economy, which of the following is assumed to be constant?
A. The quantity of resources
B. The government budget
C. The quantity of goods produced
D. The price level
E. The money supply

15. Following is the production possibilities schedule for an economy producing two goods Good A and Good B.

Table 2.1

Production Possibilities Schedule

	Good A	Good B
Choice 1	100	0
Choice 2	90	20
Choice 3	70	40
Choice 4	40	60
Choice 5	0	80

Refer to Table 2.1. Identify the correct statement.

A. This economy can produce 100 units of A and 20 units of B.
B. The opportunity cost of producing more of A decreases as A increases.
C. The opportunity cost of producing more of B decreases as B increases.
D. This economy can produce 70 units of A and 40 units of B.
E. If this economy fully and efficiently employs all its resources, it can produce 100 units of A and 80 units of B.

16. Following is the production possibilities schedule for an economy producing two goods Good A and Good B.

Table 2.1

Production Possibilities Schedule

	Good A	Good B
Choice 1	100	0
Choice 2	90	20
Choice 3	70	40
Choice 4	40	60
Choice 5	0	80

Refer to Table 2.1. According to the production possibilities schedule in the table above, which of the following statements is true?

A. Moving from choice 2 to choice 3, the opportunity cost of 20 more B is 20 units of A.
B. There are increasing opportunity costs associated with getting more B.
C. Moving from choice 3 to choice 4, the opportunity cost of 20 more B is 30 units of A.
D. Moving from choice 1 to choice 2, the opportunity cost of 20 more B is 10 units of A.
E. All of these statements are true.

17. While constructing a production possibilities frontier [PPF], we assume*:*

A. dynamic technological know-how.
B. flexible resource quality.
C. fixed resource quantity.
D. full and efficient use of resources.
E. flexible money supply.

18. Which of the following conditions will be true for a nation operating at a point lying inside its production possibilities curve?
A. The nation has experienced a technological breakthrough in one of its key industries.
B. The nation is clearly utilizing its resources efficiently.
C. The nation is producing the maximum output that can be produced with a limited quantity of resources.
D. The nation is not utilizing its resources efficiently.
E. The nation is producing the maximum output that can be produced with its unlimited quantity of resources.

19. Consider a nation with an endowment of iron ore and petroleum. If the nation specializes in the production of aluminum and gasoline instead of steel we can say that it is operating:
A. on its production possibilities curve.
B. outside its production possibilities curve.
C. inside its production possibilities curve.
D. on the highest achievable production possibilities curve.
E. on the lowest production possibilities curve.

20. A point inside a nation's production possibilities curve can represent:
A. a recession.
B. an increase in population size.
C. an economic growth.
D. a technological advancement.
E. an improvement in living standards.

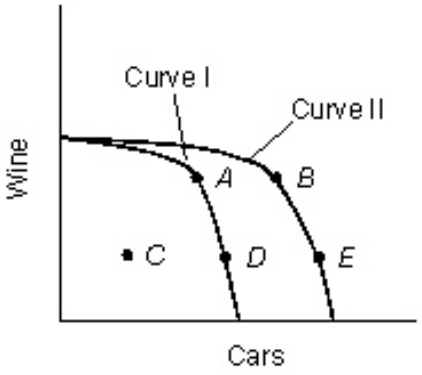
21. If the resources within a nation are not being fully or efficiently utilized, it means:
A. that nation is operating at a point inside its production possibilities curve.
B. that nation is operating at a point outside its production possibilities curve.
C. that nation is operating at a point along its production possibilities curve.
D. that nation is probably technologically advanced.
E. the government of that nation should seize ownership of the resources in order to attain the necessary efficiencies.

22. If society begins by producing 3 units of X and 4 units of Y and then alters production so that it is now producing 4 units of X and 4 units of Y, and we know that the quantity and quality of resources were unchanged and that technology did not change, then:
A. 3 units of X and 4 units of Y are a combination best represented by a point inside the production possibilities curve [PPC].
B. society has moved along the PPC.
C. resources were being fully utilized at 3 units of X and 4 units of Y.
D. resources were being efficiently utilized at 3 units of X and 4 units of Y.
E. 3 units of X and 4 units of Y are a combination best represented by a point outside the PPC.

23. Given a production possibilities curve for defense goods and nondefense goods, which of the following is *not* true?
A. A production point outside the curve may be attained if new resources are discovered.
B. A production point outside the curve may be attained by acquiring a new technology.
C. A production point outside the curve may be attained by shifting resources to defense goods.
D. A production point outside the curve may be attained by acquiring both a new technology and greater resources.
E. A production point outside the curve cannot be attained with the current level of resources and technology.

24. A point outside the production possibilities curve [PPC]:
A. represents inefficient use of resources.
B. may be due to unemployment.
C. is attainable if all resources are used efficiently.
D. represents more resources than are currently available.
E. will never be attainable, even if the quantity of resources increases.

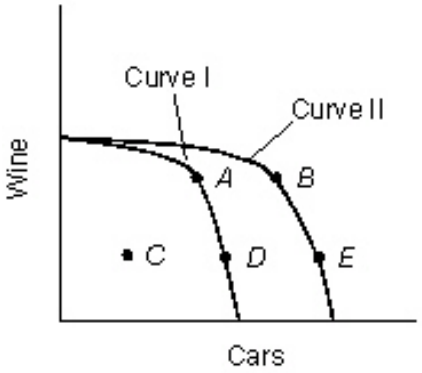
25. The figure given below represents the production possibilities curves [PPC] of a country producing wine and cars.
Figure 2.1



Refer to Figure 2.1. Identify the correct statement.
A. If the country is at point A and is using all of its resources, point E is unattainable.
B. If the country is at point A and is using all of its resources, Point C is unattainable.
C. If the country is at point B and is using all of its resources, there will be an underutilization of resources at point C.
D. If the country is at point C, point B is unattainable.
E. If the country is at point B, it will not move.

26. The figure given below represents the production possibilities curves [PPC] of a country producing wine and cars.

Figure 2.1



Refer to Figure 2.1. If the country has curve I as its PPC, _____ would most likely cause the curve to shift to curve II.

A. more farmland
B. an increase in the work force
C. the discovery of new metal resources
D. a labor movement
E. a consumer boycott

27. Refer to Figure 2.1. If the country's PPC curve is curve II, then:

A. points D and E use all of the resources.
B. point A is unattainable.
C. point D represents an underutilization of resources.
D. there is unemployment at point E.
E. curve I is not possible because wine is less costly than cars.

28. If the general education level within a country rises significantly over time, it is likely that:

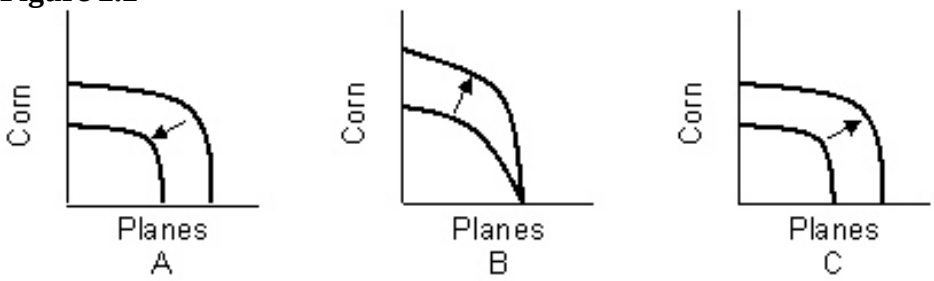
A. the country will move to a different point along its current production possibilities curve.
B. the country's production possibilities curve will not change in any way.
C. the country's production possibilities curve will shift in.
D. the country's production possibilities curve will shift out.
E. the country's production possibilities curve will become convex to the origin.

