Chapter 02
The Production Possibility Model, Trade, and Globalization

True / False Questions

1. The production possibilities model can be used to demonstrate the concept of opportunity cost.
True False

2. Production possibility curves are upward sloping because increased production of one good implies reduced production of other goods.
True False

3. An economy that operates inside of its production possibility curve is less efficient than it would be if it were operating on its production possibility curve.
True False

4. If the principle of increasing marginal opportunity cost holds, then the opportunity cost of producing each additional unit of a good should fall as production of that good rises.
True False

5. Productive efficiency is not achieved at any point inside the production possibility curve.
True False

6. If a country has a comparative advantage in the production of a good, then its resources are better suited to the production of that good than the resources of other countries.
True False

7. Two nations with differing comparative advantages will be able to consume more if they specialize and trade with one another than if they did not specialize or trade with one another.
True False

8. Two nations with differing comparative advantages will be able to consume more if each produces the good for which the opportunity cost is highest and trades for the good for which opportunity cost is lowest.
True False

9. The law of one price means that prices will eventually be the same in all countries and eventually countries will not have a reason to trade.
True False

Multiple Choice Questions

10. When the Sarbanes-Oxley Act that imposed new accounting rules was passed, analysts suggested that the new rules would not help the investing public, but only add to the hours that accountants would have to devote to complying with the new rules. When an economist looks at those extra hours spent to satisfy these rules, he sees:
A. a loss of other goods and services that could have been produced.
B. an outward shift in the production-possibilities frontier.
C. the causes of a market failure.
D. a loss by some that is offset by a gain by others.

11. Which of the following cannot be determined using a production possibility table?
A. What combination of outputs can be produced.
B. How much less of one output must be produced if more of another output is produced.
C. What combination of outputs is best.
D. How much output can be produced from a given level of inputs.

12. Supposed that each of the following rows represents the choice faced by policy makers given the current set of U.S. institutions and technology. What is the opportunity cost of reducing unemployment from 8 percent to 4 percent?

Unemployment	Inflation
10	3
8	4
6	5
5	7
4	10

A. 4 percentage points of unemployment.
B. 6 percentage points of unemployment.
C. 6 percentage points of inflation.
D. 4 percentage points of inflation.

13. Investment in capital goods is one way to increase the standard of living in the future. Investment in capital goods, however, means that we must forgo consumption today. One of the tradeoffs facing an economy is consumption today and consumption in the future. The following table presents such a trade off. With this information we know that the opportunity cost of which of the following is the greatest?

Current consumption	Future consumption
800	100
750	260
650	340
600	380
550	400

A. Increasing current consumption from 750 to 800.
B. Increasing current consumption from 650 to 750.
C. Increasing current consumption from 600 to 650.
D. Increasing current consumption from 550 to 600.

14. With the resources available, you can make the combinations of Ums and Umies (trinkets from a place called Bandarban) shown in the table. The opportunity cost of producing 60 Umies instead of 30 Umies is:

Number of Ums	Number of Umies
60	0
40	30
20	60
0	90

A. 10 Ums.
B. 20 Ums.
C. 30 Ums.
D. 40 Ums.

15. Evan can grow both roses and carnations in his garden. His production possibility table is given below. If he is currently producing 110 roses, his opportunity cost of producing 40 more roses is:

Number of roses	Number of carnations
0	155
60	135
110	109
150	78
180	0

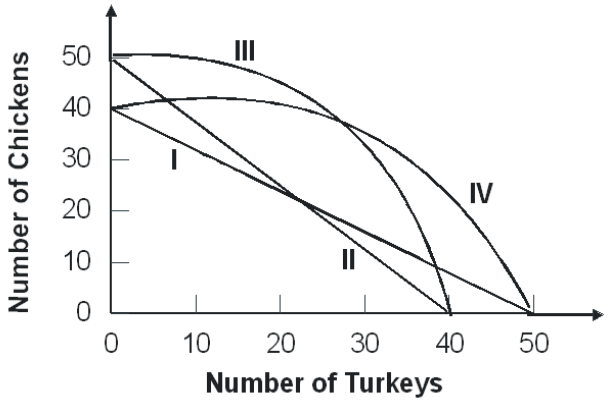
A. 20 carnations.
B. 26 carnations.
C. 31 carnations.
D. 78 carnations.

16. Consider the table below, where each production choice represents a point on a production possibility curve.

Choice	Eggs	Rye
A	10	0
B	8	10
C	6	20
D	4	30
E	2	40
F	0	50

This production possibility table could be graphed as a:
A. straight line with negative slope.
B. curved line with negative slope.
C. straight line with zero slope.
D. curved line with positive slope.

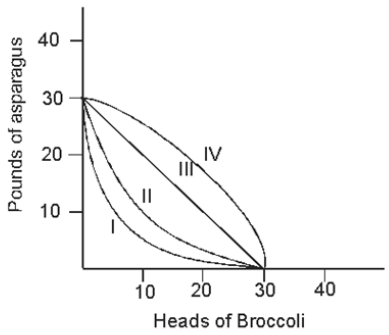
17. Refer to the graph below.



Suppose that the opportunity cost of producing 10 chickens is always 8 turkeys. Given this, the relevant production possibility curve must be:
A. I
B. II
C. III
D. IV

18. The production possibilities table below on the left is for growing broccoli and asparagus in a 320 square foot garden in one season.

Production Possibility	
broccoli	asparagus
30	0
20	18
10	26
0	30



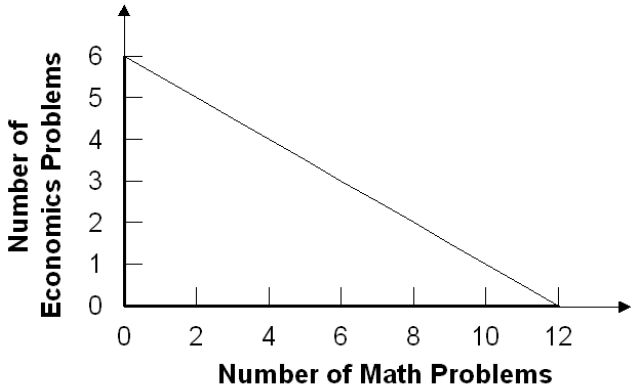
Which curve on the graph on the right corresponds to this table?
A. I
B. II
C. III
D. IV

19. Because you can only get more of one good by giving up some of another good, the shape of a production possibilities curve is:
A. upward sloping.
B. perfectly vertical.
C. perfectly horizontal.
D. downward sloping.

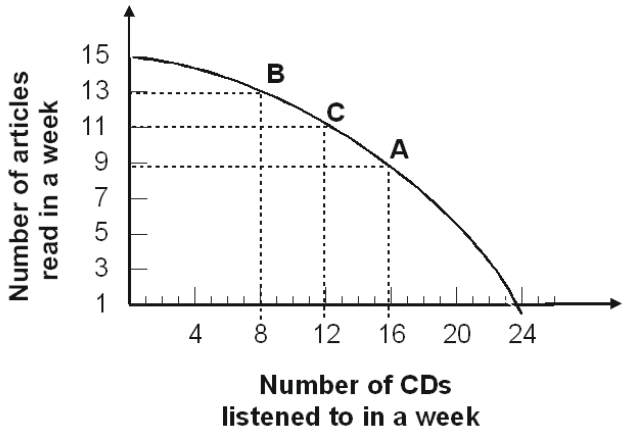
20. Refer to the production possibilities curve for Ricardia below.

The graph indicates that with the resources and technology it has available, Ricardia:
A. can produce either 40 units of rye or 20 units of eggs.
B. can produce both 40 units of rye and 20 units of eggs.
C. cannot produce both 20 units of rye and 10 units of eggs.
D. cannot produce both 20 units of rye and 5 units of eggs.

21. Refer to the graph below.



Laura's production possibility curve for math and economics problems in one night is shown in the graph. Her opportunity cost of finishing 6 math problems instead of 4 math problems is:
A. 1 economics problem.
B. 2 economics problems.
C. 3 economics problems.
D. 4 economics problems.

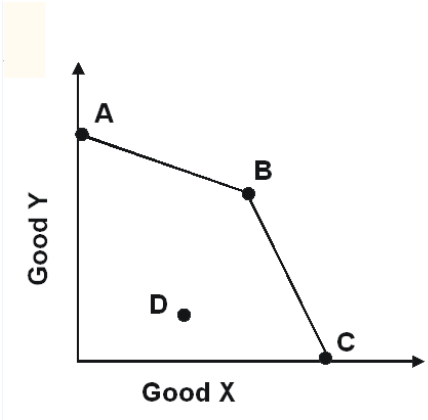


22. Given the production possibility curve above, the opportunity cost of listening to each additional CD when moving from point B to point A is on average:
A. ½ article.
B. 1 article.
C. 2 articles.
D. 3 articles.

23. Refer to the graph above. Given the production possibility curve above, the opportunity cost of reading 2 more articles when you are already reading 11 articles is on average:
A. ½ CD per article.
B. 2 CDs per article.
C. 2/3 CD per article.
D. 3 CDs per article.

24. If a production possibility curve representing a tradeoff between a grade in English and a grade in math has a negative slope we know that:
A. there is a direct relationship between grades in English and grades in math.
B. there is no relationship between grades in English and grades in math.
C. there is an inverse relationship between grades in English and grades in math.
D. one can get better grades in English only if one gets better grades in math.

25. Given a production possibility curve for good X (on the x-axis) and good Y (on the y-axis), the opportunity cost of increasing good X is greatest when the slope of the production possibility curve is:
A. -6
B. -4
C. 6
D. 4



26. Refer to the above graph. In the graph, the opportunity cost of good X in terms of good Y is:
A. higher along the segment AB than along the segment BC.
B. lower along the segment AB than along the segment BC.
C. the same everywhere on the two segments.
D. always increasing as we move from A to C.

27. In the graph above, what change would increase production efficiency?
A. Moving from A to D.
B. Moving from A to B.
C. Moving from C to D.
D. Moving from D to B.

28. England has a relatively cool and cloudy climate, which is ill-suited for grape growing. It can produce 200 units of wine for every 400 units of cloth. Portugal, meanwhile, has a relatively warm and sunny climate, good for growing grapes. It can produce 200 units of wine for every 100 units of cloth. Which country has the higher opportunity cost of producing cloth?
A. Portugal: 2 units of wine for every unit of cloth
B. England: 2 units of wine for every unit of cloth
C. Portugal: ½ unit of wine for every unit of cloth
D. England: ½ unit of cloth for every unit of wine

29. Increasing marginal opportunity cost means that the production possibility curve is:
A. bowed in so that for every additional unit of one good given up, you get fewer and fewer units of the other good.
B. bowed in so that for every additional unit of one good given up, you get more and more units of the other good.
C. bowed out so that for every additional unit of a good given up, you get fewer and fewer units of the other good.
D. bowed out so that for every additional unit of one good given up, you get more and more units of the other good.

30. This production possibility table illustrates:

Eggs	Rye
10	0
8	10
6	20
4	30
2	40
0	50

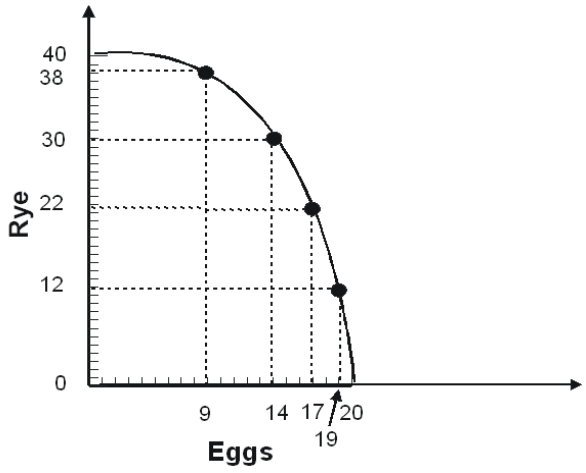
A. increasing marginal opportunity cost.
B. decreasing marginal opportunity cost.
C. constant marginal opportunity cost.
D. zero opportunity cost.

31. The principle of increasing marginal opportunity costs states that the initial opportunity costs are:
A. high but they decrease the more you concentrate on the activity.
B. low but they increase the more you concentrate on the activity.
C. high but they increase the more you concentrate on the activity.
D. low but they decrease the more you concentrate on the activity.

32. To graphically demonstrate the principle of increasing marginal opportunity cost the production possibility curve must be:
A. flat.
B. straight.
C. bowed out.
D. bowed in.

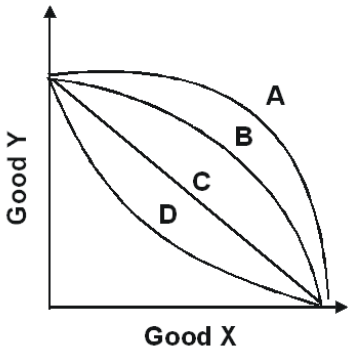
33. If there were decreasing marginal opportunity costs, the production possibility curve would be:
A. flat.
B. straight.
C. bowed out.
D. bowed in.

34. Refer to the graph below.

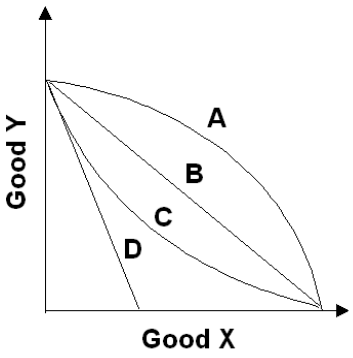


The graph indicates that as more eggs are produced, the marginal opportunity cost of:
A. both eggs and rye increases.
B. eggs increases while the marginal opportunity cost of rye remains constant.
C. eggs increases while the marginal opportunity cost of rye decreases.
D. eggs decreases while the marginal opportunity cost of rye remains constant.

35. Refer to the graph below.



With which curve does the opportunity cost of an additional unit of good Y decrease as more units of good Y are produced?
A. A
B. B
C. C
D. D



36. Refer to the graph above. Which of the curves shows increasing marginal opportunity cost?
A. A
B. B
C. C
D. D

37. Refer to the graph above. Which of the curves shows decreasing marginal opportunity cost?
A. A
B. B
C. C
D. D

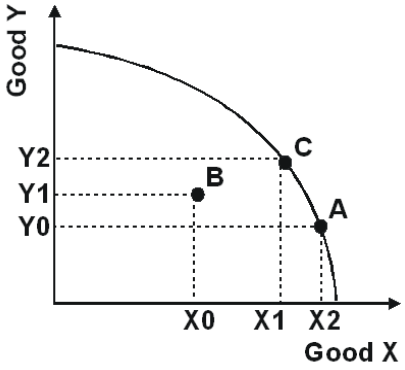
38. When you produce cars, it is enormously expensive to produce one car, but then the costs per car decrease as more are produced. This would be an example of:
A. increasing marginal opportunity costs.
B. decreasing marginal opportunity costs.
C. constant marginal opportunity costs.
D. increasing returns to scale.

39. The principle of increasing marginal opportunity cost does not hold in which of the following cases?
A. All inputs are equally adaptable to the production of all goods.
B. Some inputs are more adaptable to the production of certain goods.
C. Some inputs are less adaptable to the production of certain goods.
D. Each input is adaptable to the production of a limited number of goods.

40. The principle of increasing marginal opportunity cost holds in which of the following cases?
A. All inputs are equally adaptable to the production of all goods.
B. The production possibility curve is a downward sloping straight line.
C. Some inputs are better off producing particular goods.
D. Each input can be used to produce only one good.

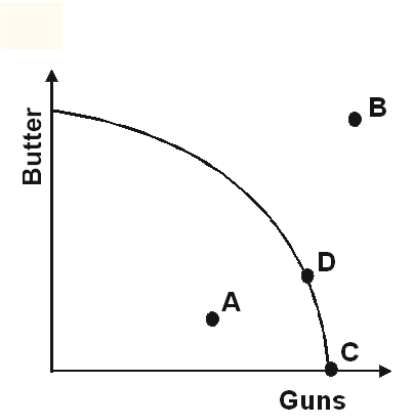
41. If you move from a point inside the production possibility curve to a point on the production possibility curve, it follows that efficiency is:
A. increased because the economy is now on the production possibility curve.
B. increased only if production of both goods increases.
C. increased as long as the combined output of both goods increases.
D. reduced if less of one good is produced.

42. Refer to the graph below.



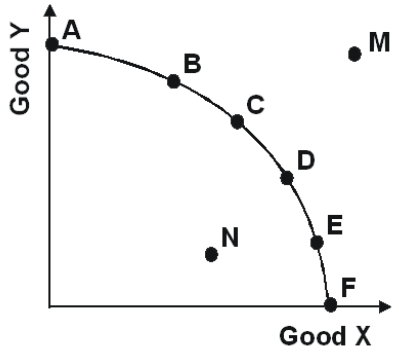
As you move from point A to point B:
A. production efficiency is increased because we have more of good X.
B. production efficiency is decreased because we have less of good Y.
C. production efficiency is decreased because we are no longer on the production possibility curve.
D. the change in efficiency is unclear.

43. Refer to the graph below.



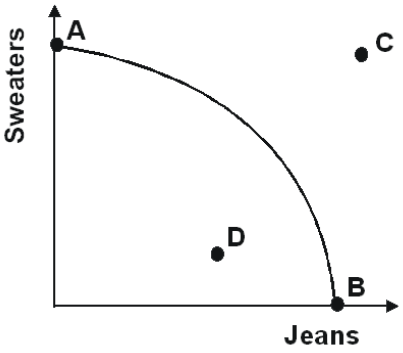
Given the production possibility curve, which point is unattainable?
A. A
B. B
C. C
D. D

44. Refer to the graph below.



Productive efficiency is achieved at what points?
A. A, B, and M.
B. C, D and N.
C. A, C and F.
D. M, D and E.

45. Refer to the graph below.

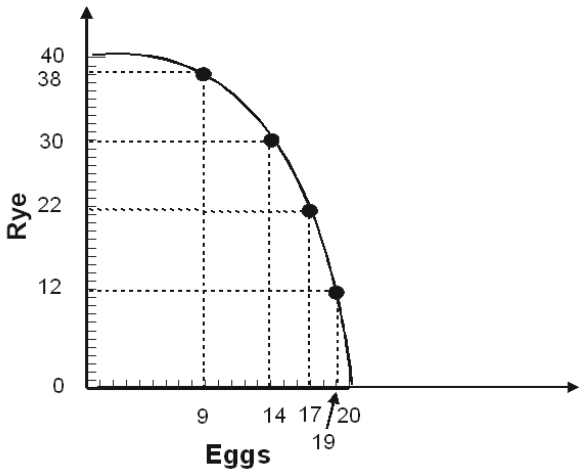


Productive inefficiency occurs at what point?
A. A
B. B
C. C
D. D

46. The term efficiency involves achieving a goal as:
A. quickly as possible.
B. cheaply as possible.
C. best as possible.
D. steadily as possible.

