Chapter 2—Production possibilities and opportunity cost

MULTIPLE CHOICE

1. Why must every nation answer the three fundamental economic questions?

A.	Because of increased international trade and cooperation.
B.	Because of the problem of scarcity.
C.	Because rich nations must subsidise the development of poor nations.
D.	Because some nations are more successful than others.

ANS: B PTS: 1 DIF: Easy REF: The three fundamental economic questions

2. The 'For whom to produce' question:

A.	is irrelevant in economics.
B.	means that society must ask whether government should override the market outcomes.
C.	is the most important question in economics.
D.	means that government should not intervene in market outcomes.

ANS: B PTS: 1 DIF: Moderate REF: The three fundamental economic questions

3. Which fundamental economic question requires society to choose the technological and resource mix used to produce goods?

A.	The 'What to produce?' question.
B.	The 'Why produce?' question.
C.	The 'How to produce?' question.
D.	The 'For whom to produce?' question.

ANS: C PTS: 1 DIF: Moderate REF: The three fundamental economic questions

4. The opportunity cost of watching a movie is the:

A.	dollar cost of a movie ticket plus enjoyment from watching a movie.
B.	dollar cost of a movie ticket.
C.	alternatives foregone such as studying and fishing.
D	the next best alternative option foregone.

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ANS: D PTS: 1 DIF: Easy REF: Opportunity cost

5. The opportunity cost of watching television is:

A.	the cost of not watching all other programs that appear on other stations.
B.	unable to be estimated because there is no money expenditure involved.
C.	the next best alternative you do instead of watching the program.
D.	zero if it benefits you.

ANS: C PTS: 1 DIF: Easy REF: Opportunity cost

6. Which of the following does *not* illustrate opportunity cost?

A.	If I study, I must give up going to the movies.
B.	If I buy a computer, I must do without an iPod.
C.	The more I spend on consumption expenditure now means that the more I can spend on the same in the future.
D.	If I spend more on books, I must spend less on jewellery.

ANS: C PTS: 1 DIF: Easy REF: Opportunity cost

7. Bill has $10 that he can spend on a Superman action figure, a Batman graphic novel or an X-Men T-shirt. Bill decides to buy the action figure, even though the graphic novel was a close second choice. What is the opportunity cost of buying the action figure?

A.	The amount he spends: $10.
B.	Nothing, since he got his preferred choice.
C.	The Batman graphic novel.
D.	The X-Men T-shirt.

ANS: C PTS: 1 DIF: Moderate REF: Opportunity cost

8. Mikki decides to work five hours the night before her economics exam. She earns an extra $75, but her exam score is 10 points lower than it would have been had she stayed home and studied. Her opportunity cost of working more is the:

A.	guilt she feels about neglecting her economics studies.
B.	$75 she earned.
C.	10 points she lost on her exam.
D.	time she could have spent watching television.

ANS: C PTS: 1 DIF: Moderate REF: Opportunity cost

9. If Bruce pays $2000 in tuition fees to the college, what is his opportunity cost?

A.	$2000 minus the income the student forgoes by attending school rather than working.
B.	$2000.
C.	the income the student forgoes by attending school rather than working plus his tuition fees.
D.	there is no opportunity cost since Bruce chose to study rather than worki.

ANS: C PTS: 1 DIF: Easy REF: Opportunity cost

10. The opportunity cost to a city for using local tax revenues to construct a new park is the:

A.	best alternative option foregone by building the park.
B.	dollar cost of constructing the new park.
C.	dollar cost of the old park.
D.	increased taxes necessary to pay for maintenance of the new park.

ANS: A PTS: 1 DIF: Easy REF: Opportunity cost

Narrbegin Exhibit 2.1 Production possibilities frontier data

Consumption goods	Capital goods
10	0
9	1
7	2
4	3
0	4

Narrend

11. In Exhibit 2.1, according to the information, the opportunity cost of producing three units of capital goods is:

A.	three units of consumption goods.
B.	four units of consumption goods.
C.	six units of consumption goods.
D.	seven units of consumption goods.

ANS: A PTS: 1 DIF: Moderate REF: Opportunity cost
NAR: Exhibit 2.1 Production possibilities frontier data

12. In Exhibit 2.1, the opportunity cost of producing four units of capital goods is:

A	zero.

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B.	one unit of consumption goods.
C.	two units of consumption goods.
D.	four units of consumption goods.

ANS: D PTS: 1 DIF: Moderate REF: Opportunity cost
NAR: Exhibit 2.1 Production possibilities frontier data

13. Marginal analysis is the effect of:

A.	scarcity.
B.	specialisation.
C.	opportunity cost.
D.	efficiency.

ANS: C PTS: 1 DIF: Easy REF: Marginal analysis

14. A farmer is deciding whether or not to add fertiliser to his or her crops. If the farmer adds 1 kilogram of fertiliser per hectare, the value of the resulting crops rises from $80 to $100 per hectare. According to marginal analysis, the farmer should add fertiliser if it costs less than:

A.	$12.50 per kilogram.
B.	$20 per kilogram.
C.	$80 per kilogram.
D.	$100 per kilogram.

ANS: B PTS: 1 DIF: Moderate REF: Marginal analysis

15. Marginal analysis:

A.	compares some benefits of a change with all the costs of the change.
B.	compares total benefits of a change with total costs of the change.
C.	examines the impact of changes from a current situation.
D.	examines only the non-important issues.

ANS: C PTS: 1 DIF: Easy REF: Marginal analysis

16. All points along the production possibilities frontier are:

A.	unattainable combinations of two goods.
B	minimum possible combinations of two goods.

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C.	efficient maximum possible combinations of two goods.
D.	a combination of two goods given that not all available resources are used.

