Exam

Name_____

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

1) The production possibilities frontier
   A) is the boundary between what we want to consume and what we want to produce.
   B) shows how production increases as prices rise.
   C) is the boundary between attainable and unattainable levels of production.
   D) shows prices at which production is possible and impossible.
   E) illustrates why there need not be any scarcity in the world.

   Answer: C

2) Which one of the following concepts is *not* illustrated by a production possibilities frontier?
   A) the tradeoff between producing one good versus another
   B) attainable and unattainable points
   C) opportunity cost
   D) marginal benefit
   E) scarcity

   Answer: D

3) A point inside a production possibilities frontier
   A) is unattainable.
   B) indicates a point of production efficiency.
   C) is preferred to a point on the production possibilities frontier.
   D) indicates some wasted or misallocated resources.
   E) illustrates the idea of opportunity cost.

   Answer: D

4) Which one of the following concepts is illustrated by a production possibilities frontier?
   A) property rights
   B) investment
   C) profit
   D) consumption
   E) tradeoff

   Answer: E

5) If Sam is producing at a point inside his production possibilities frontier, then he
   A) must be doing the best he can with limited resources.
   B) has a high opportunity cost of moving from this point.
   C) is fully using all his resources and allocating his resources to their best use.
   D) can increase production of both goods with zero opportunity cost.
   E) is unaffected by costs and technology.

   Answer: D

6) If Sam is producing at a point on his production possibilities frontier, then he
   A) is unaffected by costs and technology.
   B) is not subject to scarcity.
   C) can produce more of both goods.
   D) cannot produce any more of either good.
   E) can increase the production of one good only by decreasing the production of the other.

   Answer: E

Use the figure below to answer the following questions.

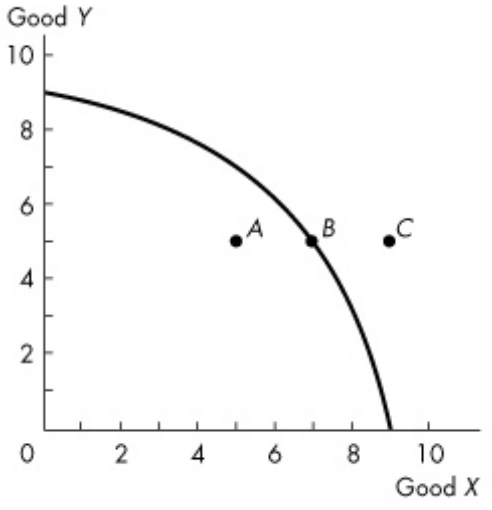

Figure 2.1.1

7) Refer to the production possibilities frontier in Figure 2.1.1. Which one of the following statements is true about point *A*?
   A) It is unattainable.
   B) It is preferred to point *B*.
   C) Although no more of good *Y* can be produced, more of good *X* can be produced.
   D) Although no more of good *X* can be produced, more of good *Y* can be produced.
   E) Resources are either unused or misallocated or both.

   Answer: E

8) Complete the following sentence. In Figure 2.1.1,
   A) some resources must be unused at point *C*.
   B) movement from *A* to *B* would require a technological advance.
   C) point *B* is a point of production efficiency.
   D) the concept of decreasing opportunity cost is illustrated.
   E) movement from C to B would require a technological improvement.

   Answer: C

9) Refer to the production possibilities frontier in Figure 2.1.1. Which one of the following is true about point *C*?
A) It is attainable and inefficient.
B) It is unattainable.
C) It is attainable only if the opportunity cost of producing *X* increases.
D) It is attainable only if the opportunity cost of producing *X* decreases.
E) It is efficient and attainable.

Answer: B

10) If Harold can increase production of good *X* without decreasing production of any other good, then Harold
A) is producing inside his production possibilities frontier.
B) is producing on his production possibilities frontier.
C) prefers good *X* to any other good.
D) is producing outside his production possibilities frontier.
E) has a linear production possibilities frontier.

Answer: A

11) If Harold must decrease production of some other good to increase production of good *X*, then Harold
A) has a linear production possibilities frontier.
B) is producing outside his production possibilities frontier.
C) is producing inside his production possibilities frontier.
D) is producing on his production possibilities frontier.
E) prefers good X to any other good.

Answer: D

12) A situation in which resources are either wasted or misallocated or both is illustrated by
A) a point above or to the right of the production possibilities frontier.
B) a point inside the production possibilities frontier.
C) any point on either the horizontal or the vertical axis.
D) a point on or inside the production possibilities frontier.
E) a point outside the production possibilities frontier.

Answer: B

13) A production possibilities frontier is negatively sloped because
A) the quantity of a good purchased decreases as its price falls.
B) there is too little capital in the economy.
C) opportunity cost of production increases as more of a good is produced.
D) some resources are misallocated.
E) opportunity cost of production decreases as more of a good is produced.

Answer: C

14) Ted chooses to study for his economics exam instead of going to the concert. The concert he will miss is Ted's _____ of studying for the exam.
A) opportunity cost
B) discretionary cost
C) comparative cost
D) monetary cost
E) absolute cost

Answer: A

15) Opportunity cost of an action is
A) the highest-valued alternative forgone.
B) the best choice that can be made.
C) the absolute cost.
D) the comparative cost.
E) the money cost.

Answer: A

16) On a graph of a production possibilities frontier, opportunity cost is represented by
A) the slope of the production possibilities frontier.
B) the *x*-axis intercept.
C) a point on the horizontal axis.
D) a ray through the origin.
E) a point on the vertical axis.

Answer: A

17) Production efficiency is achieved when
A) the production possibilities frontier shifts outward at a constant pace.
B) resources are not equally productive in all activities.
C) all resources are equally productive in all activities.
D) there are no tradeoffs.
E) we produce goods and services at the lowest possible cost.

Answer: E

18) A tradeoff exists when
A) the *PPF* shifts outward.
B) we move from a point inside the *PPF* to a point on the *PPF*.
C) we move along the *PPF*.
D) the *PPF* shifts inward.
E) we move from a point on the *PPF* to a point within the *PPF*.

Answer: C

19) Which of the following quotations best illustrates a tradeoff?
A) "If the firm reorganized its production process, it could produce more widgets *and* more gadgets."
B) "The firm has been able to lower costs due to its extensive experience in building widgets."
C) "The firm should sell more gadgets, even if it means hiring more workers."
D) "If the firm invests more in capital equipment, it can expand sales next year."
E) "The more and more gadgets the firm produces, the bigger the fall in widget production."

Answer: E

20) A medical clinic employs 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of administrative services a day. The production possibilities frontier of this firm shows
A) infinite opportunity cost.
B) constant opportunity cost.
C) increasing opportunity cost.
D) zero opportunity cost.
E) decreasing opportunity cost.

Answer: B

21) A medical clinic employs 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of administrative services a day. The opportunity cost of one more unit of medical services is
A) 5 units of administrative services.
B) 0.4 units of administrative services.
C) 1 unit of medical services.
D) 2 units of administrative services.
E) 2.5 units of administrative services.

Answer: E

22) A medical clinic employs 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of administrative services a day. One day, the clinic decides to produce 10 units of medical services and 30 units of administrative services. This output level is
A) unattainable.
B) on the clinic's *PPF*.
C) efficient.
D) inefficient.
E) attainable if each worker specializes in one service.