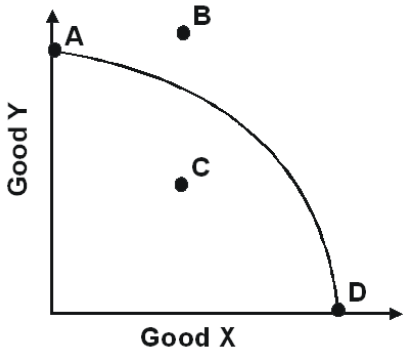
47. In election campaigns, presidents often promise more of everything (that is, more guns and butter). What would help those elected president fulfill their promise?
A. The economy becomes more efficient.
B. The U.S. limits imports into the United States.
C. Illegal immigration into the United States is severely limited.
D. A minimum wage bill is passed.

48. The graph below indicates that the economy can produce both:

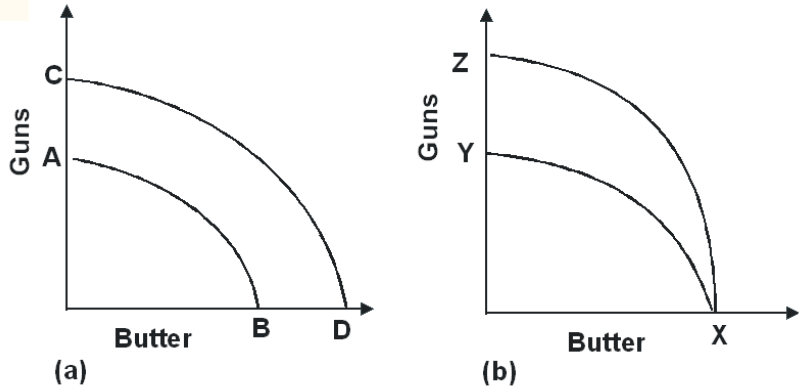


A. 20 units of eggs and 5 units of rye, although this would not be production efficient.
B. 10 units of eggs and 20 units of rye, although this would not be production efficient.
C. 20 units of eggs and 5 units of rye, and this would be production efficient.
D. 10 units of eggs and 20 units of rye, and this would be production efficient.

49. Refer to the graph below.



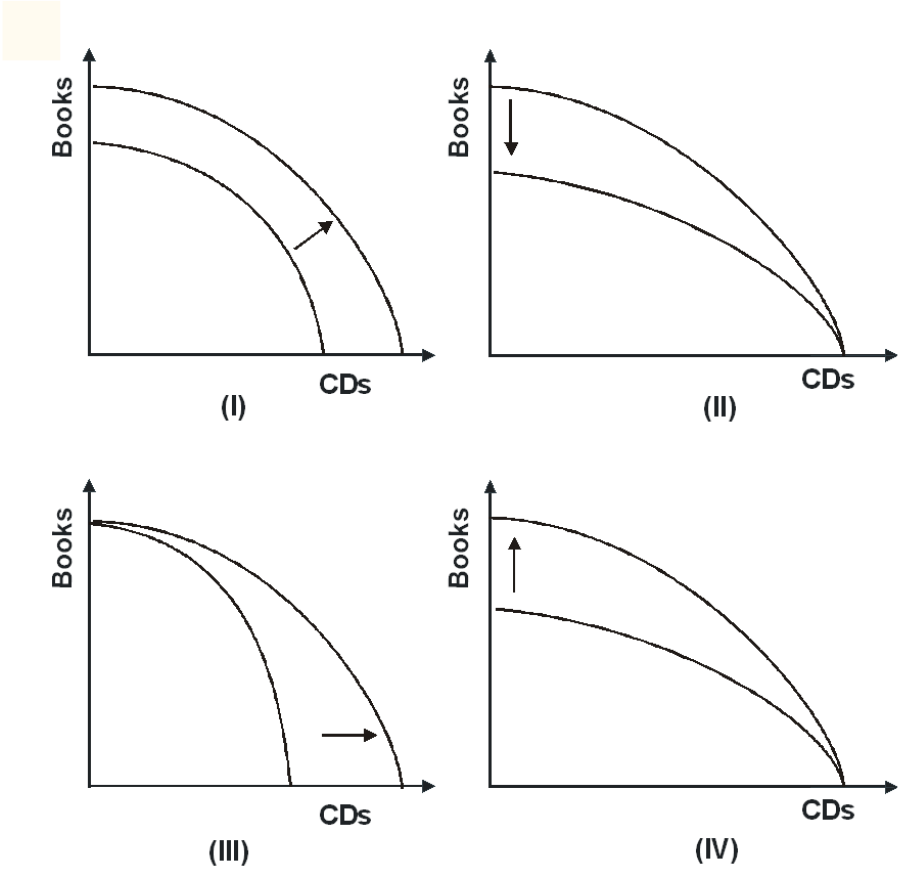
If the production possibility curve shifts along the Good Y axis which point will remain as a point of efficiency?
A. A
B. B
C. C
D. D



50. Refer to the graphs above. The discovery of a new supply of resources used only in the production of guns can be shown by which movement?
A. From A-B to C-D in diagram a.
B. From C-D to A-B in diagram a.
C. From X-Y to X-Z in diagram b.
D. From X-Z to X-Y in diagram b.

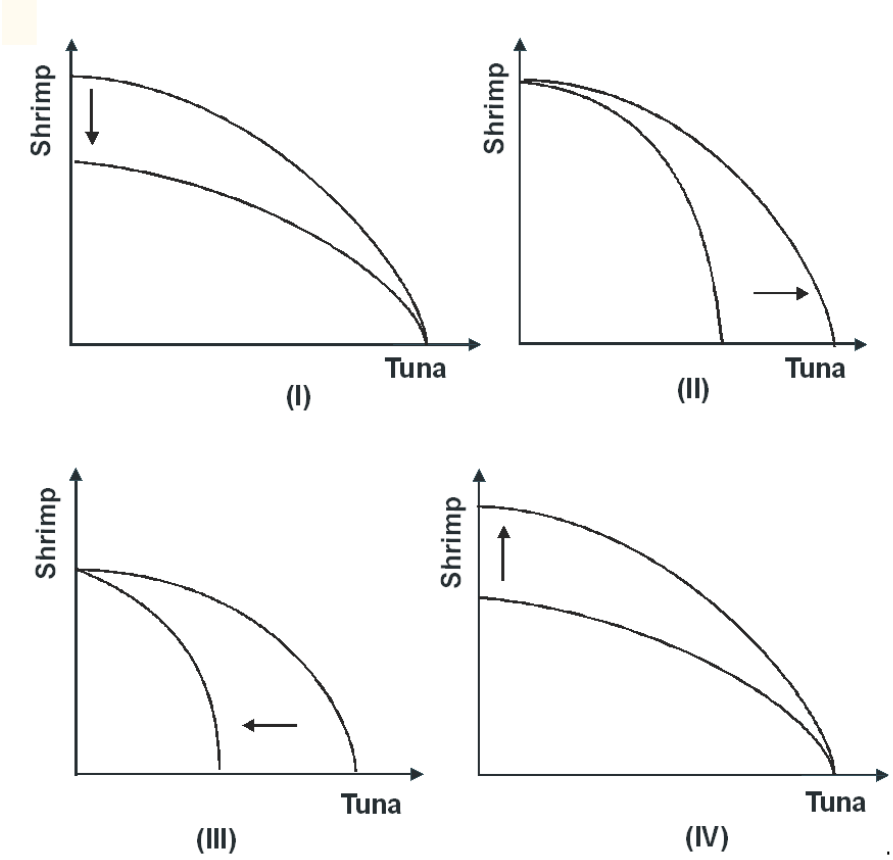
51. Refer to the graph above. Destruction of some of the resources necessary to produce both guns and butter would result in what movement?
A. From A-B to C-D in diagram a.
B. From C-D to A-B in diagram a.
C. From X-Y to X-Z in diagram b.
D. From X-Z to X-Y in diagram b.

52. Refer to the graphs below.



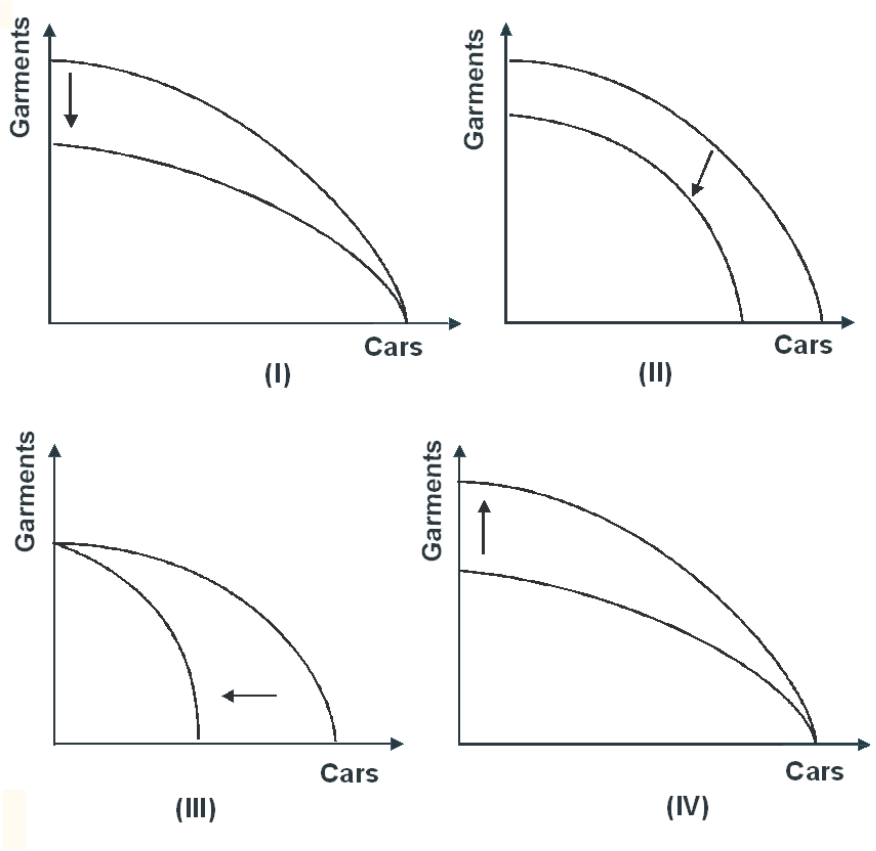
In the 1980s, desktop publishing reduced the costs of producing books. Assuming no change in the cost of producing CDs, which of the shifts reflects this change in technology?
A. I
B. II
C. III
D. IV

53. Refer to the graphs below.



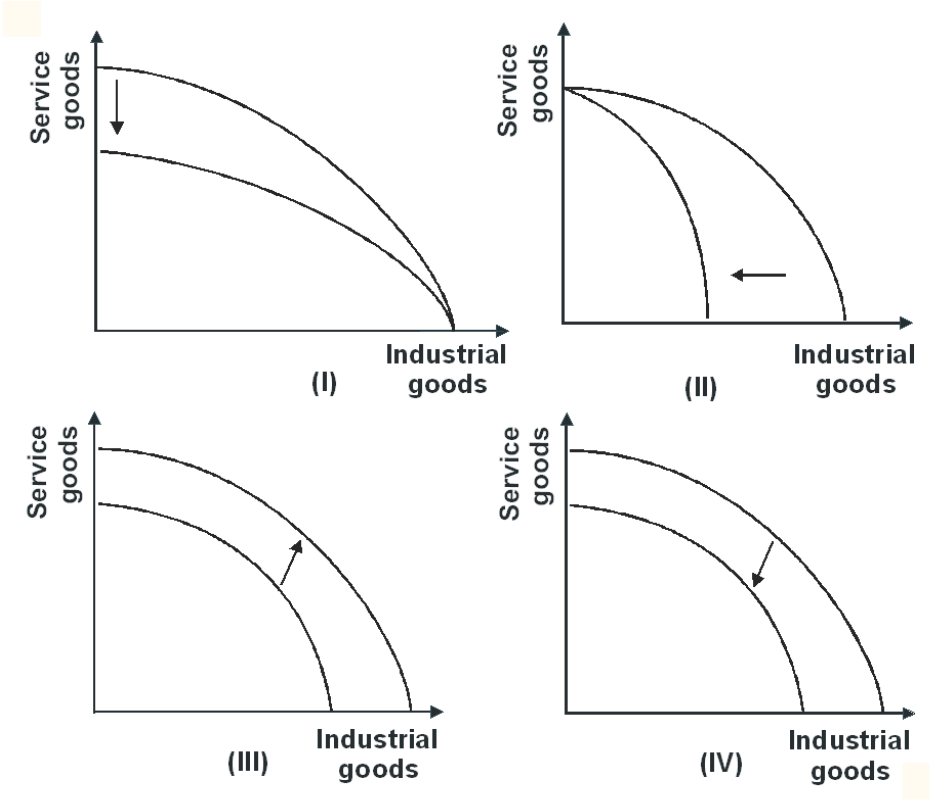
Which of the shifts explains what would happen to the production possibility curve if restrictions were imposed on tuna fishing?
A. I
B. II
C. III
D. IV

54. Refer to the graphs below.



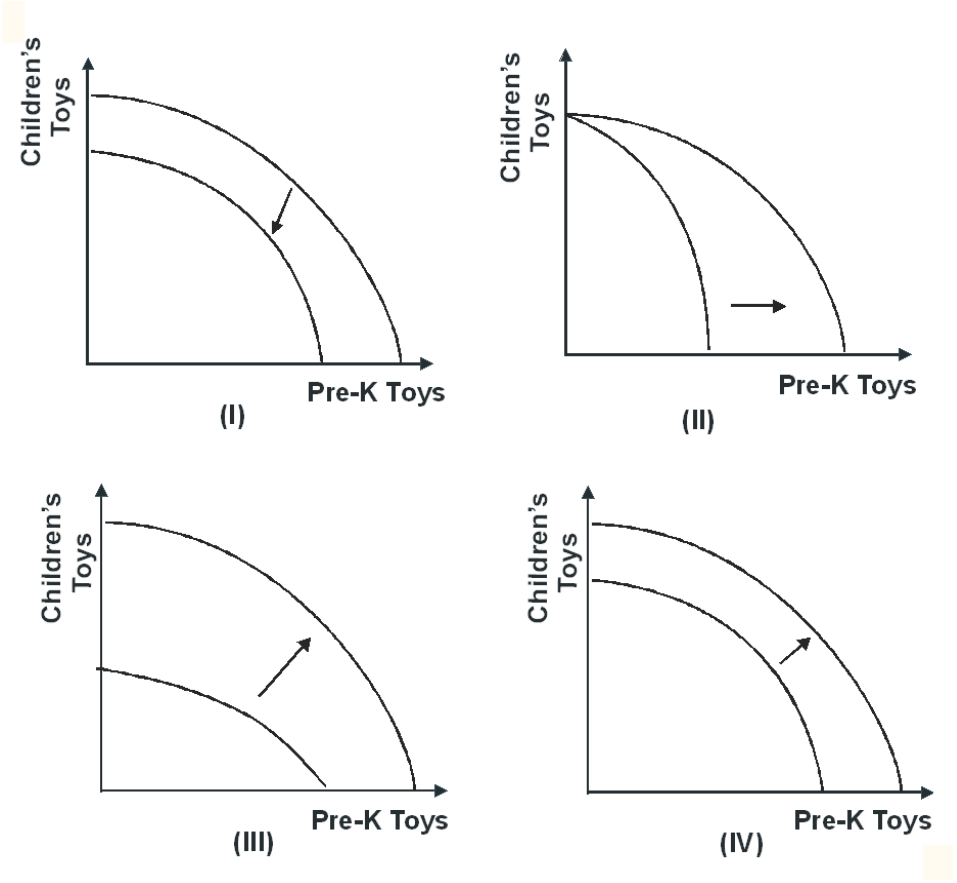
Which of the shifts explains what would happen to the production possibility curve if a cyclone destroys five major garment factories in the Philippines?
A. I
B. II
C. III
D. IV

55. Refer to the graphs below.



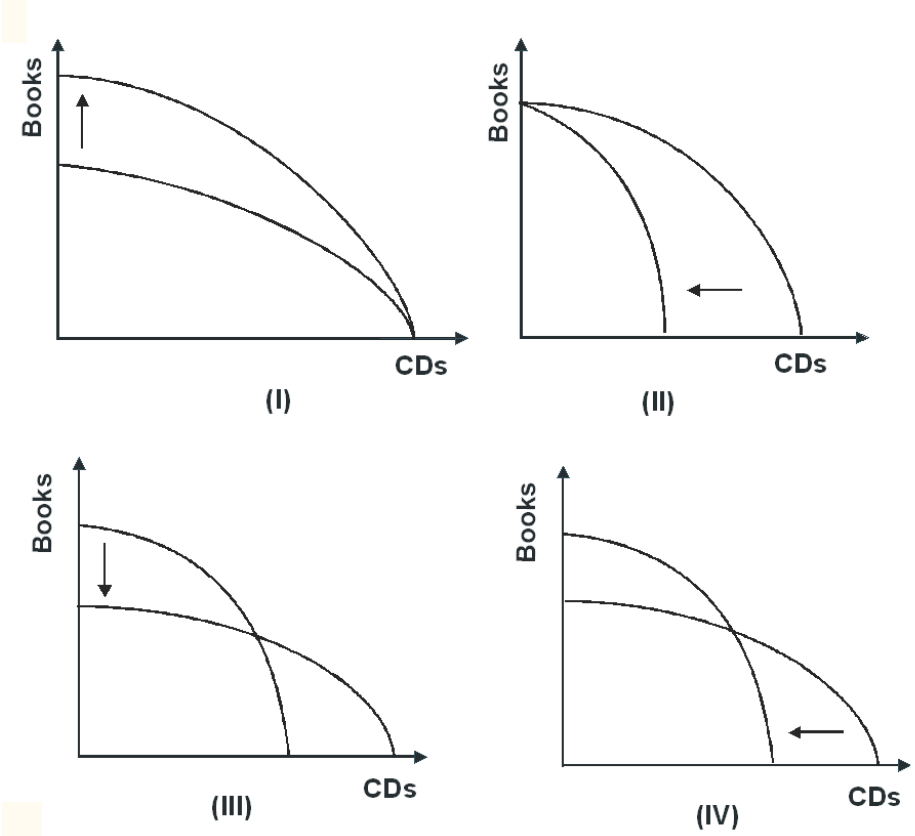
Which of the shifts explains what would happen to the production possibility curve if political unrest and strikes disrupt all sectors of an economy equally?
A. I
B. II
C. III
D. IV

56. Refer to the graphs below.



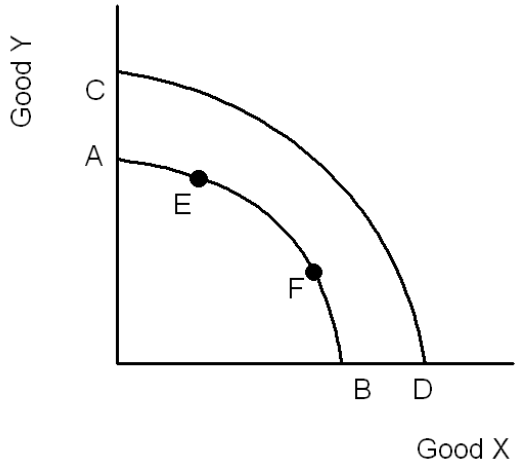
Which of the shifts explains what would happen to the production possibility curve if improved technologies increased the production of pre-kindergarten (pre-k) toys by 25% and the production of children's toys by 50%?
A. I
B. II
C. III
D. IV

57. Refer to the graphs below.



Which of the shifts explains what would happen to the production possibility curve if the cost of producing books goes down while the cost of producing CDs goes up?
A. I
B. II
C. III
D. IV

58. Refer to the graph below.



Google recently launched Google Docs&Spreadsheets, a free word processing software allows multiple users to collaboratively edit the same document online. This feature is expected to increase productivity for all workers. Assuming that curve AB represents the production possibility curve for the economy before this innovation, which best reflects the impact of Google Docs&Spreadsheets on the economy?
A. The production possibility curve shifts from AB to CD.
B. The production possibility curve shifts from CD to AB.
C. The mix of products produced by the economy moves from E to F.
D. The mix of products produced by the economy moves from F to E.