ANS: C PTS: 1 DIF: Moderate REF: The production possibilities frontier

17. The production possibilities frontier shows that:

A.	scarcity can be eliminated.
B.	all output combinations are possible.
C.	an economy that is operating efficiently can have more of one good without giving up some of another good.
D.	some of one good must be given up to get more of another good in an economy that is operating efficiently.

ANS: D PTS: 1 DIF: Easy REF: The production possibilities frontier

18. Production possibilities frontier analysis allows us to identify:

A.	minimum possible combinations of goods and services.
B.	ways to eliminate scarcity.
C.	total benefits of production.
D.	inefficient production.

ANS: D PTS: 1 DIF: Easy REF: The production possibilities frontier

19. One of the assumptions underlying the production possibilities frontier or curve for any given economy is that:

A.	the state of technology changes.
B.	there is an unlimited supply of resources.
C.	there is full employment of resources when the economy is on the curve.
D.	goods can be produced outside the curve.

ANS: C PTS: 1 DIF: Difficult REF: The production possibilities frontier

20. Which of the following would be most likely to cause the production possibilities frontier for trucks and movies to shift outward?

A.	A choice of more trucks and less movies.
B	A choice of more movies and fewer trucks.

.	
C.	A reduction in the labour force.
D.	An increase in the quantity of resources.

ANS: D PTS: 1 DIF: Moderate REF: The production possibilities frontier

21. A production possibility graph slopes down because of:

A.	the decreasing costs.
B.	scarcity of resources.
C.	inefficiency.
D.	an improper output mix.
E.	unemployment.

ANS: B PTS: 1 DIF: Difficult REF: The production possibilities frontier

22. The production possibilities frontier demonstrates the basic economic principle that:

A.	market-based economies are more efficient.
B.	supply will determine demand in the economy.
C.	the production of more capital goods this year will cause the economy to produce fewer consumption goods next year.
D.	to produce more of any one thing, assuming full employment, the economy must produce less of something else.

ANS: D PTS: 1 DIF: Moderate REF: The production possibilities frontier

23. Along a production possibilities curve showing capital and consumption goods production, which of the following pairs are being held as fixed?

A.	Unemployment and capital goods production.
B.	Technology and number of resources.
C.	Composition of the economy’s output and number of resources.
D.	Capital and consumption goods production.

ANS: B PTS: 1 DIF: Difficult REF: The production possibilities frontier

24. A production possibilities frontier shows the various:

A.	combinations of resources the economy has the capacity to produce.

B.	prices that can be charged for capital and consumption goods.
C.	combinations of prices and outputs that can be produced.
D.	combinations of goods the economy has the capacity to produce.

ANS: D PTS: 1 DIF: Difficult REF: The production possibilities frontier

25. When an economy's resources are not fully employed, then it must be true that the:

A.	production point is located outside and to the right of the production possibilities frontier.
B.	production point is located along the production possibilities frontier.
C.	production point is located inside and to the left of the production possibilities frontier.
D.	production possibilities frontier shifts to the right.

ANS: C PTS: 1 DIF: Difficult REF: The production possibilities frontier

26. The production possibilities frontier illustrates all of the following concepts *except*:

A.	the law of increasing costs.
B.	unlimited wants.
C.	scarcity.
D.	opportunity cost.

ANS: B PTS: 1 DIF: Difficult REF: The production possibilities frontier

27. Efficient production means producing:

A.	less than feasible output for a given amount of resources.
B.	more than feasible output for a given amount of resources.
C.	less than what is needed.
D.	the maximum feasible output for a given amount of resources.

ANS: D PTS: 1 DIF: Easy REF: The production possibilities frontier

28. If an economy is producing at full employment, it means that:

A.	there are idle resources in this economy.
B	production is not efficient.

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C.	the economy is operating at maximum technical and economic efficiency at this point of time.
D.	the economy is producing at a point that is to the left of the production possibilities curve.

ANS: C PTS: 1 DIF: Moderate REF: The production possibilities frontier

29. Which of the following is true about a production possibilities curve? The curve:

A.	indicates which production point will be chosen.
B.	indicates only the efficient production points.
C.	indicates how to eliminate scarcity.
D.	indicates the feasible and non-feasible production points.

ANS: D PTS: 1 DIF: Difficult REF: The production possibilities frontier

30. A point outside a production possibilities curve reflects:

A.	the law of increasing costs.
B.	the economy cannot attain that point with the given state of technology and number of resources.
C.	less than full use of resources and technology.
D.	economic efficiency.

ANS: B PTS: 1 DIF: Moderate REF: The production possibilities frontier

31. A point outside a production possibilities curve reflects:

A.	efficiency.
B.	an impossible choice.
C.	inefficiency.
D.	unemployment.

ANS: B PTS: 1 DIF: Moderate REF: The production possibilities frontier

32. Which of the following is *not* true about a production possibilities curve? The curve:

A.	indicates the combinations of goods and services that can be produced with given technology.
B.	indicates the efficient production points.

C.	indicates the non-efficient production points.
D.	indicates which production point will be chosen.

ANS: D PTS: 1 DIF: Difficult REF: The production possibilities frontier

33. Inefficient production occurs:

A.	at any point inside the production possibilities curve.
B.	at any point along the production possibilities curve.
C.	at any point outside the production possibilities curve.
D.	at a point that cannot be determined.