Answer: A

23) A medical clinic employs 10 workers. Each worker can produce a maximum of either 2 units of medical services or 5 units of administrative services a day. One day, the clinic decides to produce 16 units of medical services and 5 units of administrative services. This output level is
A) unattainable.
B) inefficient.
C) efficient.
D) on the clinic's *PPF*.
E) attainable and efficient.

Answer: B

24) The bowed-out (concave) shape of a production possibilities frontier illustrates
A) the equal usefulness of resources in all activities.
B) increasing opportunity cost.
C) capital accumulation.
D) decreasing opportunity cost.
E) technological change.

Answer: B

25) If opportunity costs are increasing, then the production possibilities frontier is
A) a vertical line.
B) bowed outward with a negative slope.
C) a negatively sloped straight line.
D) a positively sloped straight line.
E) bowed outward with a positive slope.

Answer: B

26) The fact that resources are *not* equally productive in all activities
A) implies that gains from specialization and trade are unlikely.
B) implies a linear production possibilities frontier.
C) follows from the law of demand.
D) implies that an economy should not produce certain goods.
E) implies that a production possibilities frontier will be bowed outward.

Answer: E

27) If additional units of any good can be produced at a *constant* opportunity cost, the production possibilities frontier is
A) positively sloped and linear.
B) bowed inward and negatively sloped.
C) linear and negatively sloped.
D) bowed outward and negatively sloped.
E) horizontal.

Answer: C

28) The existence of *increasing* opportunity cost
A) explains why some societies produce inside their production possibilities frontier.
B) explains why specialization is frequently useful.
C) follows from the existence of property rights.
D) explains why resources are scarce.
E) explains the bowed-out shape of the production possibilities frontier.

Answer: E

Use the figure below to answer the following questions.

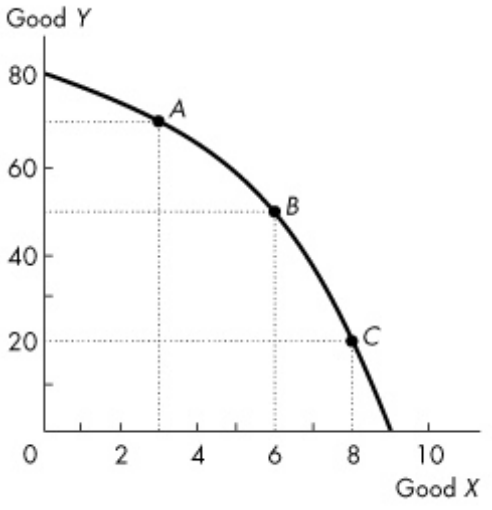

Figure 2.1.2

29) Refer to the production possibilities frontier in Figure 2.1.2. If 6 units of *X* are produced, then
A) 50 units of *Y* must be produced, regardless of resource utilization.
B) 50 units of *Y* can be produced if all resources are used and assigned to the task for which they are the best match.
C) 60 units of *Y* can be produced with some resources *not* fully used.
D) 40 units of *Y* cannot be produced unless production of *X* is increased.
E) 40 units of *Y* cannot be produced unless production of *X* is decreased.

Answer: B

30) Refer to the production possibilities frontier in Figure 2.1.2. Suppose that 50 units of *Y* are produced. Then
A) resources are not being fully utilized.
B) 9 units of *X* can be produced if all resources are used and assigned to the task for which they are the best match.
C) 7 units of *X* are being produced.
D) 6 units of *X* can be produced if all resources are used and assigned to the task for which they are the best match.
E) 6 units of *X* are being produced.

Answer: D

31) Refer to the production possibilities frontier in Figure 2.1.2. At point *A*, the opportunity cost of producing 3 more units of *X* is
A) zero units of *Y*.
B) 30 units of *Y*.
C) 20 units of *Y*.
D) 10 units of *Y*.
E) 3 units of *X*.

Answer: C

32) Refer to the production possibilities frontier in Figure 2.1.2. At point *A*, the opportunity cost of increasing production of *Y* to 80 units is
A) 3 units of *X*.
B) 10 units of *Y*.
C) 80 units of *Y*.
D) 1 unit of *X*.
E) 2 units of *X*.

Answer: A

33) Refer to the production possibilities frontier in Figure 2.1.2. At point *C*, the opportunity cost of producing one more unit of *X* is
A) 8 units of *X*.
B) 20 units of *X*.
C) 20 units of *Y*.
D) 1 unit of *X*.
E) 1 unit of *Y*.

Answer: C

34) Refer to the production possibilities frontier in Figure 2.1.2. At point *C*, what is the opportunity cost of increasing the production of *Y* from 20 to 50 units?
A) 2 units of *X* B) 30 units of *Y* C) 20 units of *Y* D) 6 units of *X* E) 8 units of *X*

Answer: A

35) Consider the production possibilities frontier in Figure 2.1.2. Which of the following statements is *false*?
A) Points inside the production possibilities frontier indicate wasted or misallocated resources.
B) The opportunity cost of producing *X* increases as production of *X* increases.
C) The opportunity cost of producing *Y* increases as production of *Y* increases.
D) Resources are not equally useful in the production of *X* and *Y*.
E) Production at point *A* shifts the production possibilities frontier outward.

Answer: E

36) As we increase production of *X*, we must give up production of larger and larger amounts of *Y* to produce each additional unit of *X*. Select the best statement.
A) As a result, we should not specialize in the production of *X*.
B) We must be producing inside the production possibilities frontier.
C) The production possibilities frontier for *X* and *Y* is a straight line.
D) This illustrates increasing opportunity cost.
E) Good *Y* will be more highly regarded by consumers than good *X*.

Answer: D

Use the figure below to answer the following questions.

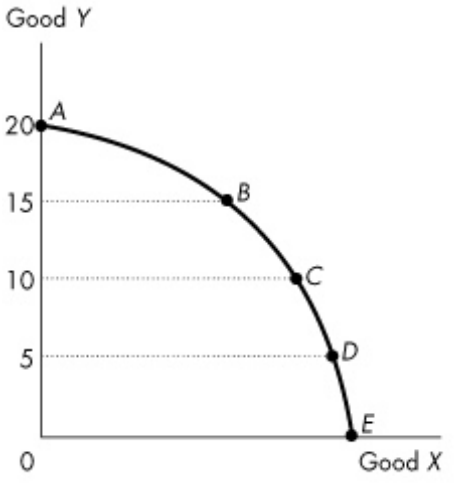

Figure 2.1.3

37) Figure 2.1.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *B* to point *C*, Mary must
A) give up some of good *X* to obtain more of good *Y*.
B) increase capital.
C) improve technology.
D) pay more for her factors of production.
E) give up some of good *Y* to obtain more of good *X*.

Answer: E

38) Figure 2.1.3 illustrates Mary's production possibilities frontier. If Mary wants to move from point *D* to point *C*, Mary must
A) improve technology.
B) give up some of good *Y* to obtain more of good *X*.
C) hire more workers.
D) give up some of good *X* to obtain more of good *Y*.
E) increase capital.

Answer: D

39) Refer to the production possibilities frontier in Figure 2.1.3. The opportunity cost of moving from *C* to *B* will be
A) less than moving from *D* to *C* but greater than moving from *B* to *A*.
B) greater than moving from *D* to *C* but less than moving from *B* to *A*.
C) the same as moving from *D* to *C* or moving from *B* to *A*.
D) greater than moving either from *D* to *C* or from *B* to *A*.
E) less than moving from E to D.

Answer: B

Use the table below to answer the following questions.

Table 2.1.1
The following table gives points on the production possibilities frontier for goods *X* and *Y*.