29. Which of the following will result in an outward shift of the production possibilities curve [PPC]?

A. A decrease in the quantity of resources
B. An improvement in the quality of resources
C. A fall in education standards
D. A unsustainable growth in population
E. An increase in unemployment rate

30. The figure given below represents an economy producing corn and planes under different economic situations.

Figure 2.2



Refer to Figure 2.2. Assume that the economy experiences a 20% drop in the work force. Which of the following graph(s) in the figure describe(s) the change in the economy's production possibilities curve [PPC]?

A. Graph A
B. Graph B
C. Graph C
D. Graph B and C
E. Graph A and C

31. Refer to Figure 2.2. If there is an increase in the effectiveness of pesticides, which of the following graph(s) will represent(s) the resulting shift in the production possibilities curve [PPC]?

A. Graph A
B. Graph B
C. Graph C
D. Graph A and B
E. Graph B and C

32. Refer to Figure 2.2. If there is an increase in the education level of the population, graph(s) _____ best illustrate(s) what will happen to the production possibilities curve [PPC].

A. A
B. B
C. C
D. A and C
E. A and B

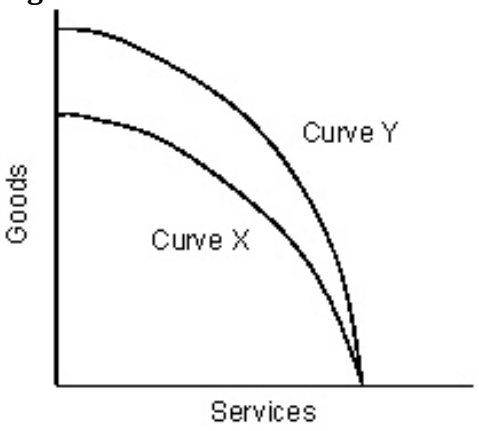
33. Which of the following would *not* cause any kind of an outward shift of a nation's production possibilities curve [PPC]?

A. An improvement in the general level of education
B. Technological innovation
C. Discovery of a new source of energy
D. An increase in the size of the labor force
E. A flood that renders thousands of acres of farmland unusable

34. Consider a PPC with automobiles on the vertical axis and cotton on the horizontal axis. The discovery of a new fertilizer that improves crop yield will shift:
A. the vertical intercept up but will not shift the horizontal intercept.
B. the horizontal intercept to the right but will not shift the vertical intercept.
C. the horizontal intercept to the left and the vertical intercept upward.
D. the vertical intercept downward and the horizontal intercept to the right.
E. neither the horizontal intercept nor the vertical intercept.

35. Which of the following will bring about an inward shift of a production possibilities curve [PPC]?
A. A decrease in the amount of resource employment
B. An increase in the working-age population
C. An increase in unemployment
D. A decrease in the availability of natural resources
E. An increase in the amount of capital available

36. The figure given below represents the production possibilities curve for goods and services in an economy.
Figure 2.3



Refer to Figure 2.3. The movement from Curve X to Curve Y indicates:
A. contraction in the production of goods.
B. contraction in the production of services.
C. expansion in the ability to produce both goods and services.
D. expansion in the ability to produce goods.
E. expansion in the ability to produce services.

37. Which of the following actions is most likely to cause a rightward shift in a production possibilities curve [PPC]?
A. Shifting from the production of one product to the production of another product
B. Shifting all resources to the production of one product
C. Employing idle resources
D. Using fewer resources in production
E. Increasing the technological know-how used in production

38. Given below is the production possibilities schedule for capital goods and consumer goods.
Table 2.3

Production Possibilities Schedule		
Combination	**Capital Goods**	**Consumer Goods**
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

If the nation depicted in Figure 2.3 is producing at combination E, the opportunity cost of producing the tenth unit of consumer good is:
A. 10 units of capital goods.
B. 6 units of capital goods.
C. 1 unit of capital good.
D. 4 units of capital goods.
E. zero unit of capital good.

39. Given below is the production possibilities schedule for capital goods and consumer goods.
Table 2.3

Production Possibilities Schedule		
Combination	**Capital Goods**	**Consumer Goods**
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

Consider Table 2.3. The production possibilities curve [PPC] representing this schedule would be:
A. bowed in.
B. bowed out.
C. a negatively sloped straight line.
D. a positively sloped straight line.
E. bowed in if consumer goods are plotted on the horizontal axis and bowed out if capital goods are plotted on the horizontal axis.

40. A decrease in the quantity of available resources would be represented by:
A. a steeper PPC.
B. a point inside the PPC.
C. an inward shift of the PPC.
D. an upward movement along the PPC.
E. a downward movement along the PPC.

41. Given below is the production possibilities schedule for a small island nation in South Pacific that produces capital and consumer goods.

Table 2.2

Production Possibilities Schedule

Capital Goods	Consumer Goods
10	0
9	1
7	2
4	3
0	4

Refer to Table 2.2. Identify the correct statement.

A. The best the economy can do is to produce 10 units of capital goods and 4 units of consumer goods.
B. If the economy produces 10 units of capital goods, it has sufficient resources to produce 4 units of consumer goods.
C. If the economy produces 10 units of capital goods and no units of consumer goods, there is unemployment.
D. If the economy produces 4 units of capital goods, it can manage to produce only 3 units of consumer goods.
E. In order to produce the 10th unit of capital goods, 4 units of consumer goods must be forgone.

42. Which of the following ideas is illustrated by the production possibilities curve [PPC]?
A. There are no limits on the total feasible production attainable in an economy.
B. An economy need not decrease the production of one commodity to increase the production of another.
C. It is possible to satisfy unlimited wants in an economy through proper investment in research and development.
D. When an economy chooses to produce a combination of goods and services, other combinations of goods and services are sacrificed.
E. An economy can specialize in the production of only one good.

43. Marginal opportunity cost refers to the:
A. amount of one good or service that must be given up to obtain one additional unit of another good or service.
B. temporary unemployment created in an economy when resources are transferred from one industry to another.
C. additional input cost borne by producers to increase production.
D. economies of scope realized by firms through efficient allocation of resources.
E. economies of scale experienced by firms post specialization.

44. Consider the production possibilities curve for an economy producing only two commodities wheat (represented on the X axis) and wine (represented on the Y axis). A movement up along the production possibilities curve [PPC] will imply:
A. an increase in wheat production.
B. an increase in both wheat and wine production.
C. a decline in both wheat and wine production.
D. an increase in wine production.
E. no change in either wheat or wine production.

45. Consider the production possibilities curve [PPC] for a country producing only two commodities; wheat and wine. Ceteris paribus, the _____ cost of producing wine increases with each successive increase in wine production.
A. average
B. marginal
C. total
D. external
E. social

46. A bowed-out production possibilities curve [PPC] implies that the marginal opportunity cost of producing more of one good is:
A. decreasing.
B. increasing.
C. constant.
D. zero.
E. less than zero.

47. Consider the production possibilities curve [PPC] for a country producing only cheese and wine. The first few resources transferred from cheese to wine production are:
A. those that are most specialized in cheese production.
B. those that are most specialized in wine production.
C. those that are least specialized in cheese production.
D. those that are neither specialized in cheese nor wine production.
E. those that are highly specialized in both cheese and wine production.