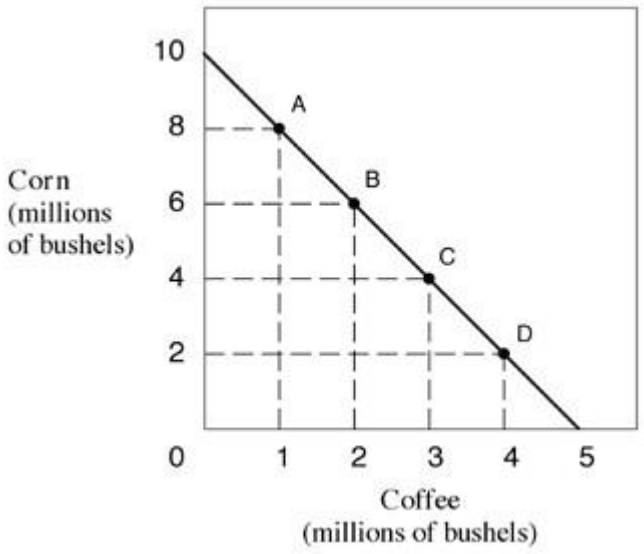
ANS: A PTS: 1 DIF: Moderate REF: The production possibilities frontier

34. The production possibilities frontier shows different combinations of two goods:

A.	that are able to be produced at a particular point of time with underemployment.
B.	that are able to be produced at a particular point of time with the given number of resources available.
C.	that are able to be produced with technology available in the future.
D.	that will be produced at a particular point of time with or without full employment .

ANS: B PTS: 1 DIF: Moderate REF: The production possibilities frontier

Narrbegin Exhibit 2.2 Production possibilities frontier



Narrend

35. The production possibilities in Exhibit 2.2 indicates that the opportunity cost of corn is:

A.	increasing.
B.	decreasing.
C.	does not change.
D.	zero.

ANS: C PTS: 1 DIF: Difficult REF: The production possibilities frontier
NAR: Exhibit 2.2 Production possibilities frontier

36. In Exhibit 2.2, the opportunity cost of coffee when moving from B to C is:

A.	2 million bushels of corn.
B.	6 million bushels of corn.
C.	8 million bushels of corn.
D.	14 million bushels of corn.

ANS: A PTS: 1 DIF: Moderate REF: The production possibilities frontier
NAR: Exhibit 2.2 Production possibilities frontier

37. In Exhibit 2.2, the opportunity cost of coffee when moving from A to B is:

A.	2 million bushels of corn.
B.	6 million bushels of corn.
C.	8 million bushels of corn.
D.	14 million bushels of corn.

ANS: A PTS: 1 DIF: Moderate REF: The production possibilities frontier
NAR: Exhibit 2.2 Production possibilities frontier

38. In Exhibit 2.2, what is the maximum possible production of coffee if production of corn has decreased from 4 to 2 million bushels:

A.	0 millions of bushels.
B.	2 millions of bushels.
C.	5 millions of bushels.
D.	4 millions of bushels.

ANS: D PTS: 1 DIF: Moderate REF: The production possibilities frontier
NAR: Exhibit 2.2 Production possibilities frontier

39. When the opportunity cost of producing laptops increases as more laptops are produced, then:

A.	the law of increasing costs is present.
B.	resources are equally suited to the production of laptops and to other goods.
C.	the production possibilities frontier is a straight line.
D.	the production possibilities frontier becomes positively sloped.

ANS: A PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs

40. The law of increasing costs indicates that the opportunity cost of producing a good:

A.	is proportional to the production of the good.
B.	is constant to the production of the good.
C.	increases as more of the good is produced.
D.	decreases as more of the good is produced.

ANS: C PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs

41. The law of increasing opportunity costs states that:

A.	the opportunity cost cannot be determined when the economy operates on the production possibilities frontier.
B.	people always prefer having more goods.
C.	there is always full employment.
D.	the opportunity cost increases as production of one output increases.

ANS: D PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs

42. The production possibility curve is bowed outward from the origin because of:

A.	the law of increasing opportunity costs.
B.	the finite nature of the resource base.
C.	inefficiency.
D.	an improper output mix.

ANS: A PTS: 1 DIF: Difficult REF: The law of increasing op-

portunity costs

43. When the production possibilities curve is bowed out, resources are:

A.	equally well-suited to production of both goods.
B.	not being used efficiently.
C.	not equally suited to the production of both types of goods.
D.	of an inferior quality.

ANS: C PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs

44. The production possibility curve is bowed outward from the origin because of:

A.	the law of decreasing opportunity costs.
B.	the finite nature of the resource base.
C.	inefficiency.
D.	the changes in the opportunity cost due to different efficiencies of the same resource in different use.

ANS: D PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs

45. The production possibilities curve is:

A.	convex to the origin and bowed inwards.
B.	concave to the origin and bowed outwards.
C.	bowed inwards.
D.	convex to the origin and bowed outwards.

ANS: B PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs

Narrbegin Exhibit 2.3 Production possibilities curve data

	A	**B**	**C**	**D**	**E**
Capital goods	0	10	20	30	40
Consumer goods	200	180	140	80	0

Narrend

46. According to the data given in Exhibit 2.3, the production of 140 units of consumer goods and 30 units of capital goods:

A.	is possible but would be inefficient.
B.	may be a result of unemployment.

C.	may be a result of unused natural resources.
D.	is impossible.

ANS: D PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.3 Production possibilities curve data

47. According to the data in Exhibit 2.3, a total output of 140 units of consumer goods and 10 units of capital goods would:

A.	be unobtainable in this economy.
B.	be an efficient way of using the economy's scarce resources.
C.	result in the maximum use of the economy's labour force.
D.	result in underemployment.