Point	Production of *X*	Production of *Y*
A	0	40
B	4	36
C	8	28
D	12	16
E	16	0

40) Refer to Table 2.1.1. What is true at point *C*?
A) If 8 units of *X* are produced, then at most 28 units of *Y* can be produced.
B) If 8 units of *X* are produced, then at least 28 units of *Y* can be produced.
C) If 8 units of *X* are produced, then only 36 units of *Y* can be produced.
D) If 28 units of *Y* are produced, then more than 8 units of *X* can be produced.
E) Some resources are unemployed.

Answer: A

41) Refer to Table 2.1.1. The opportunity cost of increasing the production of *X* from 8 to 12 units is
A) 12 units of *Y*.
B) 16 units of *Y*.
C) 4 units of *Y*.
D) 8 units of *Y*.
E) 4 units of *X*.

Answer: A

42) Refer to Table 2.1.1. The opportunity cost of increasing the production of *Y* from 16 to 36 units is
A) 8 units of *X*.
B) 4 units of *X*.
C) 16 units of *X*.
D) 12 units of *X*.
E) 20 units of *Y*.

Answer: A

43) The economy illustrated by the data in Table 2.1.1 exhibits
A) constant opportunity cost in the production of *X*.
B) increasing opportunity cost.
C) constant opportunity cost in the production of *Y*.
D) initially increasing, then decreasing opportunity cost.
E) decreasing opportunity cost.

Answer: B

44) From the data in Table 2.1.1, the production of 7 units of *X* and 28 units of *Y* is
A) unattainable.
B) attainable but leaves some resources wasted or misallocated or both.
C) on the *PPF* between points *C* and *D*.
D) outside the PPF.
E) on the *PPF* between points *B* and *C*.

Answer: B

45) Refer to Table 2.1.1. As the production of *X* increases,
A) the production of *Y* increases.
B) the amount of *X* produced increases at an increasing rate.
C) unemployment increases.
D) the opportunity cost of each additional unit of *X* produced increases.
E) the opportunity cost of each additional unit of *X* produced decreases.

Answer: D

46) The data in Table 2.1.1 illustrate that
A) the opportunity cost of producing an additional unit of *Y* increases as the production of *Y* increases.
B) the producer has a comparative advantage in the production of *Y*.
C) the producer has a comparative advantage in the production of *X*.
D) the opportunity cost of producing an additional unit of *Y* decreases as the production of *Y* increases.
E) the opportunity cost of producing an additional unit of *Y* is constant as the production of *X* increases.

Answer: A

47) The production possibilities frontier corresponding to the data in Table 2.1.1 is
A) negatively sloped and linear.
B) positively sloped and bowed outward.
C) negatively sloped and bowed outward.
D) negatively sloped and bowed inward.
E) positively sloped and linear.

Answer: C

48) From the data in Table 2.1.1, the production of 10 units of *X* and 28 units of *Y* is
A) inside the *PPF*.
B) attainable but inefficient.
C) on the production possibilities frontier between points *C* and *D*.
D) attainable but leaves some resources misallocated.
E) unattainable.

Answer: E

Use the table below to answer the following questions.

Table 2.1.2
Production Possibilities

Possibility	Kilograms of Butter	Snowshoes
A	8	0
B	6	1
C	0	3

49) Refer to Table 2.1.2. In moving from combination *B* to combination *C*, the opportunity cost of producing *one* additional snowshoe is
A) 1/6 kilogram of butter.
B) 2 kilograms of butter.
C) 3 kilograms of butter.
D) 1/2 kilogram of butter.
E) 6 kilograms of butter.

Answer: C

50) Refer to Table 2.1.2. According to this production possibilities frontier,
A) a combination of 0 kilograms of butter and 4 snowshoes is attainable.
B) the opportunity cost of producing snowshoes increases as more snowshoes are produced.
C) resources are equally useful in all activities.
D) the opportunity cost of producing snowshoes decreases as more snowshoes are produced.
E) a combination of 6 kilograms of butter and 1 snowshoe is inefficient.

Answer: B

Use the table below to answer the following question.

Table 2.1.3
Production possibilities for a society that produces only two goods — hockey sticks and maple leaves

Possibility	Hockey Sticks	Maple Leaves
A	3	0
B	2	3
C	0	9

51) Refer to Table 2.1.3. In moving from combination *C* to combination *B*, the opportunity cost of producing *one* additional hockey stick is
A) 1/6 maple leaves.
B) 1/2 maple leaves.
C) 2 maple leaves.
D) 3 maple leaves.
E) 6 maple leaves.

Answer: D

Use the table below to answer the following question.

Table 2.1.4
Consider the following production possibilities for a student for the typical week:

Possibility	Pop	Pizza
a	14 cases	0
b	12 cases	6
c	9 cases	11
d	5 cases	14
e	0 cases	15

52) Refer to Table 2.1.4. Complete the following sentence. The production possibilities frontier in the table shows
A) under-utilization of resources.
B) decreasing opportunity cost.
C) constant opportunity cost.
D) learning-by-doing.
E) increasing opportunity cost.

Answer: E

53) The slope of the production possibilities frontier curve measures
A) absolute advantage.
B) preferences for the goods measured on both axes.
C) marginal benefit from the good measured on the *y*-axis.
D) opportunity cost of producing the good measured on the *x*-axis.
E) comparative advantage.

Answer: D

Use the figure below to answer the following question.

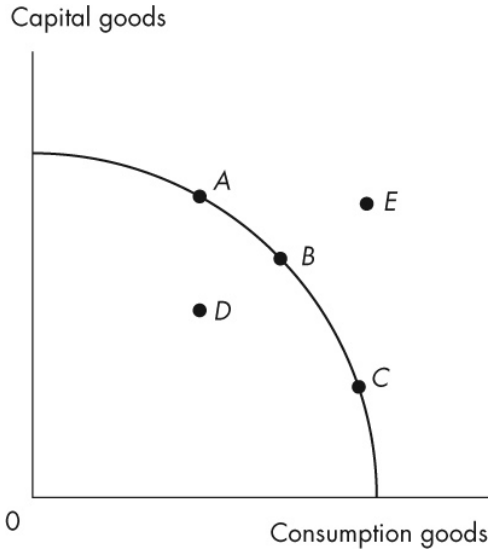

Figure 2.1.4

54) Refer to the production possibilities frontier in Figure 2.1.4. Which point is unattainable?
A) *A* B) *B* C) *C* D) *D* E) *E*

Answer: E

Use the figure below to answer the following question.

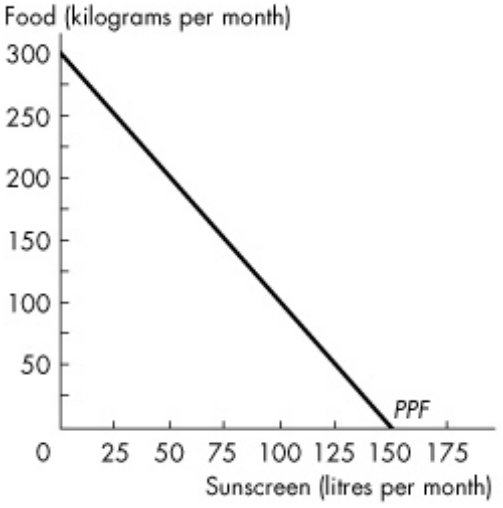

Figure 2.1.5

55) The graph in Figure 2.1.5 shows Sunland's *PPF* for food and sunscreen. Sunland faces _____ opportunity cost of food and _____ opportunity of sunscreen.
A) a decreasing; a decreasing
B) a constant; a constant
C) an increasing; an increasing
D) a decreasing; an increasing
E) an increasing; a decreasing

Answer: B

Use the figure below to answer the following questions.