59. A resource is said to have a comparative advantage if:
A. it is better suited to the production of one good than to the production of an alternative good.
B. it is equally suited to the production of all goods.
C. its suitability to the production of one good changes as it produces more of that good.
D. its suitability to the production of one good does not change as it produces more of that good.

60. If no resources had a comparative advantage in the production of any good, the production possibility curve would be:
A. bowed outward.
B. bowed inward.
C. a horizontal line.
D. a downward sloping straight line.

61. If a country takes advantage of the comparative advantage of some resources over others, then its production possibility curve is likely to be:
A. flat.
B. straight.
C. bowed outward.
D. bowed inward.

62. Laissez-faire is:
A. an economic theorem.
B. an economic precept.
C. an inductive model of markets.
D. a deductive model of markets.

63. Which of the following is the best example of an economic precept?
A. Predictable irrationality.
B. The supply/demand model.
C. Production possibility model.
D. Laissez-faire.

64. Laissez-faire is an economic:
A. theorem because it is based on deductive analysis of a model that is based on assumptions.
B. theorem because it is the logical conclusion of a model with carefully stated relationships among variables.
C. precept because it is based on a model and normative judgments about the relevance of the model to the real world.
D. precept because it is the logical conclusion of a model with widely-held assumptions.

65. According to Adam Smith, individuals are directed to do those things for which they have a comparative advantage by:
A. their self interest.
B. corporate management.
C. government policy.
D. the educational system.

66. According to Adam Smith, trade based on comparative advantage is the result of:
A. government intervention.
B. altruism.
C. self-interest.
D. communal and familial relationships.

67. The text largely attributes the growth of economies over the last 200 years to:
A. the development of markets.
B. the discovery of additional resources.
C. a decrease in the size of the world population.
D. laissez-faire policies.

First Bakery		Second Bakery	
Cookies	Pies	Cookies	Pies
0	18	0	9
10	12	30	6
20	6	60	3
30	0	90	0

68. Given the production possibility tables for First and Second Bakeries presented above, we know that the opportunity cost of producing cookies:
A. is higher at First Bakery.
B. is higher at Second Bakery.
C. is the same at both bakeries.
D. cannot be computed without further information.

69. Given the production possibility tables for First and Second Bakeries presented above, we know that the opportunity cost of producing pies:
A. is higher at First Bakery.
B. is higher at Second Bakery.
C. is the same at both bakeries.
D. cannot be computed without further information.

70. Given the production possibility tables for First and Second Bakeries presented above, we can determine that:
A. First Bakery has a comparative advantage in the production of both goods.
B. Second Bakery has a comparative advantage in the production of pies.
C. First Bakery has a comparative advantage in the production of pies.
D. neither bakery has a comparative advantage.

71. Mexico has a comparative advantage in producing corn:
A. if its opportunity cost of producing corn is higher than the opportunity cost in other countries.
B. if its opportunity cost of producing corn is the same as the opportunity cost in other countries.
C. if its opportunity cost of producing corn is lower than the opportunity cost in other countries.
D. regardless of the opportunity cost in other countries.

72. Suppose New Zealand uses 1 unit of labor to produce a kiwi and two units of labor to produce an apple. Suppose Australia uses two units of labor to produce a kiwi and one unit of labor to produce an apple. In this case, New Zealand:
A. has a comparative advantage in producing apples.
B. has a comparative advantage in producing kiwis.
C. has a comparative advantage in producing both goods.
D. does not have a comparative advantage in producing either good.

73. Two countries that specialize their production along the lines of comparative advantage and then trade with one another will be able to:
A. both produce and consume more.
B. produce more and consume less.
C. produce less and consume more.
D. both produce and consume less.

74. Suppose that in Colombia, one unit of labor can produce 8 tons of papayas or 2 tons of bananas while in Brazil, one unit of labor can produce either 4 tons of papayas or 1 ton of bananas. Given this information, which of the following statements is true?
A. Columbia has a comparative advantage in producing papayas, but not bananas.
B. Columbia has a comparative advantage in producing papayas and bananas.
C. These countries would increase combined consumption if they specialized and traded.
D. These countries cannot gain from trading.

75. Suppose that in Colombia, one unit of labor can produce 8 tons of papayas or 2 tons of bananas while in Brazil, one unit of labor can produce either 2 tons of papayas or 4 tons of bananas. If each country has two units of labor, which of the following consumption combinations can be attained only with trade?
A. Brazil consumes 8 tons of bananas and no papayas.
B. Colombia consumes 16 tons of papayas and no bananas.
C. Brazil consumes 2 tons of papayas and 4 tons of bananas.
D. Colombia consumes 8 tons of papayas and 4 tons of bananas.

76. Suppose that in Slovakia, one unit of labor can produce either 16 tons of wheat or 32 tons of soy while in Poland, one unit of labor can produce either 4 tons of wheat or 2 tons of soy. Given this information, which of the following statements is true?
A. Slovakia has a comparative advantage in producing neither wheat nor soy.
B. Slovakia has a comparative advantage in producing both wheat and soy.
C. Poland has a comparative advantage in producing soy but not wheat.
D. Poland has a comparative advantage in producing wheat but not soy.

77. Suppose that in Slovakia, one unit of labor can produce either 20 tons of wheat or 40 tons of soy while in Poland, one unit of labor can produce either 40 tons of wheat or 20 tons of soy. If each country has two units of labor, which of the following consumption combinations can be attained only with trade?
A. Slovakia consumes 80 tons of soy.
B. Slovakia consumes 30 tons of both soy and wheat.
C. Poland consumes 80 tons of wheat.
D. Poland consumes 40 tons of wheat and 20 tons of soy.

The production-possibilities frontiers of two countries are given below:

Legoland		Elmoland	
Chocolate	Textiles	Chocolate	Textiles
30	0	60	0
20	20	30	15
15	30	20	20
0	60	0	30

78. Refer to the production-possibilities frontiers of two countries above. Without trade, the most each country could produce would be:
A. 15 chocolate and 15 textiles.
B. 20 chocolate and 20 textiles.
C. 30 chocolate and 30 textiles.
D. 60 chocolate and 60 textiles.

79. Refer to the production-possibilities frontiers of two countries above. If they specialized and traded, which of the following is the largest bundle each country could have?
A. 15 chocolate and 15 textiles.
B. 20 chocolate and 20 textiles.
C. 30 chocolate and 30 textiles.
D. 60 chocolate and 60 textiles.

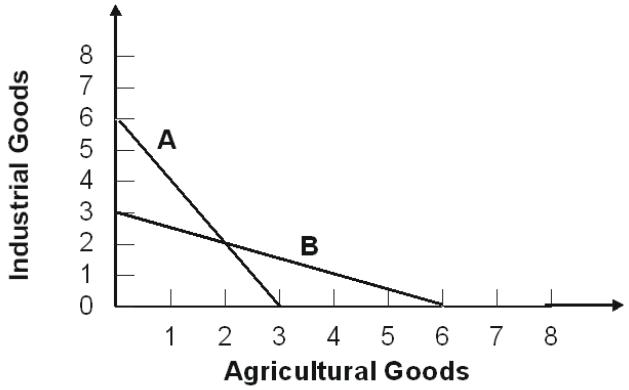
80. Refer to the production-possibilities frontiers of two countries above. If we find these countries combined production-possibilities frontier, the frontier or line will have a bend or kink at the point:
A. 75 chocolate and 30 textiles.
B. 40 chocolate and 40 textiles.
C. 60 chocolate and 60 textiles.
D. 35 chocolate and 50 textiles.

Northland		Southland	
Apples	Bananas	Apples	Bananas
30	0	30	0
20	5	20	20
10	10	10	40
0	15	0	60

81. The production-possibilities frontiers of Northland and Southland are given above. Without trade, Northland produces and consumes 20 apples and 5 bananas and Southland produces and consumes 10 apples and 40 bananas. Could they increase their consumption bundle by changing production and trading?
A. No; Southland does at least as well at producing both so it would have no incentive to trade.
B. Yes; they could gain 75 bananas and 60 apples.
C. Yes; they could gain up to 60 apples without losing bananas.
D. Yes; they could gain up to 15 bananas without losing apples.

82. The production-possibilities frontiers of Northland and Southland are given above. If these countries trade, which of the following points would be on their combined or joint production-possibilities frontier?
A. 60 apples and 0 bananas
B. 60 apples and 5 bananas
C. 60 apples and 10 bananas
D. 60 apples and 20 bananas

83. The production-possibilities frontiers of Northland and Southland are given above. If these countries trade, which of the following points would be on their combined or joint production-possibilities frontier?
A. 30 apples and 15 bananas
B. 30 apples and 60 bananas
C. 40 apples and 25 bananas
D. 50 apples and 10 bananas



84. Refer to the graph above. Suppose Country X exports agricultural goods to Country Y in exchange for industrial goods. This pattern of trade increases consumption in both countries only if:
A. both X and Y share production possibility curve A.
B. X's production possibility curve is B while Y's is A.
C. X's production possibility curve is A while Y's is B.
D. both X and Y share production possibility curve B.

85. Refer to the graph above. If countries X and Y face the production possibility curves A and B, respectively, country X has a comparative advantage in the production of:
A. neither agricultural goods nor industrial goods.
B. both agricultural goods and industrial goods.
C. agricultural goods only.
D. industrial goods only.

86. Refer to the graph above. If countries X and Y face the production possibility curves A and B, respectively, country Y has a comparative advantage in the production of:
A. neither agricultural goods nor industrial goods.
B. both agricultural goods and industrial goods.
C. agricultural goods only.
D. industrial goods only.

87. Up through the early decades of the 20th century, many countries remained closed to trade, charging high tariffs or imposing strict quotas on imported goods. In 1948, 23 countries joined the General Agreement on Tariffs and Trade (GATT), which sought to set out rules for trade and enhance negotiations. The reduction in tariffs as a result of GATT likely brought about:
A. a decrease in consumption
B. an increase in consumption
C. no change in consumption
D. a reduction in domestic production

88. John can clean the house in three hours and do the laundry in four. Jane can clean the house in two hours or do the laundry in two. Can they benefit by specialization and trade?
A. Neither can benefit because John has nothing to offer.
B. John could benefit from an exchange but Jane cannot because she is better at both.
C. Both can benefit because John has a comparative advantage in laundry.
D. Both can benefit because John has a comparative advantage in cleaning.

89. John and Jane Smith are both economists who are deciding how to split household chores of cooking and cleaning. They discover that John has a comparative advantage in cooking. Does this discovery tell them anything about comparative advantage in cleaning?
A. No; both or neither may have a comparative advantage in cleaning.
B. No; either one may have a comparative advantage in cleaning.
C. Yes; John must also have a comparative advantage in cleaning.
D. Yes; Jane must have a comparative advantage in cleaning.

90. Countries gain from trade by producing:
A. the goods they produce at the highest opportunity cost.
B. the goods they can produce at the lowest opportunity cost.
C. where the production possibility curve has a slope of -1.
D. all goods in equal amounts.

91. Trade based on comparative advantage benefits:
A. consumers in all countries.
B. consumers in some countries but hurts consumers in other countries.
C. neither producers nor consumers.
D. producers in all countries but not consumers.

92. The relocation of production that was once done in the U.S. to foreign nations is called:
A. insourcing.
B. outsourcing.
C. technological change.
D. unfair trade.

93. In recent years many phone banks for telemarketing and customer service have moved from the U.S. to foreign nations such as the Philippines and India. This move is usually called:
A. insourcing.
B. outsourcing.
C. technological change.
D. unfair trade.

94. The Apple iPod was designed by Apple in the U.S., manufactured in factories in Asia, and sold throughout the world. Apple's use of Asian manufacturers to produce the iPod is an example of:
A. insourcing.
B. outsourcing.
C. the law of one price.
D. nanotechnology.

95. Economists view recent increases in outsourcing as:
A. a new phenomena that the idea of comparative advantage was not designed to explain.
B. a result of new technologies that render the laws of comparative advantage obsolete.
C. a political development that is of little or no importance to economics.
D. merely the working of comparative advantage in services rather than in goods.

96. The text argues that the U.S. has had a comparative advantage in goods and services that:
A. require creativity and innovation.
B. are artistic and well-crafted.
C. are mass produced.
D. are luxury goods.

97. The Apple iPod has been a trendy product. It was designed by Apple in the U.S., manufactured in factories in Asia, and sold throughout the world. Many other firms, both American and foreign, began to try to develop alternatives to the iPod. The iPod is an example of American comparative advantage in:
A. innovation.
B. mass production.
C. hand production.
D. consumerism.

98. In China many farmers have switched from producing rice to producing vegetables and fruits because they can earn a great deal of more money from these specialty crops. Within China there are some who applaud this change, while others worry that China may soon become dependent on rice imports. Even with the low cost of Chinese labor, does the fact that China is importing rice suggest that other countries now have a comparative advantage in rice production?
A. No; it must have a comparative advantage in rice.
B. Yes; but only if there are other countries with even cheaper labor.
C. Yes; countries with more expensive labor can offset that cost with abundant land and farm equipment.
D. Maybe; because rice is a standardized product, the role of innovation and creativity in its production is important.

99. When the exchange rate value of the dollar rises and other things stay the same, what happens to relative wage rates between the United States and other countries?
A. They rise.
B. They fall.
C. They don't change.
D. It's impossible to say.

100. In the years after the introduction of the European Euro currency, the price of the euro rose from about $1.1 = 1 € to $1.30 = 1 €. In terms of wage rates, this rise in the price of the euro:
A. lowered U.S. wages relative to European wages.
B. lowered European wages relative to U.S. wages.
C. raised both European and U.S. wages.
D. lowered both European and U.S. wages.

101. How does the text define the law of one price?
A. It is illegal to pay different people different amounts for the same work.
B. It is illegal to charge different people different amounts for the same product.
C. Competition, combined with transferable goods and resources, drives prices of similar goods toward equality.
D. There is a tendency for companies to keep prices fixed because the cost of making changes is often high.

102. Which of the following is an example of the law of one price?
A. Exchange rates tend to have equivalent values. For example, one Italian lire equals one U.S. dollar.
B. Because people have essentially the same basic needs wherever they live, they tend to buy the same bundle of goods.
C. Because wages are so much lower in China, eventually all U.S. jobs will be outsourced to China leaving the U.S. to import all goods at one price.
D. Because their countries have similar institutions, computer programmers in Germany and the United States are paid about the same.

103. Which of the following is an example of the law of one price in action?
A. Prices are just one of the many factors that firms use when deciding where to locate production.
B. If one county has a comparative advantage in producing a particular good, another country must have a comparative advantage in producing another good.
C. Wages in India are lower than in the United States, so firms move their call-centers to India. This tends to raise wages in India and depress wages in the United States.
D. Because most industries in the United States are dominated by one or two firms, the dominant firm sets the price and other firms in the industry follow.

104. Which of the following factors will help the United States regain comparative advantages in industries where it has lost comparative advantages?
A. The value of the U.S. dollar falls.
B. The value of the U.S. dollar rises.
C. The U.S. imports more goods.
D. Wages in the United States rise.

105. The morel is a prized mushroom that is often abundant in the Western U.S. in years after forest fires. Suppose that two companies are buying morels from workers willing to find them. One company offers to pay workers $5.00 per pound and the other company will only pay workers $4.00 per pound. Economists would say that:
A. the company willing to pay only $4.00 has a comparative advantage in selling morels.
B. the higher-paying company will attract the more creative and innovative pickers while the lower-paying company will attract the others.
C. the lower-paying company will attract the more creative and innovative pickers while the higher-paying company will attract the others.
D. this situation violates the law of one price and is not likely to persist.

106. Juan works at Texas Burgers in El Paso and earns $8.00 per hour. His twin brother Felipe works in Mexico Burgers in Cuidad Juarez just across the border earning $3.00 per hour for exactly the same work. An economist looking at this situation sees:
A. an incentive for Felipe to cross the border to get a job and thus reduce the gap.
B. an incentive for Felipe to quit and find another job in Mexico.
C. the tendency of the rich to get richer and the poor to get poorer, widening the gap.
D. evidence that the law of one price has no support in the real-world.