ANS: D PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
Narrbegin Exhibit 2.4 Production possibilities curve data

	A	**B**	**C**	**D**	**E**	**F**
Capital goods	150	140	120	90	50	0
Consumer goods	0	20	40	60	80	100

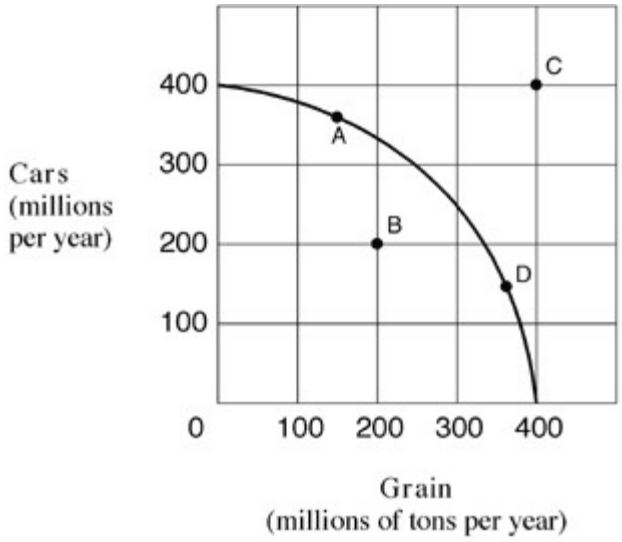
Narrend

48. In Exhibit 2.4, the concept of increasing opportunity costs is represented by the fact that:

A.	the quantity of capital goods produced must be less than 150.
B.	the quantity of consumer goods is constant for each change in the quantity of capital goods produced.
C.	greater amounts of capital goods must be sacrificed to produce each additional unit of consumer goods.
D.	the amount of consumer goods produced must be greater than zero.

ANS: C PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.4 Production possibilities curve data

Narrbegin Exhibit 2.5 Production possibilities frontier



Narrend

49. For the economy shown in Exhibit 2.5, which of the following is true when the economy is at point A?

A.	Not enough grain is being produced.
B.	There must be resources that are not being used fully.
C.	If the economy reallocates resources from A to D, it has to sacrifice some car production.
D.	Increased grain production would be impossible.

ANS: C PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.5 Production possibilities curve data

50. For the economy shown in Exhibit 2.5 to operate at point C, it must:

A.	be willing to lower the price of grain.
B.	use its given resources more efficiently than it would at point A.
C.	experience underemployment.
D.	experience an increase in its resources and/or an improvement in its technology.

ANS: D PTS: 1 DIF: Easy REF: The law of increasing opportunity costs
Narrbegin Exhibit 2.6 Production possibilities frontier data

	A	**B**	**C**	**D**	**E**	**F**
Capital goods	15	14	12	9	5	0
Consumer goods	0	2	4	6	8	10

Narrend

51. As shown in Exhibit 2.6, the concept of increasing opportunity costs is reflected in the fact that:

A.	the quantity of consumer goods produced can never be zero.
B.	the labour force in the economy is homogeneous.
C.	greater amounts of capital goods must be sacrificed to produce an additional two units of consumer goods.
D.	a graph of the production data is a downward-sloping straight line.

ANS: C PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.6 Production possibilities curve data

52. As shown in Exhibit 2.6, a total output of zero units of capital goods and 10 units of consumer goods is:

A.	the maximum rate of output for this economy.
B.	an inefficient way of using the economy's scarce resources.
C.	the result of complete specialisation in consumer goods production.
D.	unobtainable in this economy.

ANS: C PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.6 Production possibilities curve data

53. As shown in Exhibit 2.6, a total output of six units of consumer goods and five units of capital goods is:

A.	the result of maximum use of the economy's labour force.
B.	an efficient way of using the economy's scarce resources.
C.	unobtainable in this economy.
D.	an inefficient way of using the economy's scarce resources.

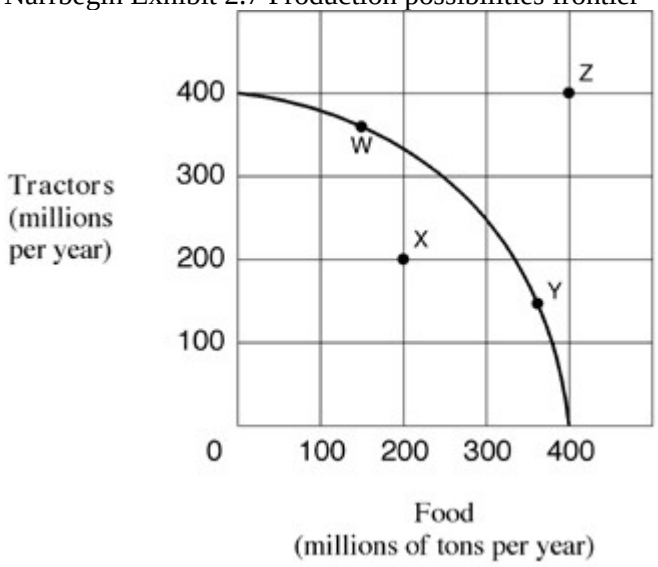
ANS: D PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.6 Production possibilities curve data

54. As shown in Exhibit 2.6, if the economy reallocates resources from capital goods to consumer goods:

A.	it gains extra units of capital goods due to technological progress.
B.	it is an inefficient way of using the economy's scarce resources.
C.	it gains extra units of consumer goods but has to sacrifice units of capital goods.
D.	it gains extra units of consumer goods without sacrificing units of capital goods.

ANS: C PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.6 Production possibilities curve data

Narrbegin Exhibit 2.7 Production possibilities frontier



Narrend

55. Which of the following moves from one point to another in Exhibit 2.7 would represent an increase in economic efficiency?

A.	Z to W.
B.	W to Y.
C.	Z to X.
D.	X to W.

ANS: D PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs

56. Movement along the production possibilities curve shown in Exhibit 2.7 indicates:

A.	The law of increasing opportunity costs.
B.	The law of declining opportunity costs.
C.	all inputs are homogeneous including labour.
D.	that not all resources are utilised.

ANS: A PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.7 Production possibilities curve data

57. Unattainable combination Z shown in Exhibit 2.7:

A	may be achieved by investing in research and development.

.	
B.	can be achieved by using more of the existing resources.
C.	will never be achieved.
D.	can easily be achieved by having full employment .