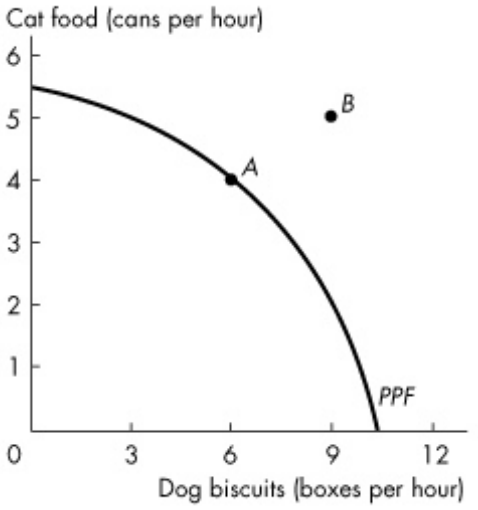

Figure 2.1.6

56) Figure 2.1.6 shows the production possibilities frontier for a firm that produces pet food. Point *A* is _____ and point *B* is _____.
   A) attainable; unattainable.
   B) attainable; attainable.
   C) inefficient; efficient
   D) unattainable; attainable.
   E) unattainable; unattainable.

   Answer: A

57) Figure 2.1.6 shows the production possibilities frontier for a firm that produces pet food. This *PPF* _____ illustrate scarcity because _____.
   A) does; as more is produced, consumers must pay a higher price
   B) does not; the *PPF* is downward sloping
   C) does not; the firm can produce any quantity it wants if it is willing to charge a high enough price
   D) does not; scarcity does not occur in the market for pet food
   E) does; the firm cannot produce points outside the frontier, and as the firm moves along the *PPF*, it cannot produce more dog biscuits without producing less cat food

   Answer: E

58) When producing at a point of production efficiency,
   A) the quantity of goods produced can be either on or inside the production possibilities frontier.
   B) a tradeoff occurs.
   C) the opportunity cost of producing goods other than those measured on the axes of the production possibilities frontier is zero.
   D) resources are either wasted or misallocated.
   E) all wants are satisfied.

   Answer: B

59) Jane produces only corn and cloth. If her preferences for corn and cloth change, then
A) her *PPF* does not change.
B) her *PPF* becomes flatter.
C) the world *PPF* shifts outward.
D) her *PPF* becomes straighter.
E) her *PPF* becomes steeper.

Answer: A

60) The production possibilities frontier is
A) downward sloping and illustrates the marginal benefit from increasing production of the good measured on the *x*-axis.
B) upward sloping and illustrates a tradeoff in production of the good measured on the *x*-axis and the good measured on the *y*-axis.
C) downward sloping and illustrates a tradeoff in production of the good measured on the *x*-axis and the good measured on the *y*-axis.
D) downward sloping and a movement along the *PPF* illustrates a free lunch.
E) upward sloping and a movement along the *PPF* illustrates a free lunch.

Answer: C

61) The production possibilities frontier shows
A) the effect of advancing technology on production possibilities.
B) the maximum possible growth rate of output in an economy.
C) combinations of goods and services that do not fully use available resources.
D) the maximum quantity of resources available at any given time.
E) the maximum level of production that can be attained.

Answer: E

62) The Government of Canada promises to produce more defence goods without any decrease in the production of other goods. This promise is valid
A) only if the *PPF* shifts rightward.
B) if Canada is producing at a point on its *PPF*.
C) only if technology advances or capital increases.
D) if Canada is producing at a point inside its *PPF*.
E) if Canada is producing at a point outside its *PPF*.

Answer: D

63) Consider a *PPF* that measures the production of quilts on the *y*-axis and the production of pillows on the *x*-axis. As the firm moves along this *PPF*, the production of
A) pillows and quilts are both decreasing.
B) pillows and quilts are both increasing.
C) all goods other than pillows and quilts is decreasing.
D) all goods other than pillows and quilts remains constant.
E) all goods other than pillows and quilts is increasing.

Answer: D

64) Choose the correct statements.

1. Opportunity cost of a good is the increase in the quantity produced of one good divided by the decrease in the quantity produced of another good as we move along the *PPF*.
2. The opportunity cost of an action is the highest-valued alternative forgone.
3. Opportunity cost is a ratio.
4. There is no relationship between the opportunity cost of producing an additional good measured on the *x*-axis and the opportunity cost of producing an additional good measured on the *y*-axis.

A) Statements 3 and 4 are correct.
B) Statements 2 and 3 are correct.
C) Statements 2 and 4 are correct.
D) Statements 1 and 3 are correct.
E) Statements 1 and 2 are correct.

Answer: B

65) Marginal cost

A) is greater then marginal benefit.
B) is the opportunity cost of producing one more unit of a good or service.
C) equals marginal benefit.
D) is less than marginal benefit.
E) is unrelated to the production possibilities frontier.

Answer: B

66) The quantity of shoes produced is measured along the *x*-axis of a bowed-outward production possibilities frontier and the quantity of shirts produced is measured along the *y*-axis. As you move down towards the right along the production possibilities frontier, the marginal cost of

A) a pair of shoes increases.
B) a shirt remains constant.
C) a pair of shoes decreases.
D) a shirt equals the marginal benefit from a pair of shoes.
E) a pair of shoes and a shirt is equal at the midpoint between the *x*-axis and the *y*-axis.

Answer: A

67) Which of the following is true regarding marginal benefit?

I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.
II. Marginal benefit increases as more and more of a good is consumed.
III. Marginal benefit is the maximum amount a person is willing to pay to obtain one more unit of a good.

A) I only B) I and II C) I and III D) III only E) I, II, and III

Answer: D

68) To describe preferences, economists use the concept of

A) opportunity cost.
B) marginal benefit.
C) scarcity.
D) price.
E) marginal cost.

Answer: B

69) As consumption of a good increases,
A) the price of the good falls.
B) marginal benefit increases.
C) marginal benefit decreases.
D) marginal benefit increases or decreases depending on price.
E) marginal benefit equals price.

Answer: C

70) The marginal benefit curve from a good
A) is upward-sloping.
B) shows the most a consumer is willing to pay for one more unit of that good.
C) is bowed outward.
D) is vertical.
E) shows the benefit a firm receives from producing one more unit of that good.

Answer: B

Use the figure below to answer the following questions.

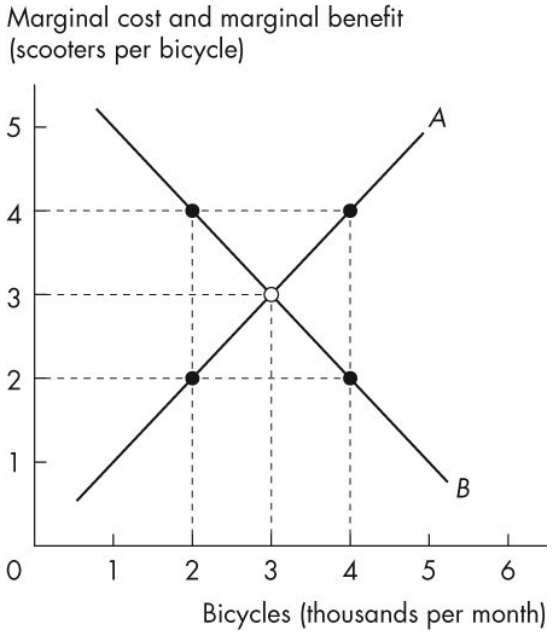

Figure 2.2.1

71) In Figure 2.2.1, the curve labelled *B* shows
A) the number of scooters that people *must* forgo to obtain another bicycle.
B) that the benefit from producing more bicycles is greater than the benefit from producing more scooters.
C) the number of bicycles that people are *willing* to forgo to obtain another scooter.
D) that the benefit from producing more scooters is greater than the benefit from producing more bicycles.
E) the number of scooters that people are *willing* to forgo to obtain another bicycle.

