

Exam

Name_____

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

- 1) When an economy produces at its allocatively efficient production point, 1) _____
- A) a society can increase the production of all goods.
 - B) scarcity is not a problem.
 - C) resources are not limited.
 - D) a society can increase the production of one good only by decreasing the production of some other good that is valued more highly.

Answer: D

Explanation: A)
B)
C)
D)

- 2) Agnes can produce either 1 unit of X or 1 unit of Y in an hour, while Brenda can produce either 2 2) _____
units of X or 4 units of Y in an hour.
- A) Brenda has a comparative advantage in the production of X.
 - B) Brenda has an absolute advantage in the production of X and Y.
 - C) Agnes has a comparative advantage in the production of Y.
 - D) Brenda cannot gain from trade.

Answer: B

Explanation: A)
B)
C)
D)

- 3) A factor market is a market in which 3) _____
- A) firms sell goods and services.
 - B) households buy goods and services.
 - C) households sell the services of the factors of production they control.
 - D) firms sell the services of the factors of production.

Answer: C

Explanation: A)
B)
C)
D)

- 4) Economic growth comes from 4) _____
- A) producing more goods than people want to consume.
 - B) capital accumulation and the avoidance of opportunity cost.
 - C) people willing to increase their skills, in which case, economic growth is free.
 - D) capital accumulation and technological advance.

Answer: D

Explanation: A)
B)
C)
D)

5) When we choose a particular option, we must give up alternative options. The highest-valued alternative forgone is the _____ of the option chosen.

5) _____

- A) absolute advantage
- C) nonmonetary cost

- B) comparative advantage
- D) opportunity cost

Answer: D

Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

6) In the above table, the production of 3 pizzas and 80 cases of cola is

6) _____

- A) feasible but would involve unemployed or misallocated resources.
- B) possible only if there is inflation.
- C) possible only if the economy produces with maximum efficiency.
- D) impossible unless more resources become available or technology improves.

Answer: D

Explanation: A)
B)
C)
D)

7) Betty and Ann live on a desert island. With a day's labour, Ann can produce 6 fish or 4 coconuts; Betty can produce 3 fish or 1 coconut. Betty's opportunity cost of producing 1 fish is _____, and she should specialise in the production of _____.

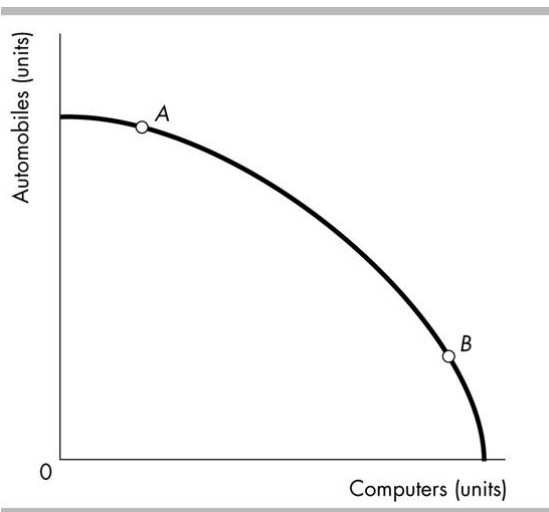
7) _____

- A) 4 coconuts per fish; fish
- C) 1/3 coconut per fish; fish

- B) 1 coconut per fish; fish
- D) 2/3 coconut per fish; coconuts

Answer: C

Explanation: A)
B)
C)
D)



- 8) The bowed outward shape of the production possibilities frontier in the above figure indicates that 8) _____
- A) the opportunity cost of producing more computers decreases as more computers are produced.
 - B) some resources are better suited for producing computers.
 - C) computer technology is subject to the principle of decreasing costs.
 - D) All of the above answers are correct.

Answer: B

Explanation: A)
B)
C)
D)

- 9) An expansion of the production possibilities frontier is 9) _____
- A) called economic growth.
 - B) something that has occurred only rarely in history.
 - C) proof that scarcity is not a binding constraint.
 - D) a free gift of nature.