ANS: A PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.7 Production possibilities curve data

Narrbegin Exhibit 2.8 Production possibilities frontier data

	A	B	C	D	E
Capital goods	0	1	2	3	4
Consumption goods	25	23	19	13	0

Narrend

58. Suppose an economy is faced with the production possibilities table shown in Exhibit 2.8. The first unit of capital goods will cost the economy _____ units of consumption goods.

A.	25
B.	2
C.	1
D.	23

ANS: B PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.8 Production possibilities curve data

59. Suppose an economy is faced with the production possibilities table shown in Exhibit 2.8. As additional units of capital goods are being produced, the number of consumption goods produced must _____, because _____.

A.	increase; the production possibility table shows only the maximum efficiency points
B.	increase; of the law of increasing costs
C.	decrease; of the law of decreasing costs
D.	decrease; of the limited resource base

ANS: D PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.8 Production possibilities curve data

60. Suppose an economy is faced with the production possibilities table shown in Exhibit 2.8. The second unit of capital goods production will cost _____ units of consumption goods and the third unit of capi-

tal goods production will cost _____ units of consumption goods.

A.	4; 6
B.	25; 23
C.	23; 19
D.	1; 23

ANS: A PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.8 Production possibilities curve data

61. Suppose an economy is faced with the production possibilities table shown in Exhibit 2.8. As additional units of capital goods are produced, the opportunity cost in terms of sacrificed units of consumption goods _____ because of _____.

A.	decreases; greater efficiency in production
B.	increases; decreasing opportunity cost
C.	increases; the law of increasing costs
D.	increases; greater efficiency in production

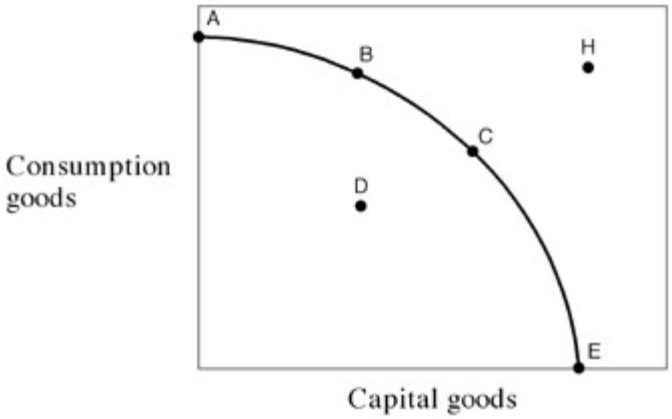
ANS: C PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.8 Production possibilities curve data

62. Law of increasing opportunity cost states:

A.	that opportunity cost decreases as production of one output expands.
B.	the production possibilities frontier bows outwards.
C.	that the stock of technology is increasing.
D.	the production possibilities frontier bows inwards.

ANS: B PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs

Narrbegin Exhibit 2–9 Production possibilities frontier



Narrend

63. In Exhibit 2.9, it can be inferred that:

A.	point A is preferred to point B.
B.	point A is preferred to point E.
C.	point A is preferred to point D.
D.	point B is preferred to point A.
E.	point B is preferred to point C.

ANS: C PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.9 Production possibilities curve data

64. In Exhibit 2.9, if the economy decides to locate at point E, then:

A.	this is the best choice for this economy.
B.	the maximum number of consumption goods is being produced.
C.	the economy has not achieved full employment.
D.	the economy could not survive because no food is being produced.
E.	the economy has not achieved maximum efficiency.

ANS: D PTS: 1 DIF: Moderate REF: The law of increasing opportunity costs
NAR: Exhibit 2.9 Production possibilities curve data

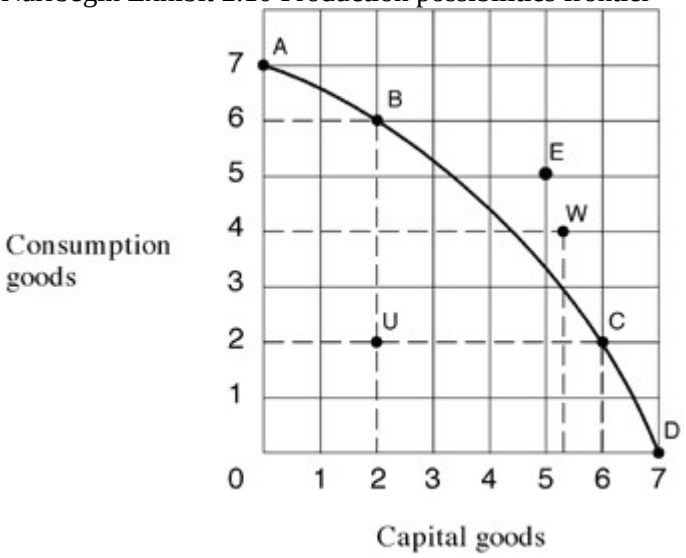
65. In Exhibit 2.9, which of the following is *not* true regarding point H? Point H:

A.	cannot be achieved by this economy today.
B.	could be achieved today only if the economy achieved full employment.
C	could be achieved in the future by an enlargement of the economy's resource base.

.	
D.	could be achieved in the future by an advancement in technology.
E.	could be achieved in the future by growth in the economy.

ANS: B PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.9 Production possibilities curve data

Narrbegin Exhibit 2.10 Production possibilities frontier



Narrend

66. From the information in Exhibit 2.10, which of the following points on the production possibilities curve are attainable with the resources and technology currently available?

A.	A, B, C, E, U.
B.	A, B, C, D, W.
C.	E, U, W, C, A.
D.	A, B, C, D, U.
E.	A, B, C, D, E.

ANS: D PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.10 Production possibilities curve data

67. In Exhibit 2.10, which of the following points on the production possibilities curve are unattainable with the resources and technology currently available?

A.	A, B, C, U.
B.	A, B, C, D, U.
C	E and W.

.	
D.	B, C, D, U.
E.	A, B, C, D.