Answer: E

72) In Figure 2.2.1, when 2,000 bicycles are produced each month,
A) the marginal benefit from the 2,000th bicycle is greater than the marginal cost of the 2,000th bicycle.
B) the marginal benefit from the 2,000th bicycle equals the marginal cost of the second scooter.
C) fewer bicycles must be produced to reach the efficient level of output.
D) the production of bicycles is efficient.
E) the marginal benefit from the 2,000th bicycle equals the marginal cost of the 4th scooter.

Answer: E

73) In Figure 2.2.1, the curve labelled *A* is the _____ curve and the curve labelled *B* is the _____ curve.
A) marginal benefit; marginal cost
B) marginal benefit; trade
C) marginal cost; trade
D) production possibilities; trade
E) marginal cost; marginal benefit

Answer: E

74) In Figure 2.2.1, when 4,000 bicycles are produced each month,
A) fewer bicycles must be produced to reach the efficient level of output.
B) the marginal benefit from the 4,000th bicycle is greater than the marginal cost of the 4,000th bicycle.
C) the production of bicycles is efficient.
D) more bicycles must be produced to reach the efficient level of output.
E) the marginal benefit from the 4,000th bicycle equals the marginal cost of the 4th scooter.

Answer: A

75) A marginal benefit curve measures
A) opportunity cost.
B) absolute advantage.
C) willingness to pay.
D) expenditure.
E) comparative advantage.

Answer: C

76) Allocative efficiency refers to a situation where
A) opportunity cost is zero for all goods.
B) marginal benefit is maximized.
C) opportunity costs are equal for all goods.
D) we cannot produce more of any one good without giving up some other good.
E) goods and services are produced at the lowest possible cost and in the quantities that provide the greatest possible benefit.

Answer: E

77) When the market achieves allocative efficiency,
A) marginal benefit equals marginal cost.
B) marginal cost is at its minimum.
C) marginal cost minus marginal benefit is positive.
D) marginal benefit minus marginal cost is positive.
E) marginal benefit is at its maximum.

Answer: A

78) Marginal benefit from a good or service is the benefit received from consuming _____. It is measured by the most that people are willing to pay for _____.
A) one more unit of it; more of it
B) goods that you prefer; more of it
C) goods that you prefer; an additional unit of it
D) as much as is available; the total amount consumed
E) one more unit of it; an additional unit of it

Answer: E

Use the table below to answer the following question.

Table 2.2.1

Ethanol (barrels per day)		Food crops (tonnes per day)
70	and	0
64	and	1
54	and	2
40	and	3
22	and	4
0	and	5

79) Refer to Table 2.2.1. Marginal benefit from food crops
A) equals 70 barrels of ethanol.
B) equals the marginal cost of food crops.
C) cannot be calculated from the table.
D) remains constant as the quantity of food crops increases from 1 tonne a day to 2 tonnes a day.
E) increases as the quantity of food crops increases from 1 tonne a day to 2 tonnes a day.

Answer: C

80) The principle of decreasing marginal benefit implies that the
A) additional benefit from obtaining one more unit of a good or service increases as more of that good or service is consumed.
B) total benefit from obtaining more of a good or service decreases as more is consumed.
C) additional benefit from producing one more unit of a good or service decreases as more of that good or service is produced.
D) total benefit from obtaining more of a good or service remains the same as more is consumed.
E) additional benefit from obtaining one more unit of a good or service decreases as more of that good or service is consumed.

Answer: E

81) The most anyone is willing to pay for another purse is $30. Currently the price of a purse is $40, and the cost of producing another purse is $50. The marginal benefit from a purse is
A) $20. B) $40. C) $50. D) $10. E) $30.

Answer: E

82) A marginal cost curve that is
A) upward sloping is derived from a *PPF* that has a constant slope.
B) a horizontal line is derived from a *PPF* that has a bowed-out shape.
C) a horizontal line is derived from a *PPF* that has a constant slope.
D) downward sloping is derived from a *PPF* that has a bowed-out shape.
E) vertical is derived from a *PPF* that has a bowed-out shape.

Answer: C

83) All points on the *PPF* are points of _____ efficiency. When we produce at the point on the *PPF* that we prefer above all other points we achieve _____ efficiency.
A) allocative; allocative
B) allocative; production
C) productive; prominent
D) unattainable; attainable
E) production; allocative

Answer: E

84) Microsoft's marginal cost of the 100th copy of Microsoft Windows 10 is
A) equal to the marginal benefit from the 100th copy of Windows 10.
B) the maximum amount that someone is willing to pay for the 100th copy of Windows 10.
C) the opportunity cost of producing the 100th copy of Windows 10.
D) greater than the marginal benefit from the 100th copy of Windows 10.
E) the maximum amount that someone is willing to pay Microsoft to obtain the code that supports Windows 10.

Answer: C

85) Individuals *A* and *B* can both produce good *X*. We say that *A* has a comparative advantage in the production of good *X* if
A) *A* can produce more units of *X* in a given time period than *B*.
B) *A* has a lower opportunity cost of producing *X* than *B*.
C) *A* can produce *X* using newer technology than *B*.
D) *A* can produce less units of *X* in a given time period than *B*.
E) *A* has a higher opportunity cost of producing X than B.

Answer: B

86) Individuals *A* and *B* can both produce goods *X* and *Y*. Individual *A* has a comparative advantage in the production of *X* if
A) *A* is faster than *B* at producing *X*.
B) *A* has a preference to consume *X*.
C) *B* has superior knowledge about how to produce *X*.
D) the amount by which *A* must reduce production of *Y* is less than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.
E) the amount by which *A* must reduce production of *Y* is more than the amount by which *B* must reduce production of *Y* to produce an additional unit of *X*.

Answer: D

87) Debra has an absolute advantage in producing a good when she
A) can produce more of that good than anyone else, using the same quantity of inputs.
B) has exclusive rights to sell that good.
C) has better technology than anyone else.
D) can produce the good at lower opportunity cost than anyone else.
E) has a comparative advantage in producing that good.

Answer: A

88) A person who has an absolute advantage in the production of all goods will
A) have a comparative advantage in the production of only some goods and not others.
B) produce all goods at the lowest opportunity cost.
C) also have a comparative advantage in the production of all goods.
D) not be able to gain from specialization and trade.
E) not have a comparative advantage in the production of any goods.

Answer: A

Use the information below to answer the following questions.

Fact 2.3.1

In an eight-hour day, Andy can produce either 24 loaves of bread or 8 kilograms of butter. In an eight-hour day, Rolfe can produce either 8 loaves of bread or 8 kilograms of butter.

89) Given Fact 2.3.1, the opportunity cost of producing 1 loaf of bread is
A) 3 kilograms of butter for Andy and 1 kilogram of butter for Rolfe.
B) 8 kilograms of butter for both Andy and Rolfe.
C) 1/3 kilogram of butter for Andy and 1 kilogram of butter for Rolfe.
D) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.
E) cannot be calculated.