107. If U.S. workers are paid $16 an hour and Indian workers are paid the equivalent of $4 an hour, but U.S. workers can produce four times as many goods as Indian workers in the same amount of time,
A. workers in the United State are paid too much.
B. production will migrate to the United States.
C. production will migrate to India.
D. there is no reason to move production from the United States to India.

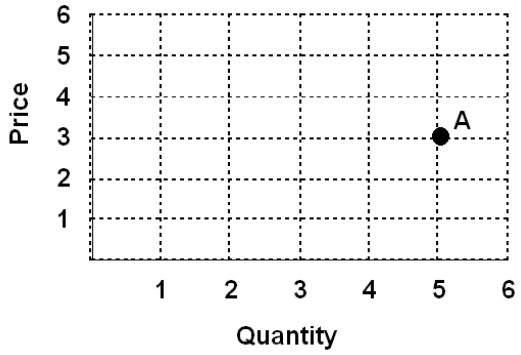
108. Adam Smith argued that greater specialization and division of labor are likely to:
A. improve standards of living.
B. reduce standards of living.
C. reduce worker productivity.
D. replace workers with machines, resulting in massive unemployment.

109. If the hourly wage of U.S. workers is $16, the hourly wage of Mexican workers is $2, and U.S. workers produce 5 times as much output per hour as Mexican workers, then, other things equal, it would be efficient to locate production facilities in:
A. the U.S. since the cost per unit of output will be higher.
B. the U.S. since the cost per unit of output will be lower.
C. Mexico since the cost per unit of output will be higher.
D. Mexico since the cost per unit of output will be lower.

110. If the hourly wage of U.S. workers is $16, the hourly wage of Mexican workers is $2, and U.S. workers produce 9 times as much output per hour as Mexican workers, then, all else equal, it would be efficient to locate production facilities in:
A. the U.S. since the cost per unit of output will be higher.
B. the U.S. since the cost per unit of output will be lower.
C. Mexico since the cost per unit of output will be higher.
D. Mexico since the cost per unit of output will be lower.

111. If the hourly wage of German workers is $6, the hourly wage of Canadian workers is $10, and German workers produce half as much output per hour as Canadian workers, all else equal it would be efficient to locate production facilities in:
A. Germany since the cost per unit of output will be higher.
B. Germany since the cost per unit of output will be lower.
C. Canada since the cost per unit of output will be higher.
D. Canada since the cost per unit of output will be lower.

112. Refer to the graph below.



Point A represents a price of:
A. 3 and a quantity of 3.
B. 3 and a quantity of 5.
C. 5 and a quantity of 3.
D. 5 and a quantity of 5.

113. If there is a direct relationship between two variables, then the graph relating these two variables will be:
A. upward sloping.
B. downward sloping.
C. vertical.
D. horizontal.

114. If there is an inverse relationship between two variables, then the graph relating the two variables will be:
A. upward sloping.
B. downward sloping.
C. vertical.
D. horizontal.

115. What kind of relationship exists between the price of gas and the quantity demanded for gas if the quantity demanded for gas falls when the price of gas increases?
A. Direct.
B. Inverse.
C. Normal.
D. Perverse.

116. An inverse relationship occurs between two variables when as one goes:
A. up the other goes up.
B. up the other goes down.
C. up the other does not change.
D. down the other goes down.

117. If the quantity demanded for a good rises as the price falls, then the curve representing this relationship will be:
A. upward sloping.
B. downward sloping.
C. horizontal.
D. cannot be determined.

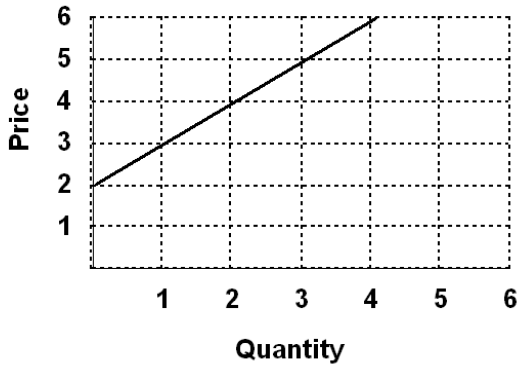
118. The slope of a line is the:
A. value on the vertical axis divided by the value on the horizontal axis.
B. value on the horizontal axis divided by the value on the vertical axis.
C. change in the value on the vertical axis divided by the change in the value on the horizontal axis.
D. change in the value on the horizontal axis divided by the change in the value on the vertical axis.

119. The slope of a line is zero when it is:
A. horizontal.
B. vertical.
C. an upward sloping line that makes a 45 degree angle with the horizontal and vertical axes.
D. a downward sloping line that makes a 45 degree angle with the horizontal and vertical axes.

120. The slope of a line that is vertical is:
A. zero.
B. one.
C. infinite.
D. depends on where it intersects the horizontal axis.

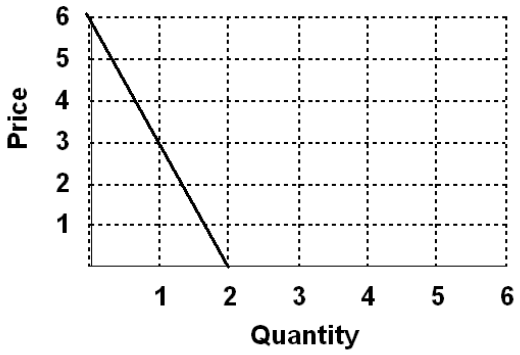
121. A downward sloping line that makes a 45 degree angle with the horizontal and vertical axes has a slope of:
A. zero.
B. one.
C. minus one.
D. infinity.

122. Refer to the graph below.



The slope of the line is:
A. ½.
B. 1.
C. 2.
D. minus ½.

123. Refer to the graph below.

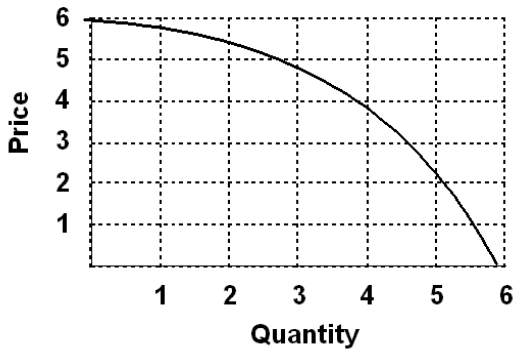


The slope of the line is:
A. 1/3.
B. 3.
C. minus 1/3.
D. minus 3.

124. Refer to the graph below.

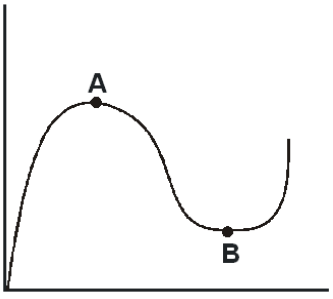
The slope of the line is:
A. 0.
B. 1.
C. 5.
D. infinity.

125. Refer to the graph below.



The slope of the curve is:
A. minus 1.
B. minus 2.
C. minus infinity.
D. different at different points.

126. The slopes of the curve at points A and B (maximum and minimum) are:



A. zero and zero.
B. infinity and zero.
C. zero and one.
D. one and zero.

127. In the linear equation y = mx + b, m is the:
A. variable on the horizontal axis.
B. variable on the vertical axis.
C. slope.
D. vertical intercept.

128. In the linear equation y = mx + b, an increase in b will:
A. shift the curve up.
B. shift the curve down.
C. cause the curve to become steeper.
D. cause the curve to become flatter.

129. What is 25 percent of 200?
A. 8.
B. 25.
C. 50.
D. 100.

130. Consider the following information, which provides percentage change in GDP per year:

	Percentage increase in GDP
1999	-10.0
2000	-5.0
2001	-5.0
2002	4.0
2003	10.0

Given this information, which of the following statements is true?
A. GDP in 1999 is less than in 2001.
B. GDP in 1999 is greater than in 2000.
C. GDP in 2003 is less than in 2001.
D. GDP in 2001 is greater than in 2002.

Chapter 02 The Production Possibility Model, Trade, and Globalization Answer Key

True / False Questions

1. The production possibilities model can be used to demonstrate the concept of opportunity cost.
TRUE

The production possibilities model shows all the possible production combinations and also demonstrates the tradeoffs involved in moving from one combination to another.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-1
Topic: Production Possibilities Model

2. Production possibility curves are upward sloping because increased production of one good implies reduced production of other goods.
FALSE

Production possibility curves are downward sloping. The rest of the statement is correct.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-1
Topic: Production Possibilities Curve

3. An economy that operates inside of its production possibility curve is less efficient than it would be if it were operating on its production possibility curve.
TRUE

The production possibility curve represents the most output we can get with a given level of inputs. Operating inside that curve, would mean that we can produce more with the given inputs and, as long as we prefer more to less, represents a less efficient point than a point on the production possibility curve.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-1
Topic: Production Possibilities Curve

4. If the principle of increasing marginal opportunity cost holds, then the opportunity cost of producing each additional unit of a good should fall as production of that good rises.
FALSE

See the definition of the principle of increasing marginal opportunity cost in the text.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

5. Productive efficiency is not achieved at any point inside the production possibility curve.
TRUE

Since it is always possible to reallocate resources at any point inside the production possibility in a way that increases output, these points do not represent productive efficiency.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-2
Topic: Productive Efficiency

6. If a country has a comparative advantage in the production of a good, then its resources are better suited to the production of that good than the resources of other countries.
TRUE

See the definition of comparative advantage in the text.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-3
Topic: Comparative Advantage

7. Two nations with differing comparative advantages will be able to consume more if they specialize and trade with one another than if they did not specialize or trade with one another.
TRUE

Trade shifts production of each good to the country or countries with the lowest opportunity costs. As a consequence, total production rises and hence so does total consumption, allowing each country to consume more than if they did not trade.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

8. Two nations with differing comparative advantages will be able to consume more if each produces the good for which the opportunity cost is highest and trades for the good for which opportunity cost is lowest.
FALSE

Each country should produce that good for which opportunity cost is lowest (has comparative advantage in producing) and trade for the good for which opportunity cost is highest.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

9. The law of one price means that prices will eventually be the same in all countries and eventually countries will not have a reason to trade.
FALSE

Although the law of one price means that prices will eventually be the same in all countries, this happens because countries DO trade. As long as the comparative advantages differ, there is a reason to trade.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-5
Topic: Law of One Price

Multiple Choice Questions

10. When the Sarbanes-Oxley Act that imposed new accounting rules was passed, analysts suggested that the new rules would not help the investing public, but only add to the hours that accountants would have to devote to complying with the new rules. When an economist looks at those extra hours spent to satisfy these rules, he sees:
A. a loss of other goods and services that could have been produced.
B. an outward shift in the production-possibilities frontier.
C. the causes of a market failure.
D. a loss by some that is offset by a gain by others.

Everything has a cost. Not everything has a benefit.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-1
Topic: Opportunity Cost

11. Which of the following cannot be determined using a production possibility table?
A. What combination of outputs can be produced.
B. How much less of one output must be produced if more of another output is produced.
C. What combination of outputs is best.
D. How much output can be produced from a given level of inputs.

A production possibility table tells what combinations of goods can be produced, not what combination is best.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-1
Topic: Production Possibilities Table

12. Supposed that each of the following rows represents the choice faced by policy makers given the current set of U.S. institutions and technology. What is the opportunity cost of reducing unemployment from 8 percent to 4 percent?

Unemployment	Inflation
10	3
8	4
6	5
5	7
4	10

A. 4 percentage points of unemployment.
B. 6 percentage points of unemployment.
C. 6 percentage points of inflation.
D. 4 percentage points of inflation.

The opportunity cost is what must be given up. In this case, to reduce unemployment from 8 to 4%, inflation must rise from 4 to 10%. The change in the inflation rate is the opportunity cost of lowering unemployment.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Opportunity Cost

13. Investment in capital goods is one way to increase the standard of living in the future. Investment in capital goods, however, means that we must forgo consumption today. One of the tradeoffs facing an economy is consumption today and consumption in the future. The following table presents such a trade off. With this information we know that the opportunity cost of which of the following is the greatest?

Current consumption	Future consumption
800	100
750	260
650	340
600	380
550	400

A. Increasing current consumption from 750 to 800.
B. Increasing current consumption from 650 to 750.
C. Increasing current consumption from 600 to 650.
D. Increasing current consumption from 550 to 600.

The opportunity cost of increasing current consumption increases as current consumption rises. The opportunity cost of increasing consumption from 750 to 800 is 160 future consumption units but the opportunity cost of increasing current consumption from 550 to 600 is only 20 future consumption units.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Opportunity Cost

14. With the resources available, you can make the combinations of Ums and Umies (trinkets from a place called Bandarban) shown in the table. The opportunity cost of producing 60 Umies instead of 30 Umies is:

Number of Ums	Number of Umies
60	0
40	30
20	60
0	90

A. 10 Ums.
B. 20 Ums.
C. 30 Ums.
D. 40 Ums.

Producing an extra 30 Umies means not producing 20 (40-20) Ums.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Opportunity Cost

15. Evan can grow both roses and carnations in his garden. His production possibility table is given below. If he is currently producing 110 roses, his opportunity cost of producing 40 more roses is:

Number of roses	Number of carnations
0	155
60	135
110	109
150	78
180	0

A. 20 carnations.
B. 26 carnations.
C. 31 carnations.
D. 78 carnations.

Producing an extra 40 roses means not producing 31 (109-78) carnations.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Opportunity Cost

16. Consider the table below, where each production choice represents a point on a production possibility curve.

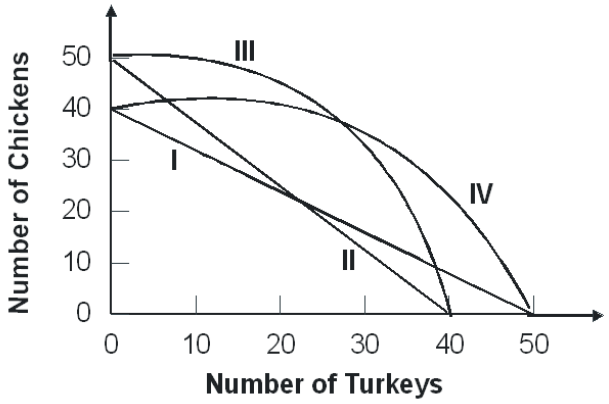
Choice	Eggs	Rye
A	10	0
B	8	10
C	6	20
D	4	30
E	2	40
F	0	50

This production possibility table could be graphed as a:
A. straight line with negative slope.
B. curved line with negative slope.
C. straight line with zero slope.
D. curved line with positive slope.

Graph each point and find out that the graph of the table is a straight line or realize that the opportunity cost of 10 Rye is always 2 eggs. Constant opportunity costs are represented by a straight-line production possibility curve.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Production Possibilities Curve

17. Refer to the graph below.



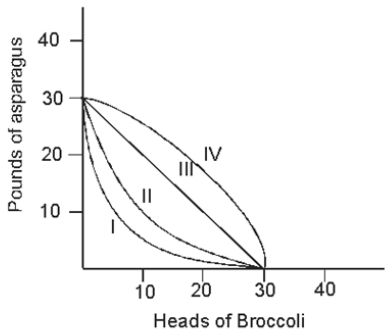
Suppose that the opportunity cost of producing 10 chickens is always 8 turkeys. Given this, the relevant production possibility curve must be:
A. I
B. II
C. III
D. IV

This is the only curve along which opportunity cost is constant and equal to 0.8 turkeys per chicken.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Production Possibilities Curve

18. The production possibilities table below on the left is for growing broccoli and asparagus in a 320 square foot garden in one season.

Production Possibility	
broccoli	asparagus
30	0
20	18
10	26
0	30



Which curve on the graph on the right corresponds to this table?
A. I
B. II
C. III
D. IV

Each curve has the same anchor. To determine the correct curve look at how opportunity cost changes as you choose more broccoli. As you choose more broccoli, the opportunity cost per broccoli increases, meaning the production possibility curve is bowed outward.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Production Possibilities Curve

19. Because you can only get more of one good by giving up some of another good, the shape of a production possibilities curve is:
A. upward sloping.
B. perfectly vertical.
C. perfectly horizontal.
D. downward sloping.

The negative slope of a production possibility curve represents the opportunity cost concept--you get more of one benefit only if you get less of another benefit.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-1
Topic: Production Possibilities Curve

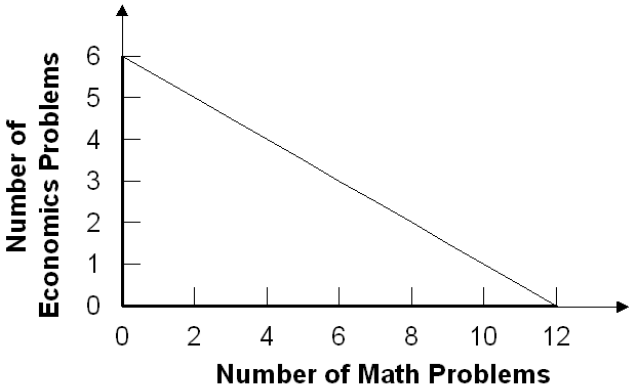
20. Refer to the production possibilities curve for Ricardia below.

The graph indicates that with the resources and technology it has available, Ricardia:
A. can produce either 40 units of rye or 20 units of eggs.
B. can produce both 40 units of rye and 20 units of eggs.
C. cannot produce both 20 units of rye and 10 units of eggs.
D. cannot produce both 20 units of rye and 5 units of eggs.

From this graph we can tell that with the given inputs, the following combinations are possible [eggs, rye]: (20, 0), (15, 10), (10, 20), (5, 30) and (0, 40).

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Production Possibilities Curve

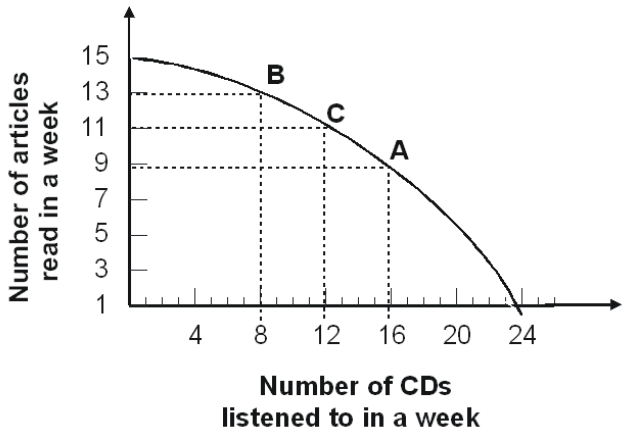
21. Refer to the graph below.