ANS: C PTS: 1 DIF: Easy REF: The law of increasing opportunity costs
NAR: Exhibit 2.10 Production possibilities curve data

68. In Exhibit 2.10, to move from U to B, the opportunity cost:

A.	would be four units of consumption goods.
B.	would be two units of capital goods.
C.	would be zero.
D.	would be five units of capital goods.
E.	cannot be estimated.

ANS: C PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.10 Production possibilities curve data

69. In Exhibit 2.10, which of the following points on the production possibilities curve are full-employment production points?

A.	A, B, C, D.
B.	A, B, C, D, U.
C.	E, U, W.
D.	B, C, D, U.
E.	A, B, C, U.

ANS: A PTS: 1 DIF: Difficult REF: The law of increasing opportunity costs
NAR: Exhibit 2.10 Production possibilities curve data

70. The economy experiences economic growth if:

A.	the resource base decreases.
B.	the production possibilities frontier shifts inwards.
C.	the number of workers decreases.
D.	the production possibilities frontier shifts outwards.

ANS: D PTS: 1 DIF: Moderate REF: Shifting the production possibilities frontier

71. Compare two economies A and B that start out with identical production possibilities curves. Economy A chooses an efficient point with six consumption goods and three capital goods, while economy B chooses an efficient point with four consumption goods and five capital goods. In the future we can predict:

A.	economy A will operate inefficiently.
B.	economy B will operate inefficiently.
C.	economy B will grow faster than economy A.
D.	economy A will grow faster than economy B.

ANS: C PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

72. An analysis of production possibilities curves indicates that the reason why underdeveloped nations have difficulties increasing their economic growth rates is because:

A.	low population growth rates mean fewer workers to produce food and other necessities.
B.	their production possibilities curves shift in when resources are increased.
C.	their production possibilities curves are positively sloped, unlike those in more developed economies.
D.	they must cut back their already meagre consumption levels to increase capital production.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

73. People in poor countries may have difficulties achieving economic growth because:

A.	their production possibilities curves slope upward instead of downward.
B.	they must cut back on current consumption to increase capital goods.
C.	they have a solid consumption base already in place.
D.	their resource bases are fully developed.

ANS: B PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

74. Technological innovations will cause:

A.	the production possibilities curve to stay the same.
B.	the production possibilities curve to shift to the left.
C.	the production possibilities curve to shift to the right.

D.	an economy to operate below its production possibilities curve.

ANS: C PTS: 1 DIF: Moderate REF: Shifting the production possibilities frontier

75. Robinson Crusoe's decision to produce more capital goods and fewer consumer goods in a given period causes:

A.	a decrease in the resources available in the economy.
B.	a decrease in the ability to produce goods in the next period.
C.	a decrease in economic growth in future periods.
D.	an increase in economic growth in future periods.

ANS: D PTS: 1 DIF: Moderate REF: Shifting the production possibilities frontier

76. Other things being equal, a decreased supply of natural resources would be represented on a production possibilities curve by a/an:

A.	movement off the curve to a point inside the curve.
B.	movement down along the curve.
C.	movement up along the curve.
D.	inward shift of the entire curve.

ANS: D PTS: 1 DIF: Moderate REF: Shifting the production possibilities frontier

77. Which would be least likely to cause the production possibilities curve to shift to the right?

A.	An increase in the labour force.
B.	Improved methods of production.
C.	An increase in the education and training of the labour force.
D.	A decrease in unemployment.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

78. Which of the following would *most* likely cause the production possibilities curve for cars and bread to shift outward?

A.	A choice of more bread and more cars.
B.	A choice of more bread and fewer cars.

C.	A choice of more cars and less bread.
D.	An increase in the workforce level.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

79. In order for an economy to shift its production possibilities curve rightward, it must:

A.	utilise all existing resources.
B.	reduce expenditure on research and development.
C.	increase the unemployment rate.
D.	experience an improvement in its technology.

ANS: D PTS: 1 DIF: Moderate REF: Shifting the production possibilities frontier

80. The production possibilities curve for the nation of Economania shifts to the right. This could have been caused by:

A.	a decrease in Economania's capital stock.
B.	a decrease in Economania's labour supply.
C.	high unemployment in Economania for the previous time period.
D.	improvement in the health and skill level of Economania's workforce.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

81. The production possibilities curve for the nation of Economagic shifts to the left. This could have been caused by:

A.	an increase in Economagic's labour supply.
B.	innovation in the production of goods in Economagic.
C.	a war that destroyed some of Economagic's resource base.
D.	unemployment among Economagic's workers.

ANS: C PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

82. Economic growth:

A.	causes an inward shift in the production possibilities curve.

B.	does not cause a shift in the production possibilities curve.
C.	causes an outward shift in the production possibilities curve.
D	causes a movement along the production possibilities curve.

ANS: C PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

83. Suppose a new method is discovered that allows the production of more grapes for the given level of inputs. Assume that this method cannot be used in car production. What will be the impact on the production possibilities curve? The production possibilities curve will:

A.	shift to the right.
B.	pivot outward as car production remains unchanged.
C.	shift to the left for car production.
D.	not change.

ANS: B PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

84. Government supports research and development programs because:

A.	research and development programs create employment.
B.	research and development programs support academics.
C.	research and development might pull the production possibilities frontier in.
D.	research and development might lead to innovations and more effective ways of using available resources.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

85. Which of the following would *most* likely cause the production possibilities curve for DVD players and food to shift outward?