48. People (and all resources):
A. tend to specialize in those activities in which their opportunity costs are minimized.
B. tend to specialize in those activities in which their opportunity costs are maximized.
C. never consider opportunity costs before specializing in a particular activity.
D. consider only direct costs while choosing to specialize in a particular activity.
E. do not act in their own self-interest but specialize in those activities which benefit others.

49. If a nation specializes in activities in which opportunity costs are the lowest and then trades with other nations, it is *most* likely to:
A. have a higher standard of living for its citizens than it would it if did not specialize and then trade.
B. have a lower standard of living for its citizens than it would if it did not specialize and then trade.
C. create as much wealth for its citizens as it could if it did not specialize and then trade.
D. benefit in the short run but incur heavy loss in the long run.
E. incur heavy loss in the short run and eventually cease production in the long run.

50. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. Calculate the opportunity cost of a cookie in Iowa.
A. 8 chilies
B. 4 chilies
C. 96 chilies
D. Less than in Ohio
E. The same as in Ohio

51. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. The opportunity cost of a chili in Ohio is:
A. the same as in Iowa.
B. 1/4 unit of a cookie.
C. 4 units of cookies.
D. 1/8 unit of a cookie.
E. 8 units of cookies.

52. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. Identify the correct statement.
A. Ohio should specialize in the production of cookies and trade with Iowa.
B. Iowa should specialize in the production of cookies and trade with Ohio.
C. Ohio should specialize in the production of chilies and trade with Iowa.
D. Both should specialize in the production of chilies.
E. Each of the nations should continue to produce both the commodities and not specialize in any one commodity.

53. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. If trade were to occur, what would be the *least* amount Ohio would be willing to accept for 1 cookie?
A. 8 chilies
B. 1/4 of a chili
C. 1/8 of a chili
D. 4 chilies
E. 12 chilies

54. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. If trade were to occur, what would be the *most* Ohio would be willing to pay for 1 chili?
A. 4 cookies
B. 8 cookies
C. 1/4 of a cookie
D. 1/8 of a cookie
E. 6 cookies

55. Assume that a doctor makes $200 per hour, a lawyer $250 per hour, an architect $140 per hour, a professor $50 per hour, and a waiter $35 per hour. Which of these professionals is *most* likely to spend time to negotiate with a car dealer?
A. The doctor
B. The lawyer
C. The architect
D. The professor
E. The waiter

56. The difference between what can be produced and consumed without specialization and trade and with specialization and trade is called:
A. comparative advantage.
B. a tradeoff.
C. marginal cost.
D. opportunity cost.
E. gains from trade.

57. Archie can paint 5 backyard fences or repair 2 cars in 8 hours, while Austin can paint 4 backyard fences or repair 2 cars in 8 hours. Identify the correct statement.
A. Archie is relatively better in repairing cars.
B. Archie is relatively better in painting fences.
C. Austin is relatively better in painting fences.
D. Archie and Austin are equally good in painting fences.
E. Neither Archie not Austin are good in repairing cars.

58. Bob and Bill can make 16 toys each if they devote 8 working hours in a day. Further, Bob can repair 4 cars and Bill can repair 2 cars, if they devote 8 working hours in a day. What is the opportunity cost of repairing one car to Bill?
A. 10 toys
B. 8 toys
C. 16 toys
D. 12 toys
E. 4 toys

59. Bob and Bill can make 16 toys each if they devote 8 working hours in a day. Further, Bob can repair 4 cars and Bill can repair 2 cars, if they devote 8 working hours in a day. What is the opportunity cost of repairing one car to Bob?
A. 10 toys
B. 8 toys
C. 16 toys
D. 12 toys
E. 4 toys

60. Bob and Bill can make 16 toys each if they devote 8 working hours in a day. Further, Bob can repair 4 cars and Bill can repair 2 cars, if they devote 8 working hours in a day. When these two individuals engage in trade, it would be advantageous for both if:
A. Bob specializes in the production of toys and Bill specializes in car repairing.
B. Bob specializes in car repairing and Bill specializes in the production of toys.
C. they specialize only in car repairing.
D. they specialize only in the production of toys.
E. they distribute their working hours evenly between the production of two goods.

61. Voluntary free trade results in:
A. population growth.
B. inflation.
C. higher living standards.
D. income disparity.
E. unemployment.

62. The table given below represents butter and ham production by two countries Norway and Sweden.
Table 2.5

Time Spent Making Butter		Norway	Sweden
100%	Butter	5	100
0%	Ham	10	100

According to Table 2.5, Norway has a comparative advantage in _____ and an absolute advantage in _____.
A. butter and ham; butter
B. ham; butter
C. nothing; butter
D. ham; nothing
E. butter; ham

63. The table given below represents butter and ham production by two countries Norway and Sweden.
Table 2.5

Time Spent Making Butter		Norway	Sweden
100%	Butter	5	100
0%	Ham	10	100

Refer to Table 2.5 and identify the correct statement.
A. Norway has an absolute advantage in butter production.
B. Sweden has a comparative advantage in ham production.
C. Norway has an absolute advantage in ham production.
D. Trade is not possible between these two nations.
E. It would be advantageous for Sweden to trade with Norway.

64. Economists refer to the ability of one person or nation to do something with a lower opportunity cost than another as _____.
A. voluntary trade
B. specialization
C. gains from trade
D. absolute advantage
E. comparative advantage

65. A person has a comparative advantage in producing a good if:
A. that person can produce the good at a lower absolute cost than anyone else.
B. that person can produce the good at a lower opportunity cost than anyone else.
C. that person can do a better job than anyone else.
D. that person spends less money in out-of-pocket expenses than anybody else.
E. that person can produce the good at a higher opportunity cost than anyone else.

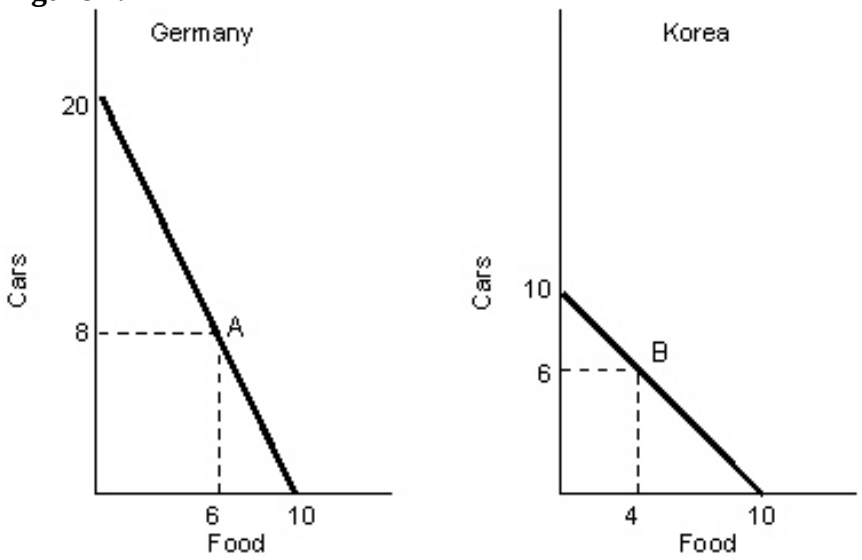
66. A world-renowned brain surgeon can type twice as fast as her secretarial assistant. Which of the following statements is true in this situation?
A. The secretary has an absolute advantage in typing.
B. The surgeon should do her own typing to save money.
C. The surgeon should fire the assistant and work weekends and evenings to stay up on her typing.
D. The surgeon should spend her time doing brain surgery and allow her secretary to do the typing because the secretary has a comparative advantage in typing.
E. The surgeon should spend her time doing brain surgery and allow her secretary to do the typing because the surgeon has a comparative advantage in typing.