Laura's production possibility curve for math and economics problems in one night is shown in the graph. Her opportunity cost of finishing 6 math problems instead of 4 math problems is:
A. 1 economics problem.
B. 2 economics problems.
C. 3 economics problems.
D. 4 economics problems.

Finishing 2 more math problems means not finishing 1 (4-3) economics problems.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Opportunity Cost



22. Given the production possibility curve above, the opportunity cost of listening to each additional CD when moving from point B to point A is on average:
A. ½ article.
B. 1 article.
C. 2 articles.
D. 3 articles.

Moving from point B to A means giving up 4 articles for 8 CDS. Thus, the opportunity cost is 4/8 or 1/2 article.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Opportunity Cost

23. Refer to the graph above. Given the production possibility curve above, the opportunity cost of reading 2 more articles when you are already reading 11 articles is on average:
A. ½ CD per article.
B. 2 CDs per article.
C. 2/3 CD per article.
D. 3 CDs per article.

Moving from C to B means giving up 4 CDs for 2 articles or 2 CDs per article.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Opportunity Cost

24. If a production possibility curve representing a tradeoff between a grade in English and a grade in math has a negative slope we know that:
A. there is a direct relationship between grades in English and grades in math.
B. there is no relationship between grades in English and grades in math.
C. there is an inverse relationship between grades in English and grades in math.
D. one can get better grades in English only if one gets better grades in math.

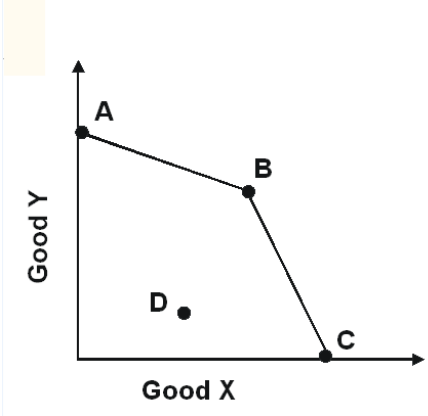
The negative slope of the production possibility curve implies that one can get better grades in English only by sacrificing better grades in math.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-1
Topic: Opportunity Cost

25. Given a production possibility curve for good X (on the x-axis) and good Y (on the y-axis), the opportunity cost of increasing good X is greatest when the slope of the production possibility curve is:
A. -6
B. -4
C. 6
D. 4

A slope of -6 means that one must give up 6Y to get 1X. A slope of -4 means that one must give up only 4Y to get 1X.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-1
Topic: Opportunity Cost



26. Refer to the above graph. In the graph, the opportunity cost of good X in terms of good Y is:
A. higher along the segment AB than along the segment BC.
B. lower along the segment AB than along the segment BC.
C. the same everywhere on the two segments.
D. always increasing as we move from A to C.

The slope of the production possibility curve represents the opportunity cost of producing one good in terms of another. Since this slope is greater along BC than along AB, the opportunity cost of producing X in terms of Y is higher along the former. Note that the slope is constant along both BC and AB and changes only when we move from one segment to the other.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Opportunity Cost

27. In the graph above, what change would increase production efficiency?
A. Moving from A to D.
B. Moving from A to B.
C. Moving from C to D.
D. Moving from D to B.

Efficiency is increased when a given quantity of inputs is reallocated in such a way as to produce more of each good.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Productive Efficiency

28. England has a relatively cool and cloudy climate, which is ill-suited for grape growing. It can produce 200 units of wine for every 400 units of cloth. Portugal, meanwhile, has a relatively warm and sunny climate, good for growing grapes. It can produce 200 units of wine for every 100 units of cloth. Which country has the higher opportunity cost of producing cloth?
A. Portugal: 2 units of wine for every unit of cloth
B. England: 2 units of wine for every unit of cloth
C. Portugal: ½ unit of wine for every unit of cloth
D. England: ½ unit of cloth for every unit of wine

The opportunity cost for England of producing 1 unit of cloth is ½ unit of wine. The opportunity cost for Portugal of producing 1 unit of cloth is 2 units of wine. Therefore, Portugal has the higher opportunity cost.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Opportunity Cost

29. Increasing marginal opportunity cost means that the production possibility curve is:
A. bowed in so that for every additional unit of one good given up, you get fewer and fewer units of the other good.
B. bowed in so that for every additional unit of one good given up, you get more and more units of the other good.
C. bowed out so that for every additional unit of a good given up, you get fewer and fewer units of the other good.
D. bowed out so that for every additional unit of one good given up, you get more and more units of the other good.

Increasing marginal opportunity cost means that as you continue to give up equal amounts of one good, you obtain less and less of the other good.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

30. This production possibility table illustrates:

Eggs	Rye
10	0
8	10
6	20
4	30
2	40
0	50

A. increasing marginal opportunity cost.
B. decreasing marginal opportunity cost.
C. constant marginal opportunity cost.
D. zero opportunity cost.

Since one must always give up 2 eggs for 10 more units of rye, opportunity cost is unchanging.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-2
Topic: Opportunity Cost

31. The principle of increasing marginal opportunity costs states that the initial opportunity costs are:
A. high but they decrease the more you concentrate on the activity.
B. low but they increase the more you concentrate on the activity.
C. high but they increase the more you concentrate on the activity.
D. low but they decrease the more you concentrate on the activity.

The principle of increasing marginal opportunity cost states that in order to get more of something one must give up ever-increasing quantities of something else. This implies that initial opportunity costs are low, but increase the more you concentrate on the activity.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

32. To graphically demonstrate the principle of increasing marginal opportunity cost the production possibility curve must be:
A. flat.
B. straight.
C. bowed out.
D. bowed in.

When the production possibility curve is bowed out, as you increase production of one good, the slope of the curve becomes steeper. This implies that more and more of the other good must be given up. This follows the principle of increasing marginal opportunity cost.

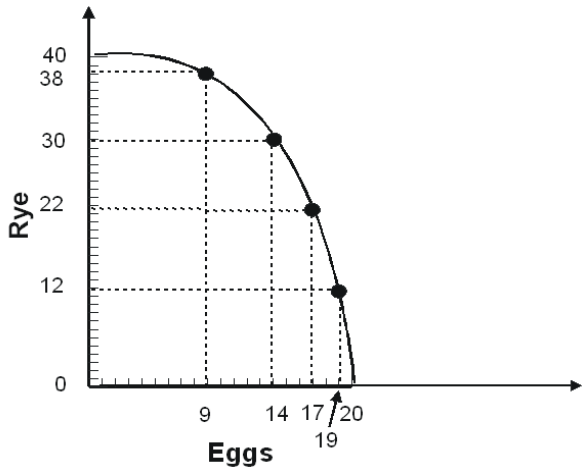
AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

33. If there were decreasing marginal opportunity costs, the production possibility curve would be:
A. flat.
B. straight.
C. bowed out.
D. bowed in.

When the production possibility curve is bowed in, as you increase production of one good, the slope of the curve becomes flatter. That is, less and less of the other good must be given up, so marginal opportunity cost is decreasing.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

34. Refer to the graph below.

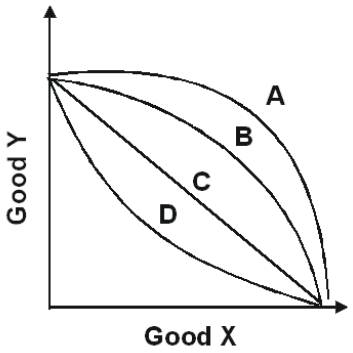


The graph indicates that as more eggs are produced, the marginal opportunity cost of:
A. both eggs and rye increases.
B. eggs increases while the marginal opportunity cost of rye remains constant.
C. eggs increases while the marginal opportunity cost of rye decreases.
D. eggs decreases while the marginal opportunity cost of rye remains constant.

Since the production possibility curve is bowed outward, we know that it demonstrates the principle of increasing opportunity cost. As more eggs are produced the marginal opportunity cost of eggs increases, and the marginal opportunity cost of rye decreases.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

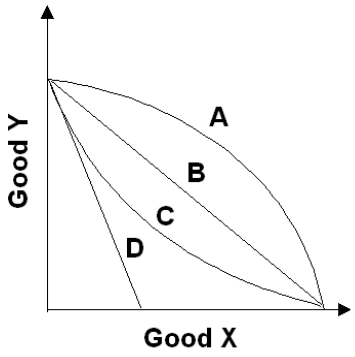
35. Refer to the graph below.



With which curve does the opportunity cost of an additional unit of good Y decrease as more units of good Y are produced?
A. A
B. B
C. C
D. D

A production possibility curve that exhibits decreasing marginal opportunity cost must be bowed inward.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost



36. Refer to the graph above. Which of the curves shows increasing marginal opportunity cost?
A. A
B. B
C. C
D. D

Increasing marginal opportunity costs means that in order to have more of something you must give up ever-increasing quantities of something else. On a production possibility curve, this would be shown as an increasing slope as the quantity X increases. Curve A has this property.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

37. Refer to the graph above. Which of the curves shows decreasing marginal opportunity cost?
A. A
B. B
C. C
D. D

Decreasing marginal opportunity costs means that in order to have more of something you must give up ever-decreasing quantities of something else. On a production possibility curve, this would be shown as a decreasing slope as the quantity X increases. Curve C has this property, and therefore is the correct choice.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

38. When you produce cars, it is enormously expensive to produce one car, but then the costs per car decrease as more are produced. This would be an example of:
A. increasing marginal opportunity costs.
B. decreasing marginal opportunity costs.
C. constant marginal opportunity costs.
D. increasing returns to scale.

If the marginal cost of producing additional cars declines as more cars are produced, then the opportunity cost rises at a decreasing rate.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

39. The principle of increasing marginal opportunity cost does not hold in which of the following cases?
A. All inputs are equally adaptable to the production of all goods.
B. Some inputs are more adaptable to the production of certain goods.
C. Some inputs are less adaptable to the production of certain goods.
D. Each input is adaptable to the production of a limited number of goods.

In this case, opportunity costs will not increase as inputs are transferred from the production of one good to another since all inputs are equally effective in the production of all goods.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

40. The principle of increasing marginal opportunity cost holds in which of the following cases?
A. All inputs are equally adaptable to the production of all goods.
B. The production possibility curve is a downward sloping straight line.
C. Some inputs are better off producing particular goods.
D. Each input can be used to produce only one good.

The principle of increasing marginal opportunity cost is based on the assumption that different resources have varying levels of effectiveness in the production of different goods.

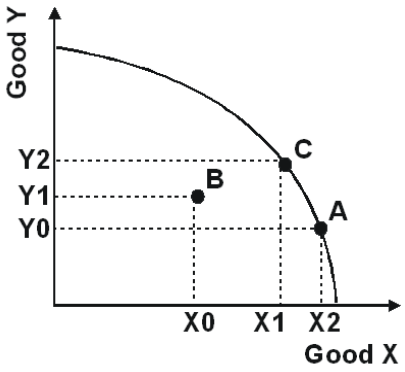
AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-2
Topic: Principle of Increasing Marginal Opportunity Cost

41. If you move from a point inside the production possibility curve to a point on the production possibility curve, it follows that efficiency is:
A. increased because the economy is now on the production possibility curve.
B. increased only if production of both goods increases.
C. increased as long as the combined output of both goods increases.
D. reduced if less of one good is produced.

According to the text, efficiency is increased when the economy moves from a point inside the production possibility curve to a point on this curve. This is because resources are allocated more effectively as a result of this movement.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-1
Topic: Productive Efficiency

42. Refer to the graph below.

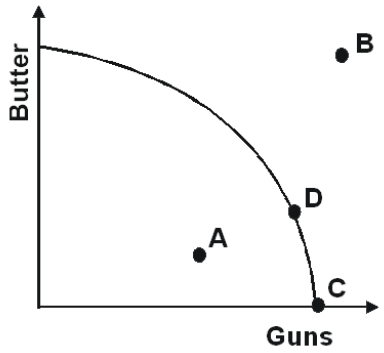


As you move from point A to point B:
A. production efficiency is increased because we have more of good X.
B. production efficiency is decreased because we have less of good Y.
C. production efficiency is decreased because we are no longer on the production possibility curve.
D. the change in efficiency is unclear.

According to the text, efficiency is achieved only when the economy is on the production possibility frontier. Points inside this frontier are inefficient because more output can always be obtained by reallocating resources.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-1
Topic: Productive Efficiency

43. Refer to the graph below.

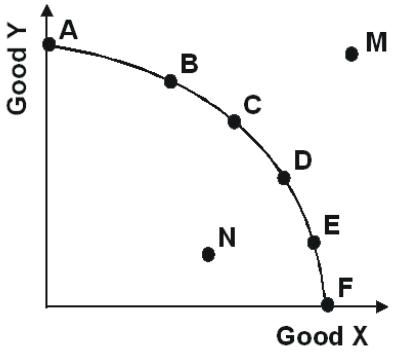


Given the production possibility curve, which point is unattainable?
A. A
B. B
C. C
D. D

A production possibility curve shows the combinations of output than can be obtained from a given quantity of inputs. All points outside the curve are unattainable, so B is unattainable.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-1
Topic: Production Possibility Curve

44. Refer to the graph below.

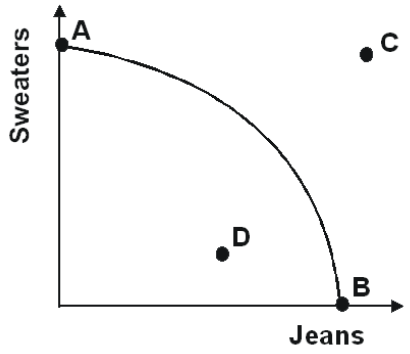


Productive efficiency is achieved at what points?
A. A, B, and M.
B. C, D and N.
C. A, C and F.
D. M, D and E.

Productive efficiency is achieved when as much output as possible is obtained from a given amount of resources. Points on the production possibility curve (i.e. A through F) represent points of productive efficiency. Points inside the curve (i.e. N) represent points of productive inefficiency (N). Points outside the curve (i.e. M) are unattainable.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-1
Topic: Productive Efficiency

45. Refer to the graph below.



Productive inefficiency occurs at what point?
A. A
B. B
C. C
D. D

Efficiency is not achieved at D because resources can be reallocated in such a way as to produce more of both goods.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-1
Topic: Inefficiency

46. The term efficiency involves achieving a goal as:
A. quickly as possible.
B. cheaply as possible.
C. best as possible.
D. steadily as possible.

See the definition of efficiency in the text.

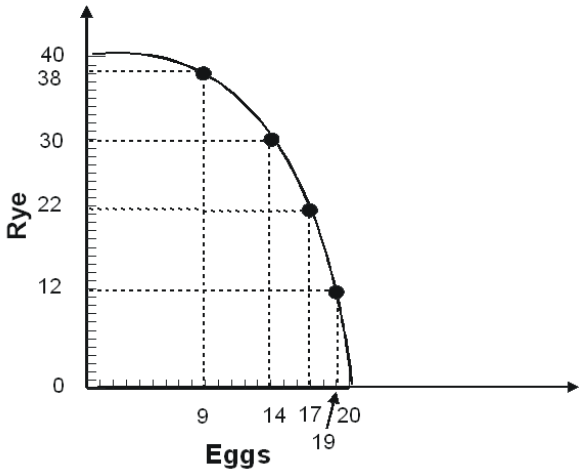
AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-1
Topic: Efficiency

47. In election campaigns, presidents often promise more of everything (that is, more guns and butter). What would help those elected president fulfill their promise?
A. The economy becomes more efficient.
B. The U.S. limits imports into the United States.
C. Illegal immigration into the United States is severely limited.
D. A minimum wage bill is passed.

Assuming no trade, to get more of both goods, there must be an increase in inputs or an increase in productive efficiency.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Productive Efficiency

48. The graph below indicates that the economy can produce both:

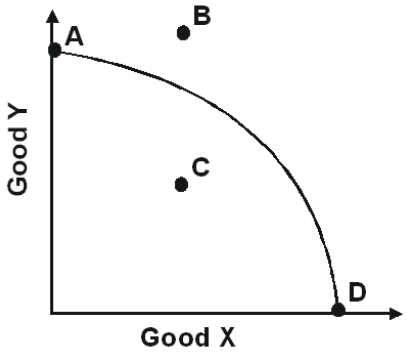


A. 20 units of eggs and 5 units of rye, although this would not be production efficient.
B. 10 units of eggs and 20 units of rye, although this would not be production efficient.
C. 20 units of eggs and 5 units of rye, and this would be production efficient.
D. 10 units of eggs and 20 units of rye, and this would be production efficient.

20 eggs and 5 units of rye is unattainable. 10 units of eggs and 20 units of rye is inside the production possibility curve while 40 units of rye is on the production possibility curve so that the first combination is less efficient than the second.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-1
Topic: Productive Efficiency

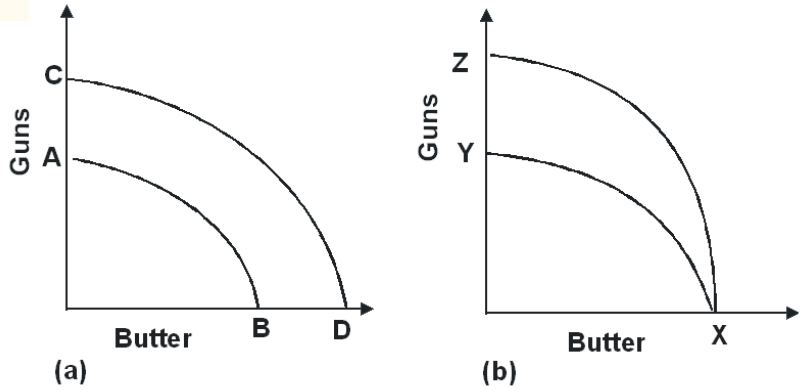
49. Refer to the graph below.



If the production possibility curve shifts along the Good Y axis which point will remain as a point of efficiency?
A. A
B. B
C. C
D. D

If the production possibility curve shifts along its y-axis the x-intercept will still remain the same. Point D will remain efficient. Point B may become efficient, but was originally unobtainable.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-1
Topic: Productive Efficiency



50. Refer to the graphs above. The discovery of a new supply of resources used only in the production of guns can be shown by which movement?
A. From A-B to C-D in diagram a.
B. From C-D to A-B in diagram a.
C. From X-Y to X-Z in diagram b.
D. From X-Z to X-Y in diagram b.