A.	A choice of more food and more DVD players.
B.	A choice of more food and fewer DVD players.
C.	A choice of more DVD players and less food.
D.	An increase in the quantity of natural resources.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

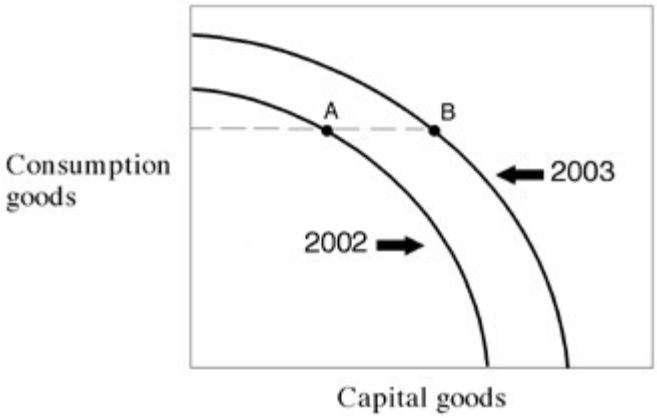
86. In order for an economy to shift its production possibilities curve rightward, it must:

A	increase the rate of unemployment.

.	
B.	attract more workers to the country.
C.	use its resources more efficiently.
D.	spend less on research and development.

ANS: B PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

Narrabegin Exhibit 2.11 Production possibilities frontiers



Narrbegin

87. In 2002 a country, in Exhibit 2.11, is located at point A on its 2002 production possibilities curve. In 2003 this same country is located at point B on its 2003 production possibility curve. Which of the following could have brought about this shift in production possibilities curves?

A.	More efficient production in 2002.
B.	A natural disaster in 2002 which leads to a destruction of resources.
C.	Higher unemployment in 2002.
D.	An advance in technology occurring in 2002.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier
NAR: Exhibit 2.11 Production possibilities frontiers

88. In Exhibit 2.11, the production possibilities curves for a country are shown for the years 2002 and 2003. Suppose this country was located at point A in 2002 and point B in 2003. This economy:

A.	is worse off in 2003 than in 2002.
B.	has stagnated production in this two-year period.
C.	is more efficient in 2003 than in 2002.
D.	has shown growth between these two years.

E.	has higher unemployment in 2003 than in 2002.

ANS: D PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier
NAR: Exhibit 2.11 Production possibilities frontiers

89. Economic growth may be represented by a/an:

A.	leftward shift of a production possibilities curve.
B.	outward shift of a production possibilities curve.
C.	movement along a production possibilities curve.
D.	production possibilities curve that remains fixed.

ANS: B PTS: 1 DIF: Moderate REF: Present investment and future production possibilities frontier

90. Which of the following statements is false?

A.	Marginal analysis is an examination of the effects of additions or subtractions from a current situation.
B.	The production possibilities curve shows the unattainable combination of two outputs that an economy can produce, given its available resources and technology.
C.	Technology is the body of knowledge and skills applied to how goods are produced.
D.	Economic growth is illustrated as an outward shift of the production possibilities curve.

ANS: B PTS: 1 DIF: Moderate REF: Present investment and future production possibilities frontier

91. The process through which an economy's production possibilities curve shifts outward is:

A.	full-employment management.
B.	investment in research and development.
C.	resource renewal.
D.	out-resourcing.

ANS: B PTS: 1 DIF: Easy REF: Present investment and future production possibilities frontier

92. The process of accumulating capital is called:

A.	capitalisation.
B.	loanable funds.
C.	investment.

D.	debt management.

ANS: C PTS: 1 DIF: Easy REF: Present investment and future production possibilities frontier

93. A nation can accelerate its economic growth by:

A.	reducing the number of immigrants allowed into the country.
B.	increasing its total investment level.
C.	printing more money.
D.	imposing tariffs and quotas on imported goods.

ANS: B PTS: 1 DIF: Moderate REF: Present investment and future production possibilities frontier

94. The rate of future economic growth will be greater if:

A.	the economy is focused on the production of capital goods.
B.	the existing resources are employed in the production of consumer goods rather than capital goods.
C.	the existing resources are employed equally in the production of consumer goods and capital goods.
D.	the existing resources are saved for later use.

ANS: A PTS: 1 DIF: Easy REF: Present investment and future production possibilities frontier

95. The production of capital goods will:

A.	increase the present productive capacity of the economy.
B.	increase the future productive capacity of the economy.
C.	promote future economic growth.
D.	not change the future productive capacity of the economy.

ANS: E PTS: 1 DIF: Moderate REF: Present investment and future production possibilities frontier

96. The theory of comparative advantage:

A.	helps to analyse the absolute advantages of countries involved.
B.	suggests that a country that does not have an absolute advantage should import everything.
C.	analyses the basis of trade where an individual nation can gain from such trade.
D	suggests that a country specialise in producing goods or services for which it has a higher

.	opportunity cost.

ANS: C PTS: 1 DIF: Difficult REF: Comparative advantage

97. Assume Australia can use a given amount of its resources to produce either 20 caravans or eight automobiles and Japan can employ the same amount of its resources to produce either 20 caravans or 10 automobiles. Australia should specialise in:

A.	caravans.
B.	automobiles.
C.	both goods.
D.	neither good.

ANS: A PTS: 1 DIF: Difficult REF: Comparative advantage

98. According to the principle of comparative advantage, total output and consumption levels will be highest when goods are produced in nations according to which of the following conditions?

A.	Opportunity costs are lowest.
B.	Absolute advantages are highest.
C.	Opportunity costs are equal.
D.	Absolute advantages are lowest.

ANS: A PTS: 1 DIF: Moderate REF: Comparative advantage

99. Which of the following statements is true?

A.	Free trade theory suggests that when trade takes place any gains made by one nation comes at the expense of another.
B.	If a hairdresser has a comparative advantage over the cleaner, she should do both: cutting hair and cleaning.
C.	According to the theory of comparative advantage, a nation should specialise in the production of those goods for which it has an absolute advantage.
D.	Specialisation allows nations to trade the surplus of their production.