67. Which of the following statements is true about comparative advantage?
A. Comparative advantage exists whenever one person, firm, or nation can do something with greater opportunity costs than some other individual, firm, or nation.
B. Comparative advantage is interesting theoretically, but it is not relevant when evaluating real-world economic conditions.
C. Third-world countries cannot possibly have a comparative advantage in the production of any good or service because of the relatively low educational attainment of their work force.
D. Comparative advantage exists whenever one person, firm, or nation can do something with lesser opportunity costs than some other individual, firm, or nation.
E. Only highly advanced economies can have a comparative advantage in the production of a good or service.

68. The concept of comparative advantage applies to:
A. only people with at least a high school diploma.
B. only people who are currently employed.
C. situations in which you have information about the salary levels of those with whom you are competing for a job.
D. every case of trade or exchange.
E. about half of all cases of trade or exchange.

69. Assume that the United States uses 20 worker-hours to produce 1 computer and 5 worker-hours to produce 1 unit of food; assume also that Japan uses 10 worker-hours to produce 1 computer and 30 worker-hours to produce 1 unit of food. Which of the following statements is true?
A. Japan has the comparative advantage in food production.
B. The United States has the comparative advantage in food production.
C. The United States has the comparative advantage in the production of computers.
D. The United States has a lower opportunity cost for making computers.
E. Japan has a lower opportunity cost for making food.

70. The figure given below represents the PPC in two nations - Germany and Korea, producing only two goods cars and food.
Figure 2.4



Refer to Figure 2.4 and identify the correct statement.
A. Germany has comparative advantage in production of cars.
B. Korea has comparative advantage in production of cars.
C. Germany has comparative advantage in production of food.
D. Korea has a lower opportunity cost for making cars.
E. Germany has a lower opportunity cost for making food.

71. Refer to Figure 2.4. What would be the marginal opportunity cost of producing one unit of food in Korea assuming the economy is at point B?
A. Two and a half cars
B. One and a half car
C. Two cars
D. Half a car
E. Three cars

72. Private property rights:
A. guarantee that most people will have everything they want.
B. are necessary for trade to occur.
C. guarantee that most people will have everything they need.
D. discourage people from working hard.
E. discourage people from engaging in free trade.

73. Which of the following exemplifies a private property right?
A. A tenant repairing his apartment without the owner's consent
B. Free entrance for morning walkers at the town park
C. Tickets purchased for entering the town museum
D. A patent right received by a software developer for her latest invention
E. A toll-free expressway used by drivers

74. According to economists, human activity is unresponsive to changes in costs.
True False

75. When there is a choice between the consumption of bundle X and bundle Y, the opportunity cost of consuming bundle X is bundle Y.
True False

76. There is no cost of using your own savings in your business.
True False

77. Betty goes out to enjoy a bouffe with her friend instead of practicing calculus problems for her maths examination that is due the following day. This implies that the opportunity cost of the bouffe to Betty is zero.
True False

78. If you have a choice between studying and doing another activity, you will devote your time to studying as long as the additional benefit of studying is greater than the additional cost of studying.
True False

79. A point lying inside the production possibilities curve [PPC] is not an attainable combination.
True False

80. If an economy is operating at a point outside the PPC, either the society has resources that are not being fully used or production is not efficient.
True False

81. A nation's production possibilities curve [PPC] will shift outward if its workers receive better training.
True False

82. An economy's PPC illustrates the extent to which the economy consumes what it produces.
True False

83. Economic growth can be illustrated by an outward shift of the PPC.
True False

84. Julio makes wine and beer. Last year he made 20 bottles of wine and 20 cases of beer. If the price of grapes goes down (making wine cheaper to make), Julio will be able to make the same amount of wine and more beer.
True False

85. The marginal cost of producing a commodity increases because of specialization.
True False

86. Increasing marginal opportunity costs indicate that if a nation wants to produce more of one product, it may do so by giving up greater and greater amounts of another product.
True False

87. Individuals, firms, and nations should specialize in those activities which have the highest marginal cost.
True False

88. If using the same resources, the U.S. workers can produce more of any good than Mexican workers, then the United States should produce every good.
True False

89. Specialization and trade do not allow individuals, firms, or even nations to acquire goods that lie beyond their production capabilities.
True False

90. Free trade leads to an overall improvement in the standard of living in a country because everything is produced at the lowest possible cost.
True False

91. If an individual can produce a good or service with a lower opportunity cost than another individual, then he or she is said to have the comparative advantage.
True False

92. Specialization and trade can take place only if a country is endowed with more of something compared to other countries.
True False

93. It has been generally observed that most trade in the world occurs between a developed and a less-developed nation rather than between industrial or developed nations.
True False

94. Gains from trade can be realized if each country specializes in its comparative advantage good.
True False

95. Specialization according to comparative advantage followed by free trade makes every economy better off.
True False

96. Public property rights refer to the right of ownership that is absolutely necessary for trade to occur and are ensured by a legal system of laws and courts.
True False

97. The reason why South Korea flourished economically relative to North Korea was that the former retained a strong version of communism and totalitarianism post World War II.
True False

98. One of the reasons for China’s real per capita GDP being far lower than that of Taiwan in 2000 was the lack of private property rights in the former nation.
True False

Chapter 02 Choice, Opportunity Costs, and Specialization Key

1. Shirley can choose between peanut butter pretzels and caramel coated popcorns for her evening snack. According to economists, her _____ cost of consuming caramel coated popcorns would be the forgone peanut butter pretzels.
A. internal
B. opportunity
C. average
D. transaction
E. social

2. In economics, the concept of opportunity cost is:
A. negated by ensuring that the government has a role in a capitalist society.
B. defined to be the highest-valued alternative that must be forgone when a choice is made.
C. best illustrated by knowing why consumers choose one good over another.
D. quantifiable only if you know the real dollar prices of the goods and services you are giving up to consume something.
E. the methodology that government economists use to determine the total amount of the national debt.

3. Jane wins $100,000 in the lottery and immediately uses her winnings to open up a donut shop. Her direct costs are $50,000, and she puts the remaining money in a savings account earning 10 percent annual interest. Alternatively, Jane could have placed all her lottery winnings in the 10 percent savings account. Jane's total cost is:
A. $60,000.
B. $50,000.
C. $160,000.
D. $45,000.
E. $55,000.

4. If you have a choice of consuming either two apples, three oranges, or one candy bar, the opportunity cost of the candy bar is:
A. two apples.
B. three oranges.
C. two apples and three oranges.
D. two apples or three oranges, whichever you value more.
E. the difference in the prices of the three options.

5. Which economic concept is the closest parallel to the saying “There’s no free lunch”?
A. Specialization
B. Unlimited wants
C. Underutilization of resources
D. Opportunity costs
E. Overutilization of resources

6. Opportunity cost is best defined as:
A. the sum of all alternatives given up when a choice is made.
B. the money spent once a choice is made.
C. the highest-valued alternative given up when a choice is made.
D. the difference between the cost price and the selling price of a good.
E. the cost of capital resources used in the production of additional capital.

7. Which of the following is an example of opportunity cost?
A. The Chinese food that you gave up when you chose to eat Italian food.
B. The tuition that you pay to attend college.
C. For a professor of economics, the pleasure that he or she derives from teaching economics.
D. Sweets given up by a person who would never eat them even if he or she could.
E. The price paid for a ticket when you go to the movies.