Since the new resources will not increase the maximum amount of butter that can be increased but will increase the maximum number of guns, the production possibility curve will rotate up staying anchored at X.

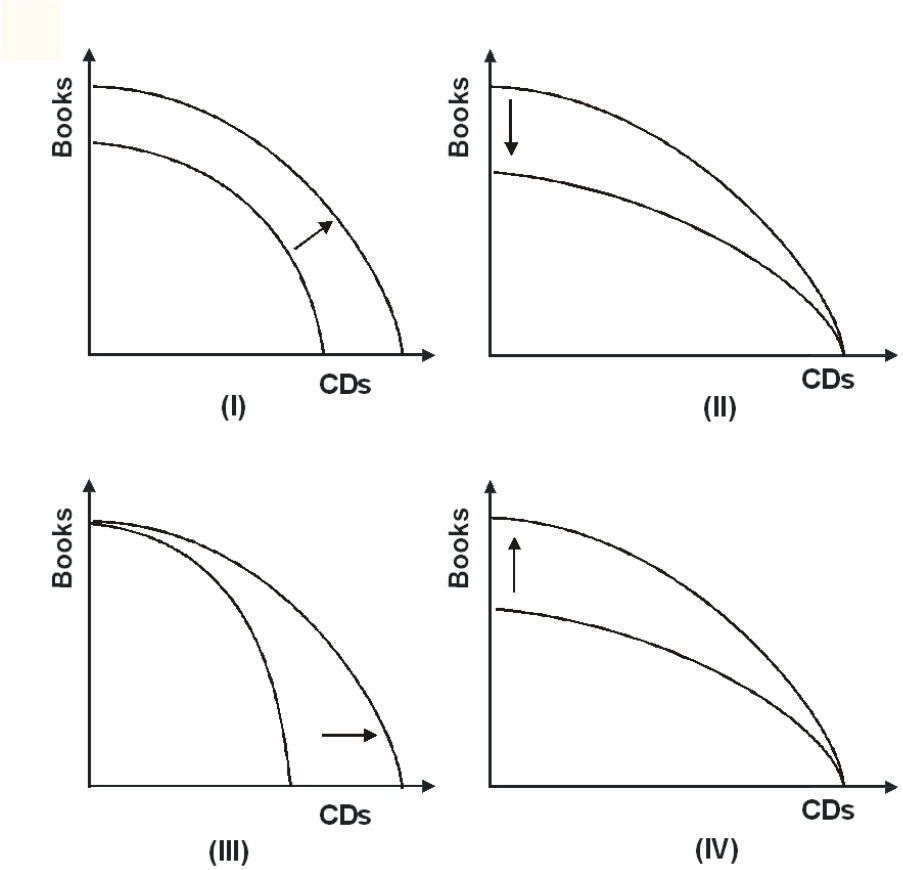
AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

51. Refer to the graph above. Destruction of some of the resources necessary to produce both guns and butter would result in what movement?
A. From A-B to C-D in diagram a.
B. From C-D to A-B in diagram a.
C. From X-Y to X-Z in diagram b.
D. From X-Z to X-Y in diagram b.

If inputs used in the production of both goods are destroyed, the maximum possible output of both good falls, causing the production possibility curve to shift in along both axes.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

52. Refer to the graphs below.

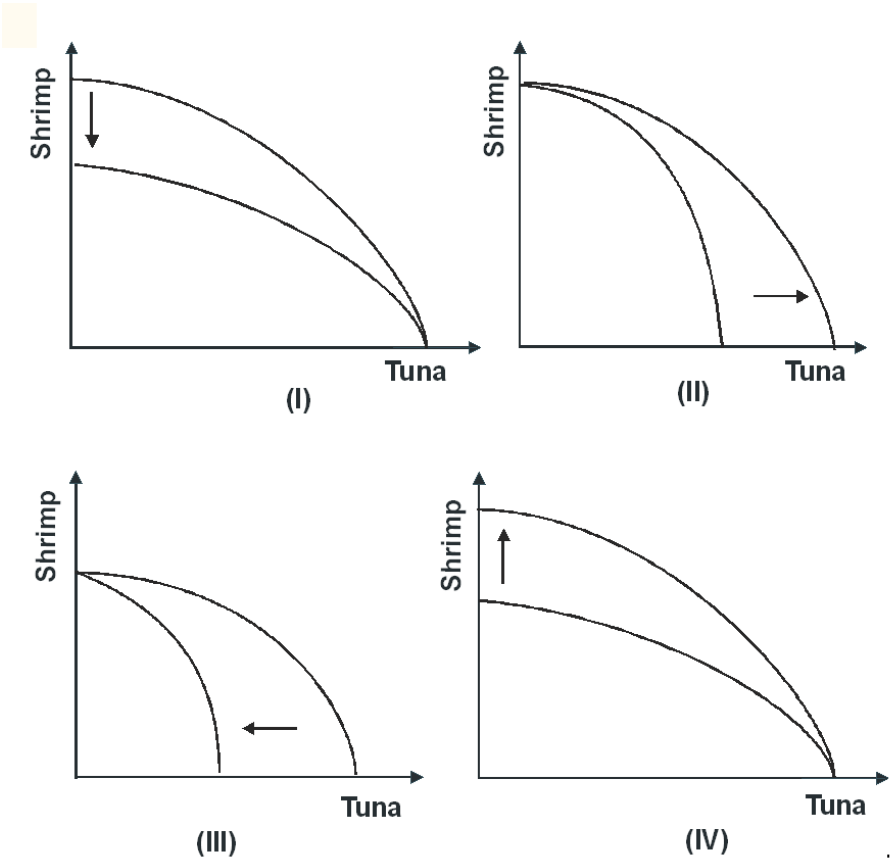


In the 1980s, desktop publishing reduced the costs of producing books. Assuming no change in the cost of producing CDs, which of the shifts reflects this change in technology?
A. I
B. II
C. III
D. IV

Since the technological development will increase the production of books but not affect the production of CDs, the correct shift is IV.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

53. Refer to the graphs below.



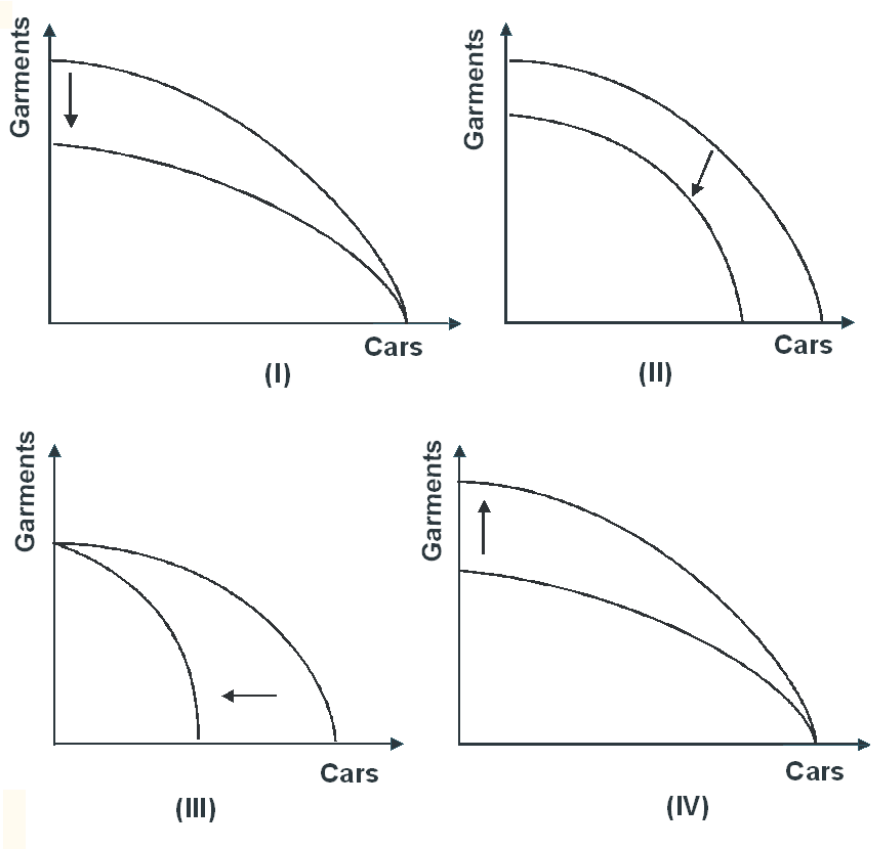
Which of the shifts explains what would happen to the production possibility curve if restrictions were imposed on tuna fishing?

A. I
B. II
C. III
D. IV

Restrictions will decrease the production of tuna but will not alter the production of shrimp, making III the correct choice.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

54. Refer to the graphs below.



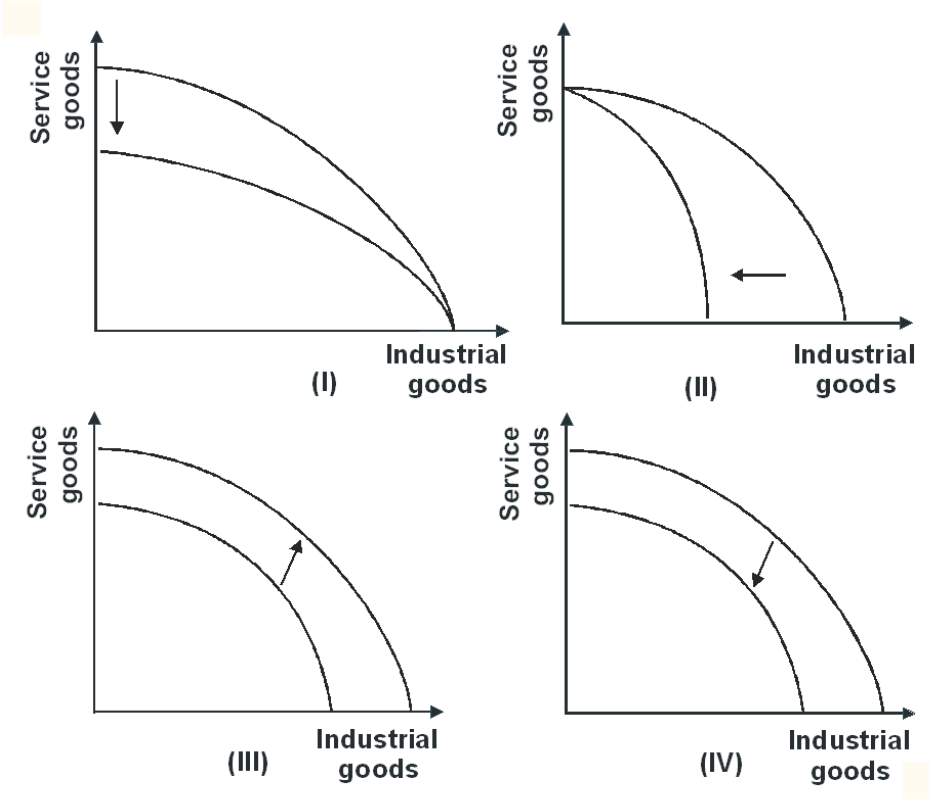
Which of the shifts explains what would happen to the production possibility curve if a cyclone destroys five major garment factories in the Philippines?

A. I
B. II
C. III
D. IV

Since the cyclone will reduce the production of garments but not alter the production of cars, I is the correct choice.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

55. Refer to the graphs below.



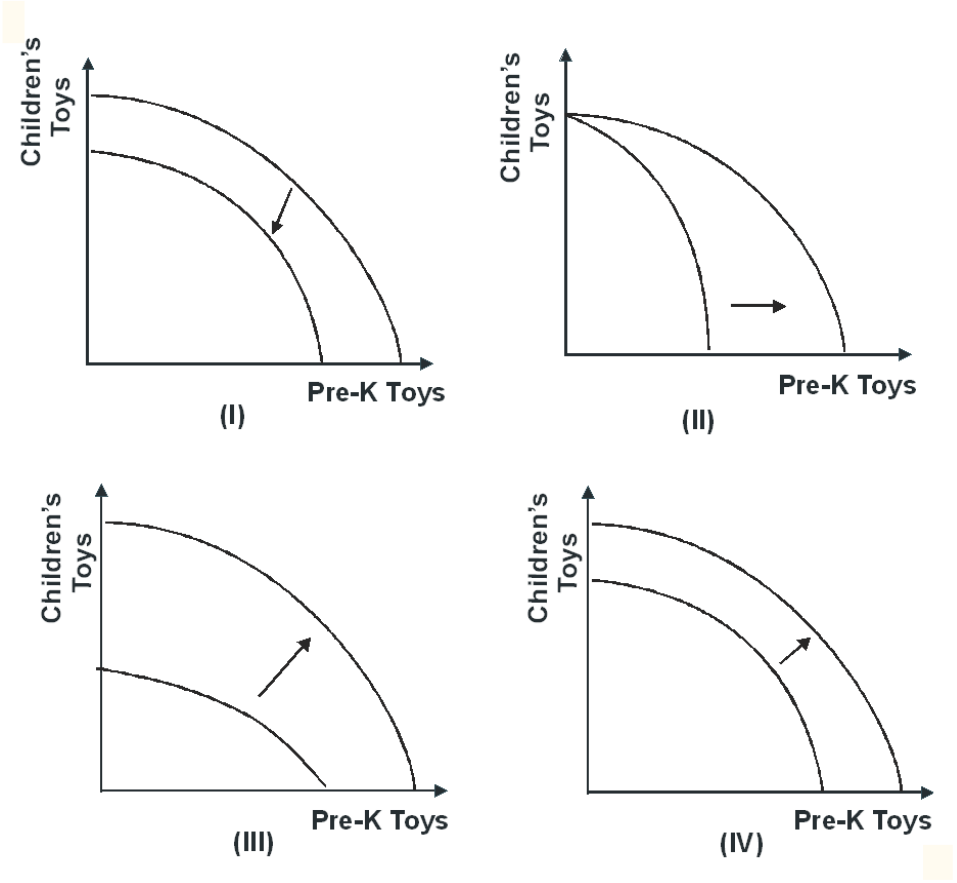
Which of the shifts explains what would happen to the production possibility curve if political unrest and strikes disrupt all sectors of an economy equally?

A. I
B. II
C. III
D. IV

Since the entire economy will be adversely affected, the entire production possibility curve will shift in.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

56. Refer to the graphs below.



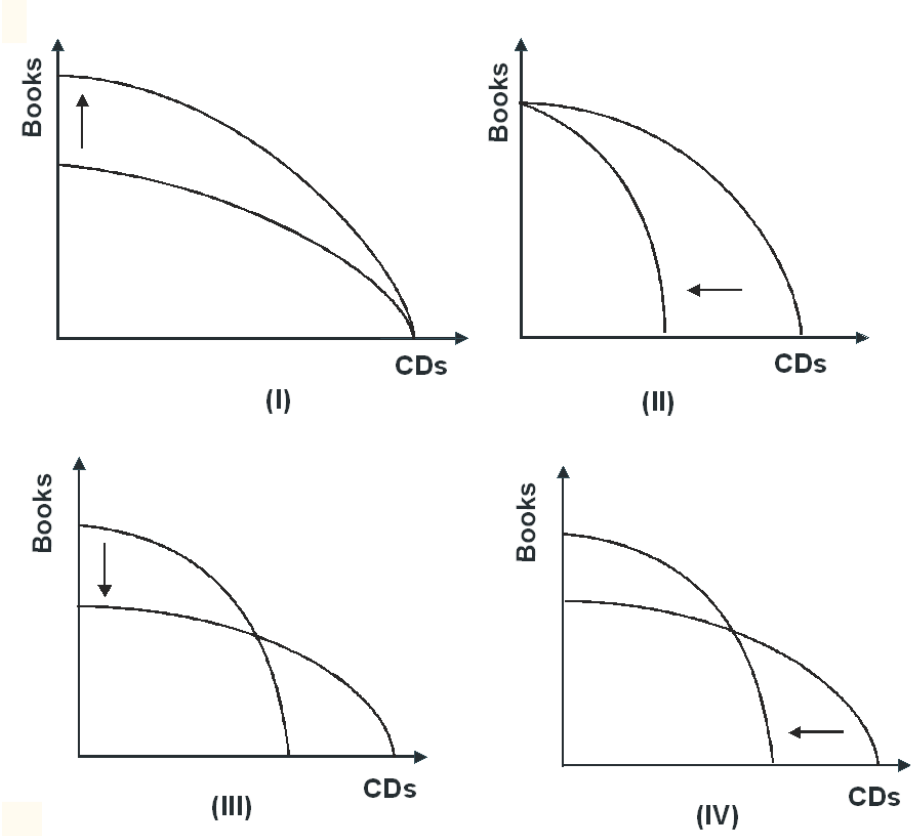
Which of the shifts explains what would happen to the production possibility curve if improved technologies increased the production of pre-kindergarten (pre-k) toys by 25% and the production of children's toys by 50%?

A. I
B. II
C. III
D. IV

Technological development will increase the production of both toys, but will increase the production of children's toys by a greater percentage, making III the correct answer.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

57. Refer to the graphs below.

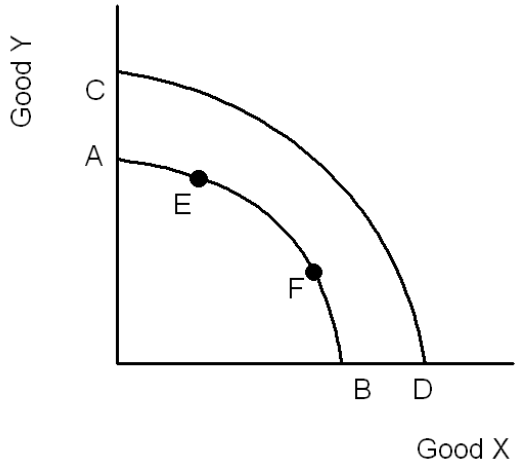


Which of the shifts explains what would happen to the production possibility curve if the cost of producing books goes down while the cost of producing CDs goes up?
A. I
B. II
C. III
D. IV

Since the technological developments will increase the maximum amount of books that can be produced and reduce the maximum amount of CDs, the production possibility curve will pivot as in IV.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

58. Refer to the graph below.



Google recently launched Google Docs&Spreadsheets, a free word processing software allows multiple users to collaboratively edit the same document online. This feature is expected to increase productivity for all workers. Assuming that curve AB represents the production possibility curve for the economy before this innovation, which best reflects the impact of Google Docs&Spreadsheets on the economy?
A. The production possibility curve shifts from AB to CD.
B. The production possibility curve shifts from CD to AB.
C. The mix of products produced by the economy moves from E to F.
D. The mix of products produced by the economy moves from F to E.