ANS: D PTS: 1 DIF: Moderate REF: Comparative advantage

100. Suppose rice can be produced in country X at a lower cost than in country Y, while tuna can be produced in country Y at a lower cost than in country X. International competition will:

A.	destroy the rice market in both countries.
B.	drive X to specialise in rice and Y to specialise in tuna.
C.	drive Y to specialise in rice and X to specialise in tuna.
D.	cause both X and Y to reject international specialisation.

ANS: B PTS: 1 DIF: Moderate REF: Comparative advantage

101. If a country has a comparative advantage in the production of all goods, it should:

A.	specialise in the production of goods with the lowest opportunity cost.
B.	specialise in the production of goods with the highest opportunity cost.
C.	specialise in the production of goods with the absolute advantage.
D.	specialise in the production of goods without the absolute advantage.

ANS: A PTS: 1 DIF: Moderate REF: Comparative advantage

102. If Japan gives up 10 bushels of rice to produce one bicycle, while Australia gives up five bushels of rice to produce one bicycle, then:

A.	the opportunity cost of producing bicycles in Australia is higher than in Japan.
B.	Japan has a comparative advantage in the production of bicycles.
C.	total output will be highest if Japan specialises in rice and Australia specialises in bicycles.
D.	total output will be highest if Australia specialises in rice and Japan specialises in bicycles.
E.	

ANS: C PTS: 1 DIF: Difficult REF: Comparative advantage

103. Suppose that Spain has a comparative advantage in hats and Portugal has a comparative advantage in doormats. Under a system of free trade, each country specialises and then trades with the other. If the price starts at four hats per doormat, and then increases to five hats per doormat, then:

A.	people in Portugal will not want to buy as many hats.
B.	Spain no longer has a comparative advantage in hats.
C.	Portugal is flooding the market with too many doormats.
D.	some of the gains from trade shift to Portugal.

ANS: D PTS: 1 DIF: Difficult REF: Comparative advantage

104. The theory of comparative advantage suggests:

A.	that an industrialised country should only export.
B.	that a country that is not competitive should import everything.
C.	that a country should trade based on its comparative advantage.
D.	that one country exploits another country.

ANS: C PTS: 1 DIF: Moderate REF: Comparative advantage

105. Increased productivity leads to:

A.	less efficient use of resources.
B.	greater variety of goods and services at lower prices.
C.	decreased standard of living for the population.
D.	less variety of goods and services at higher prices.

ANS: B PTS: 1 DIF: Moderate REF: Comparative advantage

106. What are the advantages of specialisation?

A.	Decreased skills of workers.
B.	More time spent on the performance of each task.
C.	Training is easier to perform.
D.	Higher unemployment.

ANS: C PTS: 1 DIF: Moderate REF: Comparative advantage

107. Which of the following arguments are made in support of immigration?

A.	It helps developing countries to achieve a higher PPF.
B.	It helps to increase the country's resources of labour and entrepreneurship.
C.	People bring their assets with them, thereby decreasing investment.
D.	Immigration should not be supported.

ANS: B PTS: 1 DIF: Easy REF: Population growth, sustainability and the PPF

108. Without the increase in immigration after the Second World War, Australia's population would now be around:

A.	5 million.
B.	7 million.
C.	10 million.
D.	13 million.

ANS: D PTS: 1 DIF: Moderate REF: Population growth, sustainability and the PPF

109. The argument for an increase in skilled and business migration is based on which of the following?

A.	It would not only increase the labour supply, but unemployment as well.
B.	It will shift the PPF curve to the left due to the burden these people will place on our economy.
C.	It will shift the PPF curve to the right through increases in skilled labour and technology.
D.	Although the PPF won't shift at all, it may change the mix of production from investment to consumption.

ANS: C PTS: 1 DIF: Moderate REF: Population growth, sustainability and the PPF

TRUE/FALSE

1. When making a rational decision which requires the consideration of costs and benefits involved, the opportunity cost of a decision is always taken into consideration.

   ANS: F PTS: 1 DIF: Difficult REF: Opportunity cost

2. An opportunity cost is the total cost of all other alternatives foregone whenever one chooses an alternative.

   ANS: F PTS: 1 DIF: Moderate REF: Opportunity cost

3. The opportunity cost of good A has increased, as resources that are shifted from the production of good B to good A are less efficient in the production of good A.

   ANS: T PTS: 1 DIF: Moderate REF: Opportunity cost

4. If more of one good can be produced without producing less of another output, the economy must have been operating efficiently.

   ANS: F PTS: 1 DIF: Difficult REF: The production possibilities frontier

5. For the economy to operate efficiently, it must shift workers from producing consumer goods to producing capital goods.

   ANS: F PTS: 1 DIF: Difficult REF: The production possibilities frontier

6. The most efficient point on the production possibilities curve is the midpoint on the curve.

   ANS: F PTS: 1 DIF: Difficult REF: The production possibilities frontier

7. The production possibility curve illustrates the important economic concept of opportunity cost.

   ANS: T PTS: 1 DIF: Difficult REF: The production possibilities frontier

8. A nation's current location on its production possibilities curve cannot determine the future location of that nation's production possibilities curve.

   ANS: F PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

9. Assuming an economy is already experiencing full employment, then it must produce more consumer goods and fewer capital goods if it wishes to experience greater rates of economic growth over time.

   ANS: F PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

10. In order to achieve economic growth, investment in capital accumulation is more important than investment in education and other labour productivity enhancing programs.

    ANS: F PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

11. An increase in current consumption is necessary for economic growth.

    ANS: F PTS: 1 DIF: Difficult REF: Shifting the production possibilities frontier

12. A country has a comparative advantage in producing a good when it has the lowest opportunity cost of producing that good.

    ANS: T PTS: 1 DIF: Easy REF: Comparative advantage

13. Opening trade between nations enables each nation's consumption possibilities to go beyond the confines of its own production possibilities curve.

    ANS: T PTS: 1 DIF: Easy REF: Comparative advantage