8. Nicky makes $25,000 a year as a sales clerk. He then decides to quit his job to enter an MBA program full-time (assume Nicky doesn’t work in the summer or hold any part-time jobs). His tuition, books, living expenses, and fees total $15,000 a year. Given this information, the annual total cost of Nicky's MBA studies is:
A. $10,000.
B. $30,000.
C. $40,000.
D. $15,000.
E. $25,000.

9. Which of the following is related to the concept of trade-off used in economics?
A. The tuition you pay to attend college
B. Paying a high price for a movie ticket on the first day of screening
C. Not having enough information available to make a rational decision
D. Giving up one good or activity in order to obtain some other good or activity
E. Having your cake and eating it too

10. The giving up of a good or activity in order to obtain some other good or activity is called:
A. a tradeoff.
B. a cost analysis.
C. a random choice.
D. an opportunity cost.
E. a sunk cost.

11. Which of the following best describes a tradeoff?
A. An office executive enrolling into a management course to develop her skills.
B. An investor buying stocks of a start-up company.
C. A businessman investing a portion of company profits in research and development.
D. A college student sacrificing a few hours of study time to work at the town cafeteria.
E. A worker purchasing a new car with her bonus earnings.

12. The city of Austin can buy roads or light rail. If 10 miles of roads cost $1 million and 2 miles of light rail cost $10 million, what is the city's opportunity cost of 1000 miles of roads?
A. $100 million
B. 2 miles of light rail
C. 200 miles of light rail
D. $50 million
E. $1,000 million

13. The tradeoffs facing a society can be illustrated in a graph known as the:
A. production operations curve.
B. production cost curve.
C. production cost model.
D. production cost forecast curve.
E. production possibilities curve.

14. When constructing a production possibility curve for an economy, which of the following is assumed to be constant?
A. The quantity of resources
B. The government budget
C. The quantity of goods produced
D. The price level
E. The money supply

15. Following is the production possibilities schedule for an economy producing two goods Good A and Good B.

Table 2.1

Production Possibilities Schedule

	Good A	Good B
Choice 1	100	0
Choice 2	90	20
Choice 3	70	40
Choice 4	40	60
Choice 5	0	80

Refer to Table 2.1. Identify the correct statement.

A. This economy can produce 100 units of A and 20 units of B.
B. The opportunity cost of producing more of A decreases as A increases.
C. The opportunity cost of producing more of B decreases as B increases.
D. This economy can produce 70 units of A and 40 units of B.
E. If this economy fully and efficiently employs all its resources, it can produce 100 units of A and 80 units of B.

16. Following is the production possibilities schedule for an economy producing two goods Good A and Good B.

Table 2.1

Production Possibilities Schedule

	Good A	Good B
Choice 1	100	0
Choice 2	90	20
Choice 3	70	40
Choice 4	40	60
Choice 5	0	80

Refer to Table 2.1. According to the production possibilities schedule in the table above, which of the following statements is true?

A. Moving from choice 2 to choice 3, the opportunity cost of 20 more B is 20 units of A.
B. There are increasing opportunity costs associated with getting more B.
C. Moving from choice 3 to choice 4, the opportunity cost of 20 more B is 30 units of A.
D. Moving from choice 1 to choice 2, the opportunity cost of 20 more B is 10 units of A.
E. All of these statements are true.

17. While constructing a production possibilities frontier [PPF], we assume*:*

A. dynamic technological know-how.
B. flexible resource quality.
C. fixed resource quantity.
D. full and efficient use of resources.
E. flexible money supply.

18. Which of the following conditions will be true for a nation operating at a point lying inside its production possibilities curve?
A. The nation has experienced a technological breakthrough in one of its key industries.
B. The nation is clearly utilizing its resources efficiently.
C. The nation is producing the maximum output that can be produced with a limited quantity of resources.
D. The nation is not utilizing its resources efficiently.
E. The nation is producing the maximum output that can be produced with its unlimited quantity of resources.

19. Consider a nation with an endowment of iron ore and petroleum. If the nation specializes in the production of aluminum and gasoline instead of steel we can say that it is operating:
A. on its production possibilities curve.
B. outside its production possibilities curve.
C. inside its production possibilities curve.
D. on the highest achievable production possibilities curve.
E. on the lowest production possibilities curve.

20. A point inside a nation's production possibilities curve can represent:
A. a recession.
B. an increase in population size.
C. an economic growth.
D. a technological advancement.
E. an improvement in living standards.

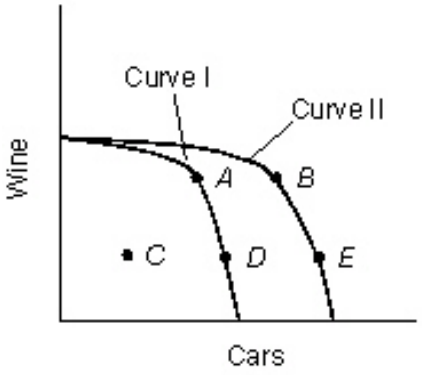
21. If the resources within a nation are not being fully or efficiently utilized, it means:
A. that nation is operating at a point inside its production possibilities curve.
B. that nation is operating at a point outside its production possibilities curve.
C. that nation is operating at a point along its production possibilities curve.
D. that nation is probably technologically advanced.
E. the government of that nation should seize ownership of the resources in order to attain the necessary efficiencies.

22. If society begins by producing 3 units of X and 4 units of Y and then alters production so that it is now producing 4 units of X and 4 units of Y, and we know that the quantity and quality of resources were unchanged and that technology did not change, then:
A. 3 units of X and 4 units of Y are a combination best represented by a point inside the production possibilities curve [PPC].
B. society has moved along the PPC.
C. resources were being fully utilized at 3 units of X and 4 units of Y.
D. resources were being efficiently utilized at 3 units of X and 4 units of Y.
E. 3 units of X and 4 units of Y are a combination best represented by a point outside the PPC.

23. Given a production possibilities curve for defense goods and nondefense goods, which of the following is *not* true?
A. A production point outside the curve may be attained if new resources are discovered.
B. A production point outside the curve may be attained by acquiring a new technology.
C. A production point outside the curve may be attained by shifting resources to defense goods.
D. A production point outside the curve may be attained by acquiring both a new technology and greater resources.
E. A production point outside the curve cannot be attained with the current level of resources and technology.

24. A point outside the production possibilities curve [PPC]:
A. represents inefficient use of resources.
B. may be due to unemployment.
C. is attainable if all resources are used efficiently.
D. represents more resources than are currently available.
E. will never be attainable, even if the quantity of resources increases.

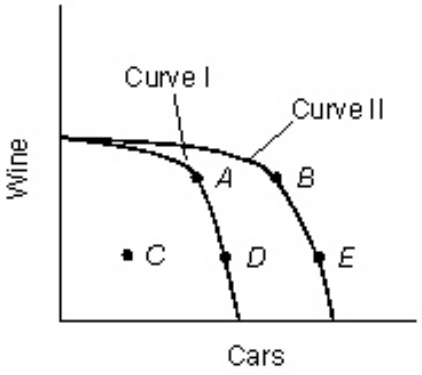
25. The figure given below represents the production possibilities curves [PPC] of a country producing wine and cars.
Figure 2.1



Refer to Figure 2.1. Identify the correct statement.
A. If the country is at point A and is using all of its resources, point E is unattainable.
B. If the country is at point A and is using all of its resources, Point C is unattainable.
C. If the country is at point B and is using all of its resources, there will be an underutilization of resources at point C.
D. If the country is at point C, point B is unattainable.
E. If the country is at point B, it will not move.