Answer: C

90) From Fact 2.3.1, we know that
A) Andy has the lower opportunity cost of producing bread, while Andy and Rolfe have equal opportunity costs of producing butter.
B) Andy has the lower opportunity cost of producing both bread and butter.
C) Andy has the higher opportunity cost of producing both bread and butter.
D) Andy has the lower opportunity cost of producing butter, while Rolfe has the lower opportunity cost of producing bread.
E) Andy has the lower opportunity cost of producing bread, while Rolfe has the lower opportunity cost of producing butter.

Answer: E

91) Refer to Fact 2.3.1. Which one of the following statements is true?
A) Andy has an absolute advantage in butter production.
B) Rolfe has a comparative advantage in bread production.
C) Rolfe has an absolute advantage in butter production.
D) Andy has a comparative advantage in butter production.
E) Andy has a comparative advantage in bread production.

Answer: E

92) Refer to Fact 2.3.1. The opportunity cost of producing 1 kilogram of butter is
A) 1 hour for Andy and 1 hour for Rolfe.
B) 3 loaves of bread for Andy and 1/3 loaf of bread for Rolfe.
C) 8 loaves of bread for Rolfe and 24 loaves of bread for Andy.
D) 3 loaves of bread for Andy and 1 loaf of bread for Rolfe.
E) 20 minutes (1/3 hour) for Andy and 1 hour for Rolfe.

Answer: D

93) Given Fact 2.3.1, Andy and Rolfe
A) can gain from trade if Andy specializes in bread production and Rolfe specializes in butter production.
B) can trade, but only Rolfe will gain.
C) cannot gain from trade.
D) can trade, but only Andy will gain.
E) can gain from trade if Andy specializes in butter production and Rolfe specializes in bread production.

Answer: A

94) Consider Fact 2.3.1. After specialization, *total* consumption
A) is 8 loaves of bread and 8 kilograms of butter.
B) depends on the preferences of Andy and Rolfe.
C) is 24 loaves of bread and 8 kilograms of butter.
D) is 8 loaves of bread and 24 kilograms of butter.
E) is 32 loaves of bread and 16 kilograms of butter.

Answer: C

Use the information below to answer the following questions.

Fact 2.3.2

Agnes can produce either 1 unit of *X* or 1 unit of *Y* in an hour, while Brenda can produce either 2 units of *X* or 4 units of *Y* in a hour.

95) Refer to Fact 2.3.2. Which one of the following statements is true?
A) Brenda has a comparative advantage in the production of *X*.
B) Agnes will not gain from trade.
C) Brenda will not gain from trade.
D) Brenda has an absolute advantage over Agnes in the production of both goods.
E) Agnes has a comparative advantage in the production of *Y*.

Answer: D

96) Given Fact 2.3.2, the opportunity cost of producing a unit of *X* is
A) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
B) 1 hour for Agnes and 1/4 hour for Brenda.
C) 1 hour for Agnes and 1/2 hour for Brenda.
D) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
E) 1 hour for Agnes and 2 hours for Brenda.

Answer: A

97) Given Fact 2.3.2, the opportunity cost of producing a unit of *Y* is
A) 1 unit of *X* for Agnes and 1/2 unit of *X* for Brenda.
B) 1 unit of *Y* for Agnes and 2 units of *Y* for Brenda.
C) 1 hour for Agnes and 2 hours for Brenda.
D) 1 unit of *Y* for Agnes and 1/2 unit of *Y* for Brenda.
E) 1 hour for Agnes and 1/2 hour for Brenda.
Answer: A

98) Complete the following sentence. Given Fact 2.3.2,
A) there will be gains from trade if Agnes specializes in the production of *X* and Brenda in *Y*.
B) there will be gains from trade only if Agnes becomes faster at producing *X*.
C) there will be gains from trade, no matter what Brenda and Agnes specialize in, as long as they specialize.
D) there will be no gains from trade because Agnes has an absolute advantage.
E) there will be gains from trade only if Agnes specializes in the production of *Y* and Brenda in *X*.
Answer: A

99) Given Fact 2.3.2, what would be the total output of *X* and *Y* in an eight-hour day if Agnes and Brenda each specialized in producing the good in which they have a comparative advantage?
A) 8 units of *X* and 16 units of *Y*
B) 24 units of *X* and 40 units of *Y*
C) 3 units of *X* and 5 units of *Y*
D) 8 units of *X* and 32 units of *Y*
E) 16 units of *X* and 8 units of *Y*
Answer: D

100) Any two individuals gain from trade
A) unless they have different opportunity costs for producing all goods.
B) unless they have the same absolute advantage in producing all goods.
C) unless one has an absolute advantage in producing all goods.
D) unless they have the same opportunity costs for producing all goods.
E) if each specializes in the production of the good for which he has the higher opportunity cost.
Answer: D

Use the figure below to answer the following questions.

Table 2.3.1
The planets of Vulcan and Romulus each produce goods *X* and *Y*.
The following table gives points on their production possibilities frontiers.

Vulcan		Romulus	
Good *X*	Good *Y*	Good *X*	Good *Y*
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

101) Refer to Table 2.3.1. Which one of the following is true?
A) Romulus has a comparative advantage in the production of *X*.
B) Romulus has both an absolute advantage and a comparative advantage in the production of *X*.
C) Vulcan should specialize in the production of *X*.
D) Vulcan has a comparative advantage in the production of *X*.
E) Romulus has both an absolute advantage and a comparative advantage in the production of *Y*.
Answer: A

102) Refer to Table 2.3.1. Which one of the following is true?
A) The opportunity cost of producing more of good *X* is lower in Vulcan.
B) Vulcans are smarter than Romulans.
C) The opportunity cost of producing more of good *Y* is the same for both planets.
D) The opportunity cost of producing more of good *Y* is lower in Vulcan.
E) The opportunity cost of producing more of good *X* is the same for both planets.
Answer: D

103) Refer to Table 2.3.1. For Vulcan, the opportunity cost of producing an additional unit of *X* is
A) 1 unit of *Y*.
B) 2 units of *Y*.
C) 2/3 units of *Y*.
D) 4 units of *Y*.
E) zero.
Answer: B

104) Refer to Table 2.3.1. For Romulus, the opportunity cost of producing an additional unit of *X* is
A) 3/2 units of *Y*.
B) 4 units of *Y*.
C) 1 unit of *Y*.
D) 2 units of *Y*.
E) 2/3 units of *Y*.
Answer: A

105) Refer to Table 2.3.1. For Romulus, the opportunity cost of producing an additional unit of *Y* is
A) 3 units of *X*.
B) 2/3 units of *X*.
C) 3/2 units of *Y*.
D) 1/2 unit of *X*.
E) 2 units of *X*.

Answer: B

106) Refer to Table 2.3.1. For Vulcan, the opportunity cost of producing an additional unit of *Y* is
A) 1/2 units of *X*.
B) 3 units of *X*.
C) 2/3 units of *X*.
D) 4 units of *X*.
E) 2 units of *X*.

Answer: A

107) Refer to Table 2.3.1. Each country gains from trade if
A) they both produce the goods in which they have an absolute advantage.
B) Vulcan specializes in good *X* and Romulus specializes in good *Y.*
C) Vulcan specializes in both goods.
D) Romulus specializes in both goods.
E) Romulus specializes in good *X* and Vulcan specializes in good *Y*.