An innovation that increases the productivity of all workers shifts the PPC curve out to the right.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-1
Topic: Shift in the Production Possibility Curve

59. A resource is said to have a comparative advantage if:
A. it is better suited to the production of one good than to the production of an alternative good.
B. it is equally suited to the production of all goods.
C. its suitability to the production of one good changes as it produces more of that good.
D. its suitability to the production of one good does not change as it produces more of that good.

The definition of comparative advantage is the ability to be better suited to the production of one good than to the production of another good.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-3
Topic: Comparative Advantage

60. If no resources had a comparative advantage in the production of any good, the production possibility curve would be:
A. bowed outward.
B. bowed inward.
C. a horizontal line.
D. a downward sloping straight line.

Since there is no comparative advantage, you need not give up ever increasing quantities of one good to gain more of another good. Opportunity cost of gaining more of one good is constant and the production possibility curve is a straight line connecting the maximum points for each good.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-3
Topic: Comparative Advantage

61. If a country takes advantage of the comparative advantage of some resources over others, then its production possibility curve is likely to be:
A. flat.
B. straight.
C. bowed outward.
D. bowed inward.

If a country takes advantage of its comparative advantage, this means that it is relatively better at producing one good over another. An outward-bowed production possibility curve reflects this comparative advantage. As the country produces that good for which it does not have a comparative advantage, it must give up ever increasing amounts of that good for which it has a comparative advantage.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-3
Topic: Comparative Advantage

62. Laissez-faire is:
A. an economic theorem.
B. an economic precept.
C. an inductive model of markets.
D. a deductive model of markets.

Laissez-faire is the application of a model along with normative judgment about the relevance of the model and its assumptions to the real world. Thus, it is a precept, not a theorem.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-4
Topic: Benefits of Trade

63. Which of the following is the best example of an economic precept?
A. Predictable irrationality.
B. The supply/demand model.
C. Production possibility model.
D. Laissez-faire.

Predictable irrationality is an assumption. The supply/demand model is a model as is the production possibility model. Laissez-faire is a precept since it is the application of a model along with normative judgment about the relevance of the model and its assumptions to the real world.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-4
Topic: Benefits of Trade

64. Laissez-faire is an economic:
A. theorem because it is based on deductive analysis of a model that is based on assumptions.
B. theorem because it is the logical conclusion of a model with carefully stated relationships among variables.
C. precept because it is based on a model and normative judgments about the relevance of the model to the real world.
D. precept because it is the logical conclusion of a model with widely-held assumptions.

Laissez-faire is the application of a model along with normative judgment about the relevance of the model and its assumptions to the real world. Thus, it is a precept, not a theorem.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-4
Topic: Benefits of Trade

65. According to Adam Smith, individuals are directed to do those things for which they have a comparative advantage by:
A. their self interest.
B. corporate management.
C. government policy.
D. the educational system.

According to Smith, it is not from the benevolence of the butcher, the brewer, or baker, that we expect our dinner, but from their regard to their own interest.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-4
Topic: Comparative Advantage

66. According to Adam Smith, trade based on comparative advantage is the result of:
A. government intervention.
B. altruism.
C. self-interest.
D. communal and familial relationships.

According to Smith, it is not from the benevolence of the butcher, the brewer, or baker, that we expect our dinner, but from their regard to their own interest.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-4
Topic: Comparative Advantage

67. The text largely attributes the growth of economies over the last 200 years to:
A. the development of markets.
B. the discovery of additional resources.
C. a decrease in the size of the world population.
D. laissez-faire policies.

The text attributes growth to the development of markets and the effect of trade on production.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

First Bakery		Second Bakery	
Cookies	Pies	Cookies	Pies
0	18	0	9
10	12	30	6
20	6	60	3
30	0	90	0

68. Given the production possibility tables for First and Second Bakeries presented above, we know that the opportunity cost of producing cookies:
A. is higher at First Bakery.
B. is higher at Second Bakery.
C. is the same at both bakeries.
D. cannot be computed without further information.

The opportunity cost of producing cookies at First Bakery is 6 pies for every 10 cookies, or 0.6 pies for each cookie. At Second Bakery, the opportunity cost of producing cookies is 3 pies for every 30 cookies, or 0.1 pies per cookie.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Opportunity Cost

69. Given the production possibility tables for First and Second Bakeries presented above, we know that the opportunity cost of producing pies:
A. is higher at First Bakery.
B. is higher at Second Bakery.
C. is the same at both bakeries.
D. cannot be computed without further information.

The opportunity cost of producing pies at First Bakery is 10 cookies for every 6 pies, or 1.67 cookies for each pie. At Second Bakery, the opportunity cost of producing pies is 30 cookies for every 3 pies, or 10 cookies per pie.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Opportunity Cost

70. Given the production possibility tables for First and Second Bakeries presented above, we can determine that:
A. First Bakery has a comparative advantage in the production of both goods.
B. Second Bakery has a comparative advantage in the production of pies.
C. First Bakery has a comparative advantage in the production of pies.
D. neither bakery has a comparative advantage.

Since the opportunity cost of producing pies is lower at First Bakery than at Second Bakery, First Bakery has a comparative advantage in producing pies.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

71. Mexico has a comparative advantage in producing corn:
A. if its opportunity cost of producing corn is higher than the opportunity cost in other countries.
B. if its opportunity cost of producing corn is the same as the opportunity cost in other countries.
C. if its opportunity cost of producing corn is lower than the opportunity cost in other countries.
D. regardless of the opportunity cost in other countries.

A country has a comparative advantage in the production of a good if its opportunity cost of producing that good is less than that of other countries.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-4
Topic: Comparative Advantage

72. Suppose New Zealand uses 1 unit of labor to produce a kiwi and two units of labor to produce an apple. Suppose Australia uses two units of labor to produce a kiwi and one unit of labor to produce an apple. In this case, New Zealand:
A. has a comparative advantage in producing apples.
B. has a comparative advantage in producing kiwis.
C. has a comparative advantage in producing both goods.
D. does not have a comparative advantage in producing either good.

The opportunity cost of a kiwi in New Zealand is 1/2 an apple since apple production is reduced by 1/2 when a unit of labor is transferred from apple production to kiwi production in order to increase kiwi production by 1. The opportunity cost of a kiwi in Australia is 2 apples since apple production is reduced by 2 when 2 units of labor are transferred from apple production to kiwi production in order to increase kiwi production by 1.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

73. Two countries that specialize their production along the lines of comparative advantage and then trade with one another will be able to:
A. both produce and consume more.
B. produce more and consume less.
C. produce less and consume more.
D. both produce and consume less.

Specialization increases efficiency, which results in higher production. Because more output is produced by the two countries as a result of specialization, both countries will have higher consumption after trade.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-4
Topic: Comparative Advantage

74. Suppose that in Colombia, one unit of labor can produce 8 tons of papayas or 2 tons of bananas while in Brazil, one unit of labor can produce either 4 tons of papayas or 1 ton of bananas. Given this information, which of the following statements is true?
A. Columbia has a comparative advantage in producing papayas, but not bananas.
B. Columbia has a comparative advantage in producing papayas and bananas.
C. These countries would increase combined consumption if they specialized and traded.
D. These countries cannot gain from trading.

Because each must give up 4 tons of papayas to increase its production of bananas by 1 ton, neither has a comparative advantage and there will be no gains from trade.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

75. Suppose that in Colombia, one unit of labor can produce 8 tons of papayas or 2 tons of bananas while in Brazil, one unit of labor can produce either 2 tons of papayas or 4 tons of bananas. If each country has two units of labor, which of the following consumption combinations can be attained only with trade?
A. Brazil consumes 8 tons of bananas and no papayas.
B. Colombia consumes 16 tons of papayas and no bananas.
C. Brazil consumes 2 tons of papayas and 4 tons of bananas.
D. Colombia consumes 8 tons of papayas and 4 tons of bananas.

This consumption combination can only be reached through trade as it requires 3 units of labor to produce in Colombia and only two are available. Colombia could reach this consumption bundle by producing 16 tons of papayas and then trading 8 tons of papayas to Brazil for 4 tons of bananas. Note that all the other consumption combinations can be produced without trade.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

76. Suppose that in Slovakia, one unit of labor can produce either 16 tons of wheat or 32 tons of soy while in Poland, one unit of labor can produce either 4 tons of wheat or 2 tons of soy. Given this information, which of the following statements is true?
A. Slovakia has a comparative advantage in producing neither wheat nor soy.
B. Slovakia has a comparative advantage in producing both wheat and soy.
C. Poland has a comparative advantage in producing soy but not wheat.
D. Poland has a comparative advantage in producing wheat but not soy.

Slovakia must give up 2 tons of soy to increase wheat production by 1 ton, while Poland only has to give up 1/2 a ton of soy, so Poland has a comparative advantage in producing wheat.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

77. Suppose that in Slovakia, one unit of labor can produce either 20 tons of wheat or 40 tons of soy while in Poland, one unit of labor can produce either 40 tons of wheat or 20 tons of soy. If each country has two units of labor, which of the following consumption combinations can be attained only with trade?
A. Slovakia consumes 80 tons of soy.
B. Slovakia consumes 30 tons of both soy and wheat.
C. Poland consumes 80 tons of wheat.
D. Poland consumes 40 tons of wheat and 20 tons of soy.

Slovakia can reach this consumption combination by producing 80 tons of soy and then trading 50 tons of soy to Poland for 30 tons of wheat. Note that all the other consumption combinations can be produced without trade.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

The production-possibilities frontiers of two countries are given below:

Legoland		Elmoland	
Chocolate	Textiles	Chocolate	Textiles
30	0	60	0
20	20	30	15
15	30	20	20
0	60	0	30

78. Refer to the production-possibilities frontiers of two countries above. Without trade, the most each country could produce would be:
A. 15 chocolate and 15 textiles.
B. 20 chocolate and 20 textiles.
C. 30 chocolate and 30 textiles.
D. 60 chocolate and 60 textiles.

20-20 is on the frontier. Better results are not possible.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

79. Refer to the production-possibilities frontiers of two countries above. If they specialized and traded, which of the following is the largest bundle each country could have?
A. 15 chocolate and 15 textiles.
B. 20 chocolate and 20 textiles.
C. 30 chocolate and 30 textiles.
D. 60 chocolate and 60 textiles.

Combined, they can produce 60 of each good, which gives 30-30 when split evenly.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

80. Refer to the production-possibilities frontiers of two countries above. If we find these countries combined production-possibilities frontier, the frontier or line will have a bend or kink at the point:
A. 75 chocolate and 30 textiles.
B. 40 chocolate and 40 textiles.
C. 60 chocolate and 60 textiles.
D. 35 chocolate and 50 textiles.

The kink is where we switch the opportunity cost of one curve to the other, which is at the 60-60 point.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

Northland	
Apples	Bananas
30	0
20	5
10	10
0	15

Southland	
Apples	Bananas
30	0
20	20
10	40
0	60

81. The production-possibilities frontiers of Northland and Southland are given above. Without trade, Northland produces and consumes 20 apples and 5 bananas and Southland produces and consumes 10 apples and 40 bananas. Could they increase their consumption bundle by changing production and trading?
A. No; Southland does at least as well at producing both so it would have no incentive to trade.
B. Yes; they could gain 75 bananas and 60 apples.
C. Yes; they could gain up to 60 apples without losing bananas.
D. Yes; they could gain up to 15 bananas without losing apples.

Without trade, 30 apples and 45 bananas are produced. With specialization, a position of 30 apples and 60 bananas is possible.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

82. The production-possibilities frontiers of Northland and Southland are given above. If these countries trade, which of the following points would be on their combined or joint production-possibilities frontier?
A. 60 apples and 0 bananas
B. 60 apples and 5 bananas
C. 60 apples and 10 bananas
D. 60 apples and 20 bananas

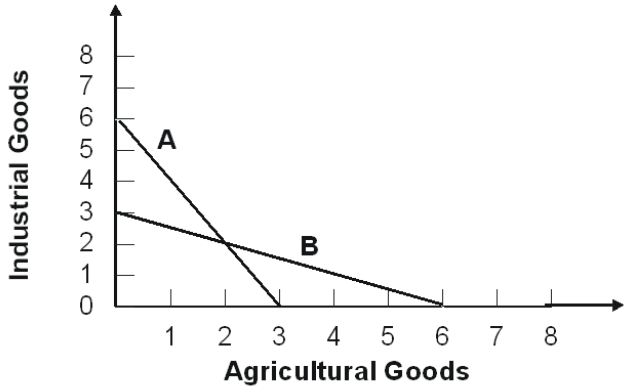
To get 60 apples, all resources must be used in production of apples, leaving no resources to produce bananas.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

83. The production-possibilities frontiers of Northland and Southland are given above. If these countries trade, which of the following points would be on their combined or joint production-possibilities frontier?
A. 30 apples and 15 bananas
B. 30 apples and 60 bananas
C. 40 apples and 25 bananas
D. 50 apples and 10 bananas

If Northland only produces apples, 30 are produced, leaving Southland free to devote all resources to bananas, or 60. This is the bend-point or kink on the combined production-possibilities frontier. Other options lie below the frontier.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage



84. Refer to the graph above. Suppose Country X exports agricultural goods to Country Y in exchange for industrial goods. This pattern of trade increases consumption in both countries only if:
A. both X and Y share production possibility curve A.
B. X's production possibility curve is B while Y's is A.
C. X's production possibility curve is A while Y's is B.
D. both X and Y share production possibility curve B.

Since the opportunity cost of producing agricultural goods is lower along B than A (and vice versa for industrial goods), trade based on comparative advantage will only occur if X's production possibility is B and Y's is A.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

85. Refer to the graph above. If countries X and Y face the production possibility curves A and B, respectively, country X has a comparative advantage in the production of:
A. neither agricultural goods nor industrial goods.
B. both agricultural goods and industrial goods.
C. agricultural goods only.
D. industrial goods only.

Country X is represented by curve A. It must give up 1/2 an agricultural good to produce 1 additional industrial good. Country Y must give up 2 agricultural goods to produce 1 additional industrial good. Therefore, Country X has a comparative advantage in the production of industrial goods.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-4
Topic: Comparative Advantage

86. Refer to the graph above. If countries X and Y face the production possibility curves A and B, respectively, country Y has a comparative advantage in the production of:
A. neither agricultural goods nor industrial goods.
B. both agricultural goods and industrial goods.
C. agricultural goods only.
D. industrial goods only.

Country X is represented by curve A. It must give up 2 industrial goods to produce 1 additional agricultural good. Country Y must give up 1/2 an industrial good to produce 1 additional agricultural good. Therefore, Country Y has a comparative advantage in the production of agricultural goods.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

87. Up through the early decades of the 20th century, many countries remained closed to trade, charging high tariffs or imposing strict quotas on imported goods. In 1948, 23 countries joined the General Agreement on Tariffs and Trade (GATT), which sought to set out rules for trade and enhance negotiations. The reduction in tariffs as a result of GATT likely brought about:
A. a decrease in consumption
B. an increase in consumption
C. no change in consumption
D. a reduction in domestic production

By reducing the barriers to trade, countries likely were able to specialize in the goods for which they had lowest opportunity cost and trade, which would increase consumption for all countries.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-4
Topic: Comparative Advantage

88. John can clean the house in three hours and do the laundry in four. Jane can clean the house in two hours or do the laundry in two. Can they benefit by specialization and trade?
A. Neither can benefit because John has nothing to offer.
B. John could benefit from an exchange but Jane cannot because she is better at both.
C. Both can benefit because John has a comparative advantage in laundry.
D. Both can benefit because John has a comparative advantage in cleaning.

Calculate opportunity costs; it costs John 3/4 of a laundry to clean, while it costs Jane 1 laundry to clean. The law of comparative advantage implies that even people who have little talent can be productive and useful members of society.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

89. John and Jane Smith are both economists who are deciding how to split household chores of cooking and cleaning. They discover that John has a comparative advantage in cooking. Does this discovery tell them anything about comparative advantage in cleaning?
A. No; both or neither may have a comparative advantage in cleaning.
B. No; either one may have a comparative advantage in cleaning.
C. Yes; John must also have a comparative advantage in cleaning.
D. Yes; Jane must have a comparative advantage in cleaning.

In a two-good situation, a comparative advantage in one good necessarily implies a comparative disadvantage in the other good.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

90. Countries gain from trade by producing:
A. the goods they produce at the highest opportunity cost.
B. the goods they can produce at the lowest opportunity cost.
C. where the production possibility curve has a slope of -1.
D. all goods in equal amounts.

The principle that the lowest cost rules is the basis for the gains from trade because countries that produce a good at the lowest cost have a comparative advantage in the production of that good.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-4
Topic: Comparative Advantage

91. Trade based on comparative advantage benefits:
A. consumers in all countries.
B. consumers in some countries but hurts consumers in other countries.
C. neither producers nor consumers.
D. producers in all countries but not consumers.

Trade based on comparative advantage increases the efficiency of production, which results in more goods available to consumers.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-4
Topic: Comparative Advantage

92. The relocation of production that was once done in the U.S. to foreign nations is called:
A. insourcing.
B. outsourcing.
C. technological change.
D. unfair trade.

See the text for the definition.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-5
Topic: Outsourcing

93. In recent years many phone banks for telemarketing and customer service have moved from the U.S. to foreign nations such as the Philippines and India. This move is usually called:
A. insourcing.
B. outsourcing.
C. technological change.
D. unfair trade.

The text defines outsourcing as the relocation of production that was once done in the U.S. to foreign nations.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-5
Topic: Outsourcing

94. The Apple iPod was designed by Apple in the U.S., manufactured in factories in Asia, and sold throughout the world. Apple's use of Asian manufacturers to produce the iPod is an example of:
A. insourcing.
B. outsourcing.
C. the law of one price.
D. nanotechnology.

Apple designs products and then contracts their manufacture to other companies. Like many U.S. high-tech companies, it finds that it is better at designing products than actually producing them.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-5
Topic: Outsourcing

95. Economists view recent increases in outsourcing as:
A. a new phenomena that the idea of comparative advantage was not designed to explain.
B. a result of new technologies that render the laws of comparative advantage obsolete.
C. a political development that is of little or no importance to economics.
D. merely the working of comparative advantage in services rather than in goods.