26. The figure given below represents the production possibilities curves [PPC] of a country producing wine and cars.

Figure 2.1



Refer to Figure 2.1. If the country has curve I as its PPC, _____ would most likely cause the curve to shift to curve II.

A. more farmland
B. an increase in the work force
C. the discovery of new metal resources
D. a labor movement
E. a consumer boycott

27. Refer to Figure 2.1. If the country's PPC curve is curve II, then:

A. points D and E use all of the resources.
B. point A is unattainable.
C. point D represents an underutilization of resources.
D. there is unemployment at point E.
E. curve I is not possible because wine is less costly than cars.

28. If the general education level within a country rises significantly over time, it is likely that:

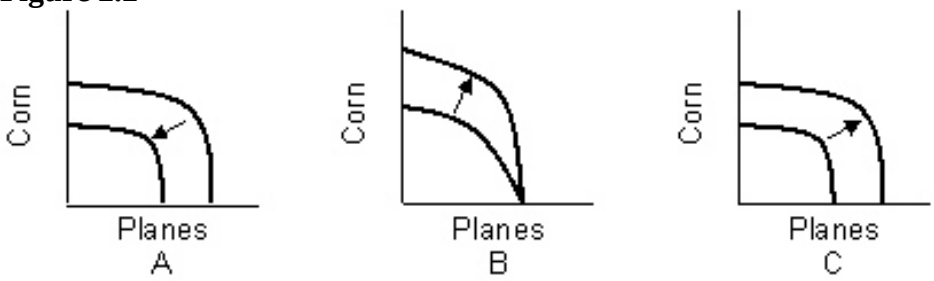
A. the country will move to a different point along its current production possibilities curve.
B. the country's production possibilities curve will not change in any way.
C. the country's production possibilities curve will shift in.
D. the country's production possibilities curve will shift out.
E. the country's production possibilities curve will become convex to the origin.

29. Which of the following will result in an outward shift of the production possibilities curve [PPC]?

A. A decrease in the quantity of resources
B. An improvement in the quality of resources
C. A fall in education standards
D. A unsustainable growth in population
E. An increase in unemployment rate

30. The figure given below represents an economy producing corn and planes under different economic situations.

Figure 2.2



Refer to Figure 2.2. Assume that the economy experiences a 20% drop in the work force. Which of the following graph(s) in the figure describe(s) the change in the economy's production possibilities curve [PPC]?

A. Graph A
B. Graph B
C. Graph C
D. Graph B and C
E. Graph A and C

31. Refer to Figure 2.2. If there is an increase in the effectiveness of pesticides, which of the following graph(s) will represent(s) the resulting shift in the production possibilities curve [PPC]?

A. Graph A
B. Graph B
C. Graph C
D. Graph A and B
E. Graph B and C

32. Refer to Figure 2.2. If there is an increase in the education level of the population, graph(s) _____ best illustrate(s) what will happen to the production possibilities curve [PPC].

A. A
B. B
C. C
D. A and C
E. A and B

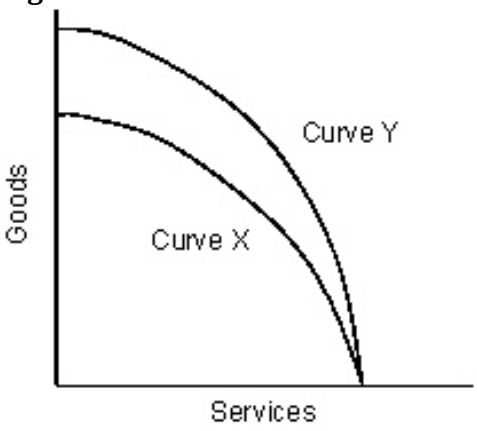
33. Which of the following would *not* cause any kind of an outward shift of a nation's production possibilities curve [PPC]?

A. An improvement in the general level of education
B. Technological innovation
C. Discovery of a new source of energy
D. An increase in the size of the labor force
E. A flood that renders thousands of acres of farmland unusable

34. Consider a PPC with automobiles on the vertical axis and cotton on the horizontal axis. The discovery of a new fertilizer that improves crop yield will shift:
A. the vertical intercept up but will not shift the horizontal intercept.
B. the horizontal intercept to the right but will not shift the vertical intercept.
C. the horizontal intercept to the left and the vertical intercept upward.
D. the vertical intercept downward and the horizontal intercept to the right.
E. neither the horizontal intercept nor the vertical intercept.

35. Which of the following will bring about an inward shift of a production possibilities curve [PPC]?
A. A decrease in the amount of resource employment
B. An increase in the working-age population
C. An increase in unemployment
D. A decrease in the availability of natural resources
E. An increase in the amount of capital available

36. The figure given below represents the production possibilities curve for goods and services in an economy.
Figure 2.3



Refer to Figure 2.3. The movement from Curve X to Curve Y indicates:
A. contraction in the production of goods.
B. contraction in the production of services.
C. expansion in the ability to produce both goods and services.
D. expansion in the ability to produce goods.
E. expansion in the ability to produce services.

37. Which of the following actions is most likely to cause a rightward shift in a production possibilities curve [PPC]?
A. Shifting from the production of one product to the production of another product
B. Shifting all resources to the production of one product
C. Employing idle resources
D. Using fewer resources in production
E. Increasing the technological know-how used in production

38. Given below is the production possibilities schedule for capital goods and consumer goods.
Table 2.3

Production Possibilities Schedule		
Combination	**Capital Goods**	**Consumer Goods**
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

If the nation depicted in Figure 2.3 is producing at combination E, the opportunity cost of producing the tenth unit of consumer good is:
A. 10 units of capital goods.
B. 6 units of capital goods.
C. 1 unit of capital good.
D. 4 units of capital goods.
E. zero unit of capital good.

39. Given below is the production possibilities schedule for capital goods and consumer goods.
Table 2.3

Production Possibilities Schedule		
Combination	**Capital Goods**	**Consumer Goods**
A	4	0
B	3	4
C	2	7
D	1	9
E	0	10

Consider Table 2.3. The production possibilities curve [PPC] representing this schedule would be:
A. bowed in.
B. bowed out.
C. a negatively sloped straight line.
D. a positively sloped straight line.
E. bowed in if consumer goods are plotted on the horizontal axis and bowed out if capital goods are plotted on the horizontal axis.

40. A decrease in the quantity of available resources would be represented by:
A. a steeper PPC.
B. a point inside the PPC.
C. an inward shift of the PPC.
D. an upward movement along the PPC.
E. a downward movement along the PPC.

41. Given below is the production possibilities schedule for a small island nation in South Pacific that produces capital and consumer goods.

Table 2.2

Production Possibilities Schedule

Capital Goods	**Consumer Goods**
10	0
9	1
7	2
4	3
0	4

Refer to Table 2.2. Identify the correct statement.

A. The best the economy can do is to produce 10 units of capital goods and 4 units of consumer goods.
B. If the economy produces 10 units of capital goods, it has sufficient resources to produce 4 units of consumer goods.
C. If the economy produces 10 units of capital goods and no units of consumer goods, there is unemployment.
D. If the economy produces 4 units of capital goods, it can manage to produce only 3 units of consumer goods.
E. In order to produce the 10th unit of capital goods, 4 units of consumer goods must be forgone.