Answer: E

108) If individuals *A* and *B* can both produce only goods *X* and *Y,* and *A* does *not* have a comparative advantage in the production of either *X* or *Y*, then we know
A) *A* and *B* have the same opportunity costs of production for *X* and for *Y*.
B) the gains from trade will be large but only in one direction.
C) *B* has a comparative advantage in the production of both *X* and *Y*.
D) *A* must have lower opportunity costs of production for both goods.
E) *B* has an absolute advantage in the production of *X* and *Y*.

Answer: A

109) Consider the following household. In 5 hours, Bob can cook 5 meals or clean 6 rooms. In 5 hours, Mary can cook 30 meals or clean 10 rooms. Select the best statement.
A) Mary has a comparative advantage in cooking and cleaning.
B) Bob has a comparative advantage in cooking.
C) Bob has an absolute advantage in the production of both goods.
D) Mary has a comparative advantage in cooking.
E) Since Mary is better at producing both goods, she should produce both.

Answer: D

Use the table below to answer the following questions.

Table 2.3.2
Production for one week by Sheila and Bruce

Sheila		Bruce	
Good *X*	Good *Y*	Good *X*	Good *Y*
8	0	20	0
6	1	15	2
4	2	10	4
2	3	5	6
0	4	0	8

110) Given the information in Table 2.3.2, can Sheila and Bruce gain by specialization?
A) Yes, but only if Bruce gets paid more than Sheila.
B) It depends on the wages each earns.
C) No, not under the given circumstances.
D) Yes, if each specializes in the good in which they have a comparative advantage.
E) Only if they are married to each other.

Answer: D

111) Given the information in Table 2.3.2, choose the correct statement.
A) Sheila has a comparative advantage in good X.
B) Bruce has a comparative advantage in good X.
C) The opportunity cost to Bruce of an additional unit of X is 0.4 units of Y.
D) A and B are true.
E) B and C are true.

Answer: E

112) Suppose John and Joe each have different production possibility frontiers; John specializes in cloth and Joe specializes in corn. John's island unexpectedly has exceptionally good weather, and suddenly he is twice as productive in the production of *both* corn and cloth. Select the best statement.
A) As a result, John will have an absolute advantage in both corn and cloth.
B) There will be a change to the goods in which John and Joe specialize, because John's opportunity cost of corn has decreased.
C) As a result, it is possible that John and Joe will switch the goods in which they specialize.
D) There will be no change to the goods in which John and Joe specialize, because John's comparative advantage has not changed.
E) This is an example of unemployed resources becoming employed.

Answer: D

113) It benefits people to specialize and trade with each other because
A) with specialization and trade, they can consume outside their production possibilities frontiers.
B) they can take advantage of the fact they have an absolute advantage in the production of something.
C) otherwise they would not survive.
D) specialization and trade lead to a linear *PPF*.
E) with specialization and trade, absolute advantage increases.

Answer: A

114) There are two goods, *X* and *Y*. If the opportunity cost of producing good *X* is lower for Pam than for Gino, then
A) Pam has an absolute advantage in the production of *X*.
B) Gino has an absolute advantage in the production of *Y*.
C) Pam has a comparative advantage in the production of *X*.
D) Gino has a comparative advantage in the production of *Y*.
E) Both C and D are correct.

Answer: E

115) In Portugal, the opportunity cost of a bale of wool is 3 bottles of wine. In England, the opportunity cost of 1 bottle of wine is 3 bales of wool. Given this information,
A) Portugal has an absolute advantage in wool production.
B) England has an absolute advantage in wine production.
C) Portugal has a comparative advantage in wool production.
D) Portugal has a comparative advantage in wine production.
E) no trade will occur.

Answer: D

116) Which of the following describes comparative advantage?
A) Jane can type 50 words per minute, and Joe can type 60 words per minute.
B) Firm A can produce a good at a cost of $3 a unit, and Firm B can produce the same good at a cost of $4 a unit.
C) Bill can read one book in a week, but it takes Jeannie 10 days to read the same book.
D) Firm A can produce 4 boxes of cereal in a day, and Firm B can produce 5 boxes of cereal in a day.
E) To produce a basket of wheat, Farmer John must give up growing 2 baskets of corn, whereas Farmer Ben must give up 3 baskets of corn to produce a basket of wheat.

Answer: E

117) The kitchen manager at an Italian restaurant is deciding what assignments he should give to his two cooks, John and David. John can make 25 pizzas or 40 servings of pasta per hour and David can make 20 pizzas or 30 servings of pasta per hour. Which is the manager's best choice?
A) John and David will each spend half their time making pizza and half their time making pasta.
B) Increase David's salary because with encouragement, he can increase his output.
C) Fire David because he is not as productive as John. John will produce both pasta and pizza.
D) John will make pizza because he has a comparative advantage in making pizza.
E) David will make pizza because he has a comparative advantage in making pizza.

Answer: E

118) Tom and Don have different opportunity costs of producing two goods. If Tom and Don specialize in producing the goods in which each has a comparative advantage and they exchange goods, then
A) one of them will gain and one of them will lose.
B) each will gain because each can consume a combination of goods that is outside his production possibilities frontier.
C) each will produce a combination of goods that is outside his production possibilities frontier.
D) they each lose because they are no longer able to produce and consume both goods.
E) each will produce a combination of goods that is inside his production possibilities frontier.

Answer: B

Use the information below to answer the following questions.

Fact 2.3.3

In one hour, Sue can produce 50 caps or 10 jackets, and Tessa can produce 70 caps or 7 jackets.

119) Refer to Fact 2.3.3. Sue's opportunity cost of producing a cap is _____ jackets and Tessa's opportunity cost of producing a cap is _____ jackets.
A) 0.2; 0.1 B) 10; 7 C) 0.1; 0.2 D) 5; 0.1 E) 0.2; 1.0

Answer: A

120) Refer to Fact 2.3.3. _____ has a comparative advantage in producing caps. If Sue and Tessa each specialize in producing the good in which they have a comparative advantage and trade 1 jacket for 7 caps, _____.
A) Tessa; Tessa loses but Sue gains
B) Tessa; both Sue and Tessa gain
C) Sue; Tessa gains but Sue loses
D) Tessa; Sue loses but Tessa gains
E) Sue; both Sue and Tessa gain

Answer: B

121) A technological improvement is represented by
A) a movement along the production possibilities frontier.
B) an outward shift of the production possibilities frontier.
C) a point outside the production possibilities frontier.
D) a point inside the production possibilities frontier.
E) a movement from a point inside the production possibilities frontier to a point on the production possibilities frontier.

Answer: B

122) In general, if country *A* is accumulating capital at a faster rate than country *B*, then country *A*
A) is using a larger proportion of resources to produce consumption goods.
B) will soon have a comparative advantage in the production of most goods.
C) will have more unemployment than country *B*.
D) will have a production possibilities frontier that is shifting outward faster than country *B*'s.
E) will have a higher rate of inflation than country *B*.

Answer: D

123) The principal reason that production possibilities have grown more rapidly in Hong Kong than in Canada over the last 50 years is because
A) Hong Kong has devoted a larger proportion of its resources to capital accumulation.
B) Hong Kong has fewer workers.
C) of cheap Hong Kong labour.
D) Hong Kong has more natural resources.
E) of foreign aid to Hong Kong.

Answer: A

124) Which one of the following would cause a production possibilities frontier to shift *outward*?
A) a decrease in the population
B) an increase in the production of consumption goods
C) a decision to fully utilize unemployed resources
D) bad weather
E) an increase in the stock of capital

Answer: E

125) The development of new goods and better ways of producing goods and services is
A) technological change.
B) the big tradeoff.
C) allocative efficiency.
D) capital accumulation.
E) production efficiency.