The only thing new about the latest wave of outsourcing is that it involves services that a few years ago seemed to be immobile. New technology has changed location decisions.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-5
Topic: Outsourcing

96. The text argues that the U.S. has had a comparative advantage in goods and services that:
A. require creativity and innovation.
B. are artistic and well-crafted.
C. are mass produced.
D. are luxury goods.

See the text.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-5
Topic: Comparative Advantage

97. The Apple iPod has been a trendy product. It was designed by Apple in the U.S., manufactured in factories in Asia, and sold throughout the world. Many other firms, both American and foreign, began to try to develop alternatives to the iPod. The iPod is an example of American comparative advantage in:
A. innovation.
B. mass production.
C. hand production.
D. consumerism.

The text argues that the U.S. has had a comparative advantage in goods and services that require creativity and innovation. Apple and its iPod seem to be good examples.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-5
Topic: Comparative Advantage

98. In China many farmers have switched from producing rice to producing vegetables and fruits because they can earn a great deal of more money from these specialty crops. Within China there are some who applaud this change, while others worry that China may soon become dependent on rice imports. Even with the low cost of Chinese labor, does the fact that China is importing rice suggest that other countries now have a comparative advantage in rice production?
A. No; it must have a comparative advantage in rice.
B. Yes; but only if there are other countries with even cheaper labor.
C. Yes; countries with more expensive labor can offset that cost with abundant land and farm equipment.
D. Maybe; because rice is a standardized product, the role of innovation and creativity in its production is important.

The text stresses that labor costs are only one part of what determines comparative advantage. In the case of rice, China probably should be importing a lot of its rice so it can better use its agricultural resources in production that requires large inputs of labor.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-5
Topic: Comparative Advantage

99. When the exchange rate value of the dollar rises and other things stay the same, what happens to relative wage rates between the United States and other countries?
A. They rise.
B. They fall.
C. They don't change.
D. It's impossible to say.

The value of the dollar rises, wages in the United States can buy more foreign goods. Therefore, relative wages in the United States have risen.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-5
Topic: Exchange Rates

100. In the years after the introduction of the European Euro currency, the price of the euro rose from about $1.1 = 1 € to $1.30 = 1 €. In terms of wage rates, this rise in the price of the euro:
A. lowered U.S. wages relative to European wages.
B. lowered European wages relative to U.S. wages.
C. raised both European and U.S. wages.
D. lowered both European and U.S. wages.

Prices and wages in different currencies cannot be compared without an exchange rate. An increase in the value of the euro raises wages in Europe relative to those in the U.S.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-5
Topic: Exchange Rates

101. How does the text define the law of one price?
A. It is illegal to pay different people different amounts for the same work.
B. It is illegal to charge different people different amounts for the same product.
C. Competition, combined with transferable goods and resources, drives prices of similar goods toward equality.
D. There is a tendency for companies to keep prices fixed because the cost of making changes is often high.

See the text. The text emphasizes the law of one price in labor markets, but it is quite general.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-5
Topic: Law of One Price

102. Which of the following is an example of the law of one price?
A. Exchange rates tend to have equivalent values. For example, one Italian lire equals one U.S. dollar.
B. Because people have essentially the same basic needs wherever they live, they tend to buy the same bundle of goods.
C. Because wages are so much lower in China, eventually all U.S. jobs will be outsourced to China leaving the U.S. to import all goods at one price.
D. Because their countries have similar institutions, computer programmers in Germany and the United States are paid about the same.

The law of one price states that wages of workers in one country will not differ significantly from the wages of workers in another institutionally similar country. Exchange rates might change to equilibrate these salaries. They are rarely equal on a one-to-one basis.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-5
Topic: Law of One Price

103. Which of the following is an example of the law of one price in action?
A. Prices are just one of the many factors that firms use when deciding where to locate production.
B. If one county has a comparative advantage in producing a particular good, another country must have a comparative advantage in producing another good.
C. Wages in India are lower than in the United States, so firms move their call-centers to India. This tends to raise wages in India and depress wages in the United States.
D. Because most industries in the United States are dominated by one or two firms, the dominant firm sets the price and other firms in the industry follow.

The law of one price states that wages of workers in one country will not differ significantly from the wages of workers in another institutionally similar country. If wages do differ, production will shift toward the lower-wage country, tending to raise wages in that country and lowering wages in the other. Eventually wages will equalize.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-5
Topic: Law of One Price

104. Which of the following factors will help the United States regain comparative advantages in industries where it has lost comparative advantages?
A. The value of the U.S. dollar falls.
B. The value of the U.S. dollar rises.
C. The U.S. imports more goods.
D. Wages in the United States rise.

If the value of the dollar (U.S. exchange rate) falls, U.S. wages will fall relative to wages in other countries. This will help the U.S. regain its comparative advantages.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-5
Topic: Exchange Rates

105. The morel is a prized mushroom that is often abundant in the Western U.S. in years after forest fires. Suppose that two companies are buying morels from workers willing to find them. One company offers to pay workers $5.00 per pound and the other company will only pay workers $4.00 per pound. Economists would say that:
A. the company willing to pay only $4.00 has a comparative advantage in selling morels.
B. the higher-paying company will attract the more creative and innovative pickers while the lower-paying company will attract the others.
C. the lower-paying company will attract the more creative and innovative pickers while the higher-paying company will attract the others.
D. this situation violates the law of one price and is not likely to persist.

There would be no reason for anyone to sell mushrooms to the low-paying buyer. It will be forced to raise payments to attract sellers.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-5
Topic: Law of One Price

106. Juan works at Texas Burgers in El Paso and earns $8.00 per hour. His twin brother Felipe works in Mexico Burgers in Cuidad Juarez just across the border earning $3.00 per hour for exactly the same work. An economist looking at this situation sees:
A. an incentive for Felipe to cross the border to get a job and thus reduce the gap.
B. an incentive for Felipe to quit and find another job in Mexico.
C. the tendency of the rich to get richer and the poor to get poorer, widening the gap.
D. evidence that the law of one price has no support in the real-world.

Whenever the law of one price does not hold, there is a profit opportunity. Here it is for Felipe to cross the border and seek work in the higher-paying market. Many Mexicans have done just that.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-5
Topic: Law of One Price

107. If U.S. workers are paid $16 an hour and Indian workers are paid the equivalent of $4 an hour, but U.S. workers can produce four times as many goods as Indian workers in the same amount of time,
A. workers in the United State are paid too much.
B. production will migrate to the United States.
C. production will migrate to India.
D. there is no reason to move production from the United States to India.

Because cost of producing one unit of a good is the same in both countries, there is no reason to move production.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-5
Topic: Law of One Price

108. Adam Smith argued that greater specialization and division of labor are likely to:
A. improve standards of living.
B. reduce standards of living.
C. reduce worker productivity.
D. replace workers with machines, resulting in massive unemployment.

Although greater specialization does lead to the use of more machines, Smith did not believe that massive unemployment would be the result. Instead, workers would be reallocated to their most efficient use in a free market environment.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Medium
Learning Objective: 2-5
Topic: Globalization

109. If the hourly wage of U.S. workers is $16, the hourly wage of Mexican workers is $2, and U.S. workers produce 5 times as much output per hour as Mexican workers, then, other things equal, it would be efficient to locate production facilities in:
A. the U.S. since the cost per unit of output will be higher.
B. the U.S. since the cost per unit of output will be lower.
C. Mexico since the cost per unit of output will be higher.
D. Mexico since the cost per unit of output will be lower.

U.S. workers are paid 8 times the Mexican wage, but are only 5 times more productive. If U.S. workers were 8 times as productive as Mexican workers, then the cost per unit of output in each country would be the same.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-5
Topic: Globalization

110. If the hourly wage of U.S. workers is $16, the hourly wage of Mexican workers is $2, and U.S. workers produce 9 times as much output per hour as Mexican workers, then, all else equal, it would be efficient to locate production facilities in:
A. the U.S. since the cost per unit of output will be higher.
B. the U.S. since the cost per unit of output will be lower.
C. Mexico since the cost per unit of output will be higher.
D. Mexico since the cost per unit of output will be lower.

U.S. workers are paid 8 times the Mexican wage, but are 9 times more productive, so it costs $16 in the U.S. to produce the same amount of output in one hour that can be produced for $18 in Mexico in nine hours.

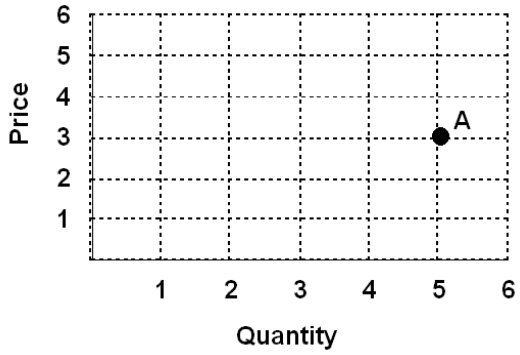
AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-5
Topic: Globalization

111. If the hourly wage of German workers is $6, the hourly wage of Canadian workers is $10, and German workers produce half as much output per hour as Canadian workers, all else equal it would be efficient to locate production facilities in:
A. Germany since the cost per unit of output will be higher.
B. Germany since the cost per unit of output will be lower.
C. Canada since the cost per unit of output will be higher.
D. Canada since the cost per unit of output will be lower.

German workers produce half as much output per hour as Canadian workers, so it costs $12 in Germany to produce the same amount of output in two hours that can be produced for $10 in Canada in one hour.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Hard
Learning Objective: 2-5
Topic: Globalization

112. Refer to the graph below.



Point A represents a price of:
A. 3 and a quantity of 3.
B. 3 and a quantity of 5.
C. 5 and a quantity of 3.
D. 5 and a quantity of 5.

A point on a coordinate space represents the corresponding numbers on the horizontal and vertical number lines.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-A
Topic: Point

113. If there is a direct relationship between two variables, then the graph relating these two variables will be:
A. upward sloping.
B. downward sloping.
C. vertical.
D. horizontal.

If there is a direct relationship between two variables, then as one increases, so will the other, making the graph of them upward sloping.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Direct Relationship

114. If there is an inverse relationship between two variables, then the graph relating the two variables will be:
A. upward sloping.
B. downward sloping.
C. vertical.
D. horizontal.

If there is an inverse relationship between two variables, then as one increases, the other decreases, making the graph of them downward sloping.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Inverse Relationship

115. What kind of relationship exists between the price of gas and the quantity demanded for gas if the quantity demanded for gas falls when the price of gas increases?
A. Direct.
B. Inverse.
C. Normal.
D. Perverse.

If there is an inverse relationship between two variables, then as one increases, the other decreases, as is true in this case.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Easy
Learning Objective: 2-A
Topic: Inverse Relationship

116. An inverse relationship occurs between two variables when as one goes:
A. up the other goes up.
B. up the other goes down.
C. up the other does not change.
D. down the other goes down.

As one goes up the other goes down is how an inverse relationship is defined in the text.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Inverse Relationship

117. If the quantity demanded for a good rises as the price falls, then the curve representing this relationship will be:
A. upward sloping.
B. downward sloping.
C. horizontal.
D. cannot be determined.

An inverse relationship means that as one variable goes up, the other would go down. So, a line representing an inverse relation will be downward sloping.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-A
Topic: Inverse Relationship

118. The slope of a line is the:
A. value on the vertical axis divided by the value on the horizontal axis.
B. value on the horizontal axis divided by the value on the vertical axis.
C. change in the value on the vertical axis divided by the change in the value on the horizontal axis.
D. change in the value on the horizontal axis divided by the change in the value on the vertical axis.

The slope of a line is rise over run, or the change in the y-axis value divided by the change in x-axis value.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Slope of a Line

119. The slope of a line is zero when it is:
A. horizontal.
B. vertical.
C. an upward sloping line that makes a 45 degree angle with the horizontal and vertical axes.
D. a downward sloping line that makes a 45 degree angle with the horizontal and vertical axes.

When a line is horizontal, its rise is always zero so its slope is always zero.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Slope of a Line

120. The slope of a line that is vertical is:
A. zero.
B. one.
C. infinite.
D. depends on where it intersects the horizontal axis.

A vertical line has no run so its slope is infinite.

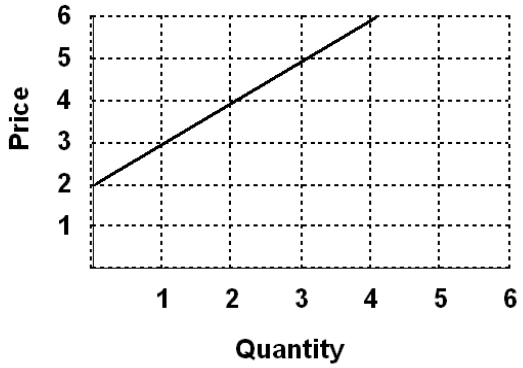
AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Slope of a Line

121. A downward sloping line that makes a 45 degree angle with the horizontal and vertical axes has a slope of:
A. zero.
B. one.
C. minus one.
D. infinity.

Along such a line, the rise is the negative of the run, so the slope is minus one.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Hard
Learning Objective: 2-A
Topic: Slope of a Line

122. Refer to the graph below.

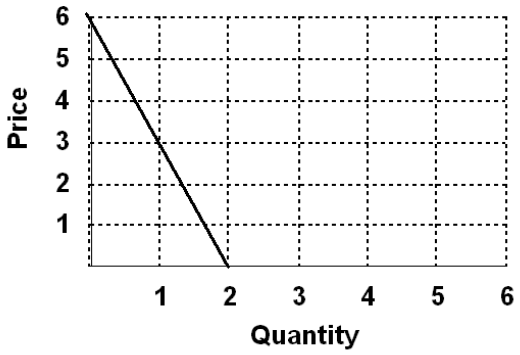


The slope of the line is:
A. ½.
B. 1.
C. 2.
D. minus ½.

Because the rise over run is 1 over 1, the slope of the line is 1.

AACSB: Reflective Thinking
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-A
Topic: Slope of a Line

123. Refer to the graph below.

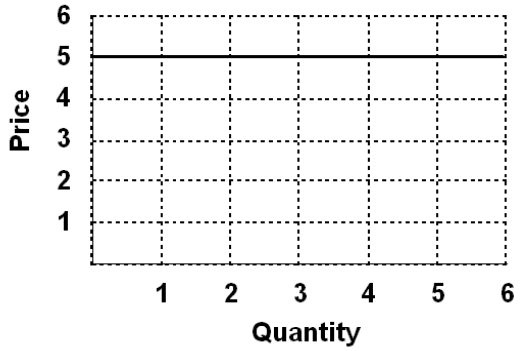


The slope of the line is:
A. 1/3.
B. 3.
C. minus 1/3.
D. minus 3.

Because the rise over run is 6 over 2, and the line is downward sloping, the slope of the line is minus 6/2 or minus 3.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Medium
Learning Objective: 2-A
Topic: Slope of a Line

124. Refer to the graph below.

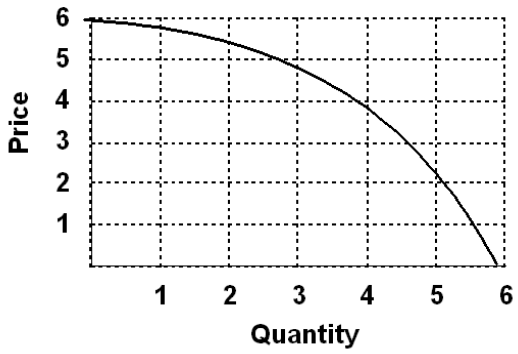


The slope of the line is:
A. 0.
B. 1.
C. 5.
D. infinity.

Because the rise is always 0 no matter what the run is, the slope of the line is 0.

AACSB: Analytic
BLOOM'S TAXONOMY: Synthesis
Difficulty: Easy
Learning Objective: 2-A
Topic: Slope of a Line

125. Refer to the graph below.

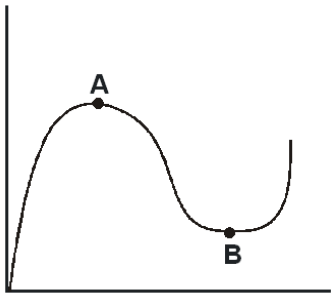


The slope of the curve is:
A. minus 1.
B. minus 2.
C. minus infinity.
D. different at different points.

The slope of a point on a curve is determined by taking the slope of the tangent to that point. Different points will have tangents with different slopes, and thus the curve will have different slopes at these points.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Hard
Learning Objective: 2-A
Topic: Slope of a Line

126. The slopes of the curve at points A and B (maximum and minimum) are:



A. zero and zero.
B. infinity and zero.
C. zero and one.
D. one and zero.

As mentioned in the textbook, both maximum and minimum points have slopes of zero.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Slope of a Line

127. In the linear equation y = mx + b, m is the:
A. variable on the horizontal axis.
B. variable on the vertical axis.
C. slope.
D. vertical intercept.

The constant m represents the slope of this curve, which gives the ratio of the change in y for a given change in x.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Hard
Learning Objective: 2-A
Topic: Slope of a Line

128. In the linear equation y = mx + b, an increase in b will:
A. shift the curve up.
B. shift the curve down.
C. cause the curve to become steeper.
D. cause the curve to become flatter.

The constant b represents the vertical intercept of the equation. As a consequence, any increase in b will shift the curve up, all else equal.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Hard
Learning Objective: 2-A
Topic: Vertical Intercept

129. What is 25 percent of 200?
A. 8.
B. 25.
C. 50.
D. 100.

To find the answer, take the decimal equivalent of 25 percent (i.e. 0.25) and multiply it by 200.

AACSB: Analytic
BLOOM'S TAXONOMY: Analysis
Difficulty: Medium
Learning Objective: 2-A
Topic: Percentage

130. Consider the following information, which provides percentage change in GDP per year:

	Percentage increase in GDP
1999	-10.0
2000	-5.0
2001	-5.0
2002	4.0
2003	10.0

Given this information, which of the following statements is true?
A. GDP in 1999 is less than in 2001.
B. GDP in 1999 is greater than in 2000.
C. GDP in 2003 is less than in 2001.
D. GDP in 2001 is greater than in 2002.

Since GDP declined in 2000, GDP in 1999 must be greater than in 2000.

AACSB: Analytic
BLOOM'S TAXONOMY: Knowledge
Difficulty: Easy
Learning Objective: 2-A
Topic: Percentage