42. Which of the following ideas is illustrated by the production possibilities curve [PPC]?
A. There are no limits on the total feasible production attainable in an economy.
B. An economy need not decrease the production of one commodity to increase the production of another.
C. It is possible to satisfy unlimited wants in an economy through proper investment in research and development.
D. When an economy chooses to produce a combination of goods and services, other combinations of goods and services are sacrificed.
E. An economy can specialize in the production of only one good.

43. Marginal opportunity cost refers to the:
A. amount of one good or service that must be given up to obtain one additional unit of another good or service.
B. temporary unemployment created in an economy when resources are transferred from one industry to another.
C. additional input cost borne by producers to increase production.
D. economies of scope realized by firms through efficient allocation of resources.
E. economies of scale experienced by firms post specialization.

44. Consider the production possibilities curve for an economy producing only two commodities wheat (represented on the X axis) and wine (represented on the Y axis). A movement up along the production possibilities curve [PPC] will imply:
A. an increase in wheat production.
B. an increase in both wheat and wine production.
C. a decline in both wheat and wine production.
D. an increase in wine production.
E. no change in either wheat or wine production.

45. Consider the production possibilities curve [PPC] for a country producing only two commodities; wheat and wine. Ceteris paribus, the _____ cost of producing wine increases with each successive increase in wine production.
A. average
B. marginal
C. total
D. external
E. social

46. A bowed-out production possibilities curve [PPC] implies that the marginal opportunity cost of producing more of one good is:
A. decreasing.
B. increasing.
C. constant.
D. zero.
E. less than zero.

47. Consider the production possibilities curve [PPC] for a country producing only cheese and wine. The first few resources transferred from cheese to wine production are:
A. those that are most specialized in cheese production.
B. those that are most specialized in wine production.
C. those that are least specialized in cheese production.
D. those that are neither specialized in cheese nor wine production.
E. those that are highly specialized in both cheese and wine production.

48. People (and all resources):
A. tend to specialize in those activities in which their opportunity costs are minimized.
B. tend to specialize in those activities in which their opportunity costs are maximized.
C. never consider opportunity costs before specializing in a particular activity.
D. consider only direct costs while choosing to specialize in a particular activity.
E. do not act in their own self-interest but specialize in those activities which benefit others.

49. If a nation specializes in activities in which opportunity costs are the lowest and then trades with other nations, it is *most* likely to:
A. have a higher standard of living for its citizens than it would it if did not specialize and then trade.
B. have a lower standard of living for its citizens than it would if it did not specialize and then trade.
C. create as much wealth for its citizens as it could if it did not specialize and then trade.
D. benefit in the short run but incur heavy loss in the long run.
E. incur heavy loss in the short run and eventually cease production in the long run.

50. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. Calculate the opportunity cost of a cookie in Iowa.

A. 8 chilies
B. 4 chilies
C. 96 chilies
D. Less than in Ohio
E. The same as in Ohio

51. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. The opportunity cost of a chili in Ohio is:

A. the same as in Iowa.
B. 1/4 unit of a cookie.
C. 4 units of cookies.
D. 1/8 unit of a cookie.
E. 8 units of cookies.

52. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. Identify the correct statement.

A. Ohio should specialize in the production of cookies and trade with Iowa.
B. Iowa should specialize in the production of cookies and trade with Ohio.
C. Ohio should specialize in the production of chilies and trade with Iowa.
D. Both should specialize in the production of chilies.
E. Each of the nations should continue to produce both the commodities and not specialize in any one commodity.

53. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. If trade were to occur, what would be the *least* amount Ohio would be willing to accept for 1 cookie?
A. 8 chilies
B. 1/4 of a chili
C. 1/8 of a chili
D. 4 chilies
E. 12 chilies

54. The table given below represents the output per hour of cookies and chilies in Ohio and Iowa.
Table 2.4

Output per Hour		
	Cookies	**Chilies**
Ohio	6	24
Iowa	12	96

Refer to Table 2.4. If trade were to occur, what would be the *most* Ohio would be willing to pay for 1 chili?
A. 4 cookies
B. 8 cookies
C. 1/4 of a cookie
D. 1/8 of a cookie
E. 6 cookies

55. Assume that a doctor makes $200 per hour, a lawyer $250 per hour, an architect $140 per hour, a professor $50 per hour, and a waiter $35 per hour. Which of these professionals is *most* likely to spend time to negotiate with a car dealer?
A. The doctor
B. The lawyer
C. The architect
D. The professor
E. The waiter

56. The difference between what can be produced and consumed without specialization and trade and with specialization and trade is called:
A. comparative advantage.
B. a tradeoff.
C. marginal cost.
D. opportunity cost.
E. gains from trade.

57. Archie can paint 5 backyard fences or repair 2 cars in 8 hours, while Austin can paint 4 backyard fences or repair 2 cars in 8 hours. Identify the correct statement.
A. Archie is relatively better in repairing cars.
B. Archie is relatively better in painting fences.
C. Austin is relatively better in painting fences.
D. Archie and Austin are equally good in painting fences.
E. Neither Archie not Austin are good in repairing cars.

58. Bob and Bill can make 16 toys each if they devote 8 working hours in a day. Further, Bob can repair 4 cars and Bill can repair 2 cars, if they devote 8 working hours in a day. What is the opportunity cost of repairing one car to Bill?
A. 10 toys
B. 8 toys
C. 16 toys
D. 12 toys
E. 4 toys

59. Bob and Bill can make 16 toys each if they devote 8 working hours in a day. Further, Bob can repair 4 cars and Bill can repair 2 cars, if they devote 8 working hours in a day. What is the opportunity cost of repairing one car to Bob?
A. 10 toys
B. 8 toys
C. 16 toys
D. 12 toys
E. 4 toys

60. Bob and Bill can make 16 toys each if they devote 8 working hours in a day. Further, Bob can repair 4 cars and Bill can repair 2 cars, if they devote 8 working hours in a day. When these two individuals engage in trade, it would be advantageous for both if:
A. Bob specializes in the production of toys and Bill specializes in car repairing.
B. Bob specializes in car repairing and Bill specializes in the production of toys.
C. they specialize only in car repairing.
D. they specialize only in the production of toys.
E. they distribute their working hours evenly between the production of two goods.

61. Voluntary free trade results in:
A. population growth.
B. inflation.
C. higher living standards.
D. income disparity.
E. unemployment.

62. The table given below represents butter and ham production by two countries Norway and Sweden.
Table 2.5

Time Spent Making Butter		Norway	Sweden
100%	Butter	5	100
0%	Ham	10	100

According to Table 2.5, Norway has a comparative advantage in _____ and an absolute advantage in _____.
A. butter and ham; butter
B. ham; butter
C. nothing; butter
D. ham; nothing
E. butter; ham

63. The table given below represents butter and ham production by two countries Norway and Sweden.
Table 2.5

Time Spent Making Butter		Norway	Sweden
100%	Butter	5	100
0%	Ham	10	100

Refer to Table 2.5 and identify the correct statement.
A. Norway has an absolute advantage in butter production.
B. Sweden has a comparative advantage in ham production.
C. Norway has an absolute advantage in ham production.
D. Trade is not possible between these two nations.
E. It would be advantageous for Sweden to trade with Norway.

64. Economists refer to the ability of one person or nation to do something with a lower opportunity cost than another as _____.
A. voluntary trade
B. specialization
C. gains from trade
D. absolute advantage
E. comparative advantage

65. A person has a comparative advantage in producing a good if:
A. that person can produce the good at a lower absolute cost than anyone else.
B. that person can produce the good at a lower opportunity cost than anyone else.
C. that person can do a better job than anyone else.
D. that person spends less money in out-of-pocket expenses than anybody else.
E. that person can produce the good at a higher opportunity cost than anyone else.