Answer: A

126) The growth of capital resources, including human capital is
A) technological change.
B) capital accumulation.
C) depreciation.
D) shown by a movement along the *PPF*.
E) opportunity cost.

Answer: B

127) Which one of the following would likely shift a production possibilities frontier *inward*?
A) a decrease in the price of natural resources
B) technological change
C) a drought
D) an increase in human capital
E) None of the above, because production possibilities frontiers do not shift inward.

Answer: C

Use the figure below to answer the following question.

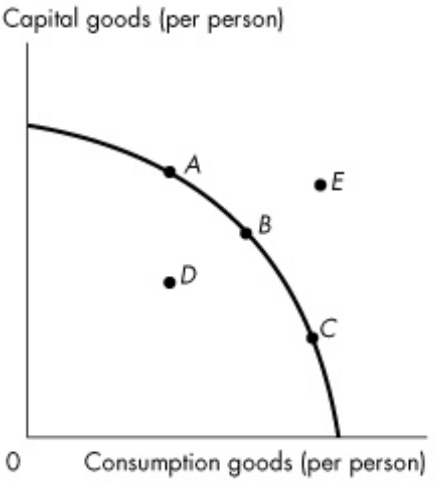

Figure 2.4.1

128) Refer to the production possibilities frontier in Figure 2.4.1. The production possibilities frontier will shift rightward most rapidly if current production is at
A) *A*. B) *B*. C) *C*. D) *D*. E) *E*.

Answer: A

129) A production possibilities frontier shifts outward for all of the following reasons *except*
A) an increase in the labour force.
B) an increase in human capital.
C) an increase in capital stock.
D) an increase in opportunity cost.
E) a technological improvement.

Answer: D

130) A movement *along* the production possibilities frontier results from
A) a change in capital stock.
B) an increase in production of the good measured on the *x*-axis and a decrease in production of the good measured on the *y*-axis.
C) a change in the size of the labour force.
D) a change in the quantity of human capital.
E) technological change.

Answer: B

131) The opportunity cost of shifting the production possibilities frontier outward is
A) capital accumulation.
B) reduced current consumption.
C) technological change.
D) reduced future consumption.
E) increased future consumption.

Answer: B

132) In general, the greater the proportion of resources devoted to technological research in an economy, the
A) greater is current consumption.
B) closer it comes to having a comparative advantage in the production of all goods.
C) faster the production possibilities frontier shifts inward.
D) faster the production possibilities frontier shifts outward.
E) more bowed out is the shape of the production possibilities frontier.

Answer: D

133) Consider a country that has two industries. In the north, they grow wild rice, which requires plenty of rainfall. In the south, they grow wheat, which requires a moderate amount of rainfall (too much rainfall is bad for wheat production). One year, there is a record rainfall. This results in
A) the production possibilities frontier becoming linear.
B) the production possibilities frontier rotating, with the wild rice intercept increasing, and the wheat intercept decreasing.
C) a parallel shift inward of the production possibilities frontier.
D) the production possibilities frontier rotating, with the wild rice intercept decreasing, and the wheat intercept increasing.
E) a parallel shift outward of the production possibilities frontier.

Answer: B

134) Suppose a hurricane causes extensive devastation, destroying houses, roads, schools and factories. What is the effect of this hurricane on a production possibilities frontier consisting of consumption goods and capital goods?
A) It shifts inward at all points.
B) There is a movement from the existing production possibilities frontier inwards towards a point with wasted or misallocated resources.
C) There is a movement along the existing production possibilities frontier towards a less capital-intensive point.
D) It shifts outward at all points.
E) There is a movement along the existing production possibilities frontier towards a more capital-intensive point.

Answer: A

135) Economic growth _____ overcome scarcity because _____.
A) does; we will eventually reach the point where we have too much
B) does not; economic growth requires capital accumulation and technological change
C) does; with economic growth the *PPF* rotates outward and eventually becomes a vertical line
D) does; with economic growth the *PPF* rotates outward and eventually becomes a horizontal line
E) does not; we can produce more goods and services but it is still impossible to satisfy all our wants

Answer: E

136) In 1966, the production possibilities per person in Canada were _____ than those in Hong Kong. Between 1966 and 2016, Hong Kong's production possibilities have _____ Canada's production possibilities.
A) greater; expanded more quickly than
B) greater; expanded at the same rate as
C) greater; not expanded as quickly as
D) smaller; not expanded as quickly as
E) smaller; expanded more quickly than

Answer: A

137) The production possibilities frontier shifts outward when
A) prices rise.
B) the political party in power changes.
C) tastes and preferences change.
D) the quantity of money in the economy grows.
E) human capital accumulates.

Answer: E

138) Consider a production possibilities frontier with corn production measured on the vertical axis and car production measured on the horizontal axis. Unusually good weather for growing corn shifts
A) the vertical intercept of the *PPF* downward and the horizontal intercept of the *PPF* leftward.
B) neither the horizontal intercept nor the vertical intercept of the *PPF.*
C) the horizontal intercept of the *PPF* rightward and the vertical intercept of the *PPF* upward.
D) the horizontal intercept of the *PPF* rightward but does not shift the vertical intercept of the *PPF.*
E) the vertical intercept of the PPF upward but does not shift the horizontal intercept of the *PPF*.

Answer: E

139) Trade is organized using the social institutions of all of the following *except*
A) firms.
B) property rights.
C) markets.
D) money.
E) labour unions

Answer: E

140) Markets
I. enable buyers and sellers to get information.
II. are defined by economists as geographical locations where trade occurs.
III. have evolved because they facilitate trade.

Which of the above statements are correct?
A) II and III only
B) I, II and III
C) III only
D) I only
E) I and III only

Answer: E

141) A property right is
A) an economic unit that hires factors of production and organizes those factors to produce and sell goods and services.
B) any arrangement that enables buyers and sellers to get information and to do business with each other.
C) any commodity or token that is generally acceptable as a means of payment.
D) a medium of exchange.
E) a social arrangement that governs the ownership, use, and disposable of anything that people value.

Answer: E

142) The flows in the market economy that go from firms to households are _____.
The flows in the market economy that go from households to firms are _____.
A) the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services; the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship
B) all flowing through factor markets; all flowing through goods markets
C) the real flows of goods and services and the income flows of wages, rent, interest and profits; the real flows of labour, land, capital and entrepreneurship and the flow of expenditure on goods and services
D) the real flows of goods and services and the real flows of labour, land, capital and entrepreneurship; the income flows of wages, rent, interest, and profits and the flow of expenditure on goods and services
E) all flowing through goods markets; all flowing through factor markets

Answer: C

143) The main functions of markets include
A) establishing a physical location for business transactions.
B) promoting the social interest, but not the self-interest.
C) enabling buyers and sellers to get information about each other.
D) selling goods, but not factors of production.
E) promoting the self-interest, but not the social interest.

Answer: C

144) In an economy lacking property rights, it would be _____ to realize the gains from trade, and there would be _____ specialization compared to an economy with property rights.
A) more difficult; more
B) more difficult; less
C) easier; more
D) easier; less
E) none of the above

Answer: B

145) Intellectual property _____.
A) includes land and buildings
B) includes stocks and bonds and money in the bank
C) is the intangible product of creative effort
D) is protected by copyrights and patents
E) Both C and D are correct.

Answer: E