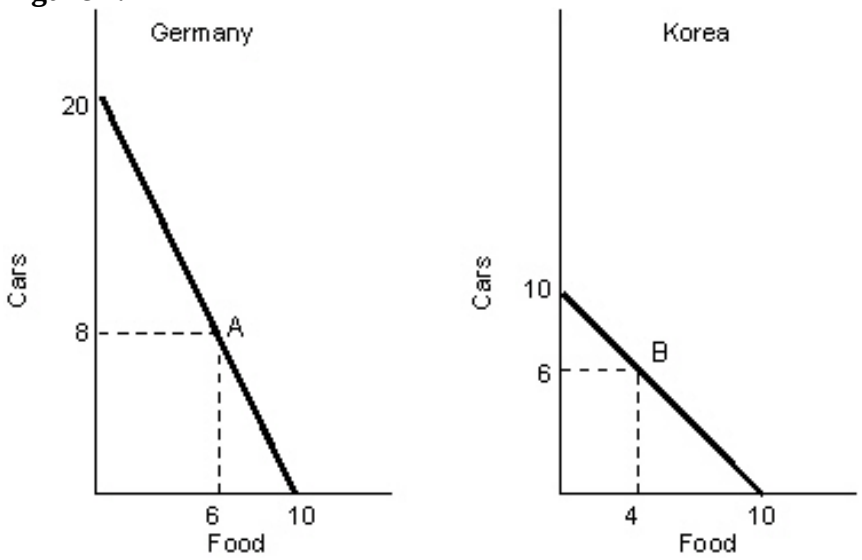
66. A world-renowned brain surgeon can type twice as fast as her secretarial assistant. Which of the following statements is true in this situation?
A. The secretary has an absolute advantage in typing.
B. The surgeon should do her own typing to save money.
C. The surgeon should fire the assistant and work weekends and evenings to stay up on her typing.
D. The surgeon should spend her time doing brain surgery and allow her secretary to do the typing because the secretary has a comparative advantage in typing.
E. The surgeon should spend her time doing brain surgery and allow her secretary to do the typing because the surgeon has a comparative advantage in typing.

67. Which of the following statements is true about comparative advantage?
A. Comparative advantage exists whenever one person, firm, or nation can do something with greater opportunity costs than some other individual, firm, or nation.
B. Comparative advantage is interesting theoretically, but it is not relevant when evaluating real-world economic conditions.
C. Third-world countries cannot possibly have a comparative advantage in the production of any good or service because of the relatively low educational attainment of their work force.
D. Comparative advantage exists whenever one person, firm, or nation can do something with lesser opportunity costs than some other individual, firm, or nation.
E. Only highly advanced economies can have a comparative advantage in the production of a good or service.

68. The concept of comparative advantage applies to:
A. only people with at least a high school diploma.
B. only people who are currently employed.
C. situations in which you have information about the salary levels of those with whom you are competing for a job.
D. every case of trade or exchange.
E. about half of all cases of trade or exchange.

69. Assume that the United States uses 20 worker-hours to produce 1 computer and 5 worker-hours to produce 1 unit of food; assume also that Japan uses 10 worker-hours to produce 1 computer and 30 worker-hours to produce 1 unit of food. Which of the following statements is true?
A. Japan has the comparative advantage in food production.
B. The United States has the comparative advantage in food production.
C. The United States has the comparative advantage in the production of computers.
D. The United States has a lower opportunity cost for making computers.
E. Japan has a lower opportunity cost for making food.

70. The figure given below represents the PPC in two nations - Germany and Korea, producing only two goods cars and food.
Figure 2.4



Refer to Figure 2.4 and identify the correct statement.
A. Germany has comparative advantage in production of cars.
B. Korea has comparative advantage in production of cars.
C. Germany has comparative advantage in production of food.
D. Korea has a lower opportunity cost for making cars.
E. Germany has a lower opportunity cost for making food.

71. Refer to Figure 2.4. What would be the marginal opportunity cost of producing one unit of food in Korea assuming the economy is at point B?
A. Two and a half cars
B. One and a half car
C. Two cars
D. Half a car
E. Three cars

72. Private property rights:
A. guarantee that most people will have everything they want.
B. are necessary for trade to occur.
C. guarantee that most people will have everything they need.
D. discourage people from working hard.
E. discourage people from engaging in free trade.

73. Which of the following exemplifies a private property right?
A. A tenant repairing his apartment without the owner's consent
B. Free entrance for morning walkers at the town park
C. Tickets purchased for entering the town museum
D. A patent right received by a software developer for her latest invention
E. A toll-free expressway used by drivers

74. According to economists, human activity is unresponsive to changes in costs.
FALSE

75. When there is a choice between the consumption of bundle X and bundle Y, the opportunity cost of consuming bundle X is bundle Y.
TRUE

76. There is no cost of using your own savings in your business.
FALSE

77. Betty goes out to enjoy a bouffe with her friend instead of practicing calculus problems for her maths examination that is due the following day. This implies that the opportunity cost of the bouffe to Betty is zero.
FALSE

78. If you have a choice between studying and doing another activity, you will devote your time to studying as long as the additional benefit of studying is greater than the additional cost of studying.
TRUE

79. A point lying inside the production possibilities curve [PPC] is not an attainable combination.
FALSE

80. If an economy is operating at a point outside the PPC, either the society has resources that are not being fully used or production is not efficient.
FALSE

81. A nation's production possibilities curve [PPC] will shift outward if its workers receive better training.
TRUE

82. An economy's PPC illustrates the extent to which the economy consumes what it produces.
FALSE

83. Economic growth can be illustrated by an outward shift of the PPC.
TRUE

84. Julio makes wine and beer. Last year he made 20 bottles of wine and 20 cases of beer. If the price of grapes goes down (making wine cheaper to make), Julio will be able to make the same amount of wine and more beer.
TRUE

85. The marginal cost of producing a commodity increases because of specialization.
TRUE

86. Increasing marginal opportunity costs indicate that if a nation wants to produce more of one product, it may do so by giving up greater and greater amounts of another product.
TRUE

87. Individuals, firms, and nations should specialize in those activities which have the highest marginal cost.
FALSE

88. If using the same resources, the U.S. workers can produce more of any good than Mexican workers, then the United States should produce every good.
FALSE

89. Specialization and trade do not allow individuals, firms, or even nations to acquire goods that lie beyond their production capabilities.
FALSE

90. Free trade leads to an overall improvement in the standard of living in a country because everything is produced at the lowest possible cost.
TRUE

91. If an individual can produce a good or service with a lower opportunity cost than another individual, then he or she is said to have the comparative advantage.
TRUE

92. Specialization and trade can take place only if a country is endowed with more of something compared to other countries.
FALSE

93. It has been generally observed that most trade in the world occurs between a developed and a less-developed nation rather than between industrial or developed nations.
FALSE

94. Gains from trade can be realized if each country specializes in its comparative advantage good.
TRUE

95. Specialization according to comparative advantage followed by free trade makes every economy better off.
TRUE

96. Public property rights refer to the right of ownership that is absolutely necessary for trade to occur and are ensured by a legal system of laws and courts.
FALSE

97. The reason why South Korea flourished economically relative to North Korea was that the former retained a strong version of communism and totalitarianism post World War II.
FALSE

98. One of the reasons for China's real per capita GDP being far lower than that of Taiwan in 2000 was the lack of private property rights in the former nation.
TRUE