Answer: A

Explanation: A)
B)
C)
D)

- 10) Which of the following is NOT illustrated by a production possibilities frontier? 10) _____
- A) Opportunity cost
 - B) Scarcity
 - C) The necessity for choice
 - D) Who gets the goods

Answer: D

Explanation: A)
B)
C)
D)

11) A production possibilities frontier does NOT illustrate

11) _____

- A) attainable and unattainable points.
- B) the limits on production imposed by our limited resources and technology.
- C) opportunity cost.
- D) the exchange of one good or service for another.

Answer: D

Explanation: A)
B)
C)
D)

12) Suppose that the government is trying to decide between allocating its resources to build more dams or to build more freeways. In terms of forgone dams, as more freeways are constructed, the marginal benefit of additional freeways _____ and the marginal cost of additional freeways _____.

12) _____

- A) increases; increases
- B) increases; decreases
- C) decreases; decreases
- D) decreases; increases

Answer: D

Explanation: A)
B)
C)
D)

13) Markets

13) _____

- A) facilitate trade.
- B) coordinate price information between buyers and sellers.
- C) allow traders to enjoy gains from trade.
- D) All of the above answers are correct.

Answer: D

Explanation: A)
B)
C)
D)

14) Which of the following statements regarding the production possibilities frontier is true?

14) _____

- A) Points inside the frontier are attainable.
- B) Points outside the frontier are attainable.
- C) Points on the frontier are less efficient than points inside the frontier.
- D) None of the above because all of the above statements are false.

Answer: A

Explanation: A)
B)
C)
D)

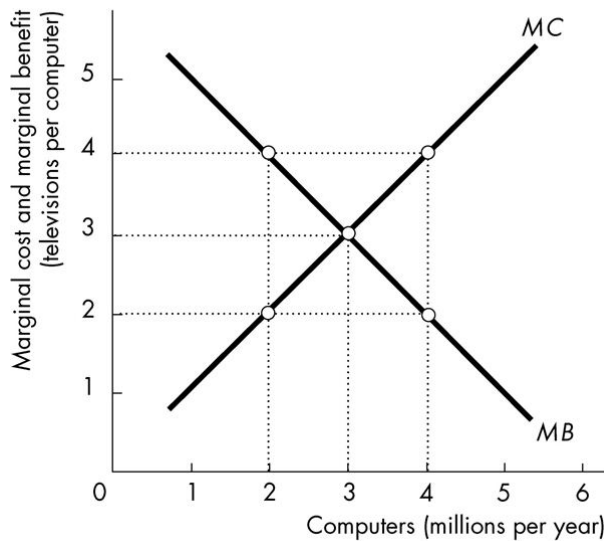
15) When economic growth occurs, the

15) _____

- A) production possibilities frontier shifts outward.
- B) production possibilities frontier becomes steeper.
- C) economy moves along its production possibilities frontier.
- D) production possibilities frontier shifts outward but no longer limits the amount that can be produced.

Answer: A

Explanation: A)
B)
C)
D)



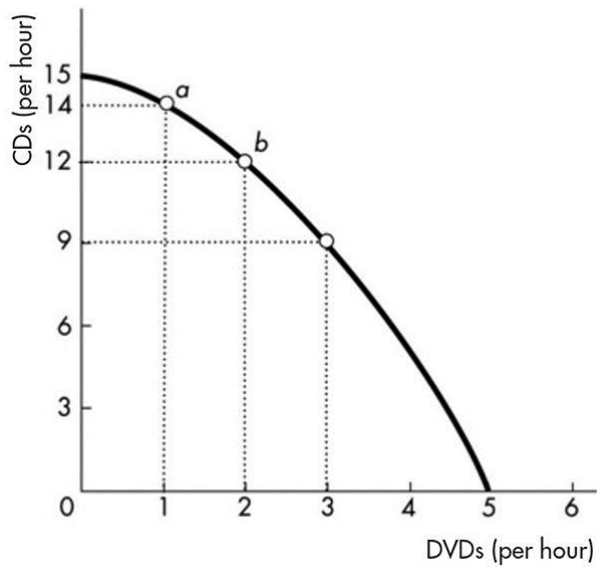
16) In the figure above, the allocatively efficient output of computers is

16) _____

- A) 2 million per year.
- B) 4 million per year.
- C) 3 million per year.
- D) the largest amount possible.

Answer: C

Explanation: A)
B)
C)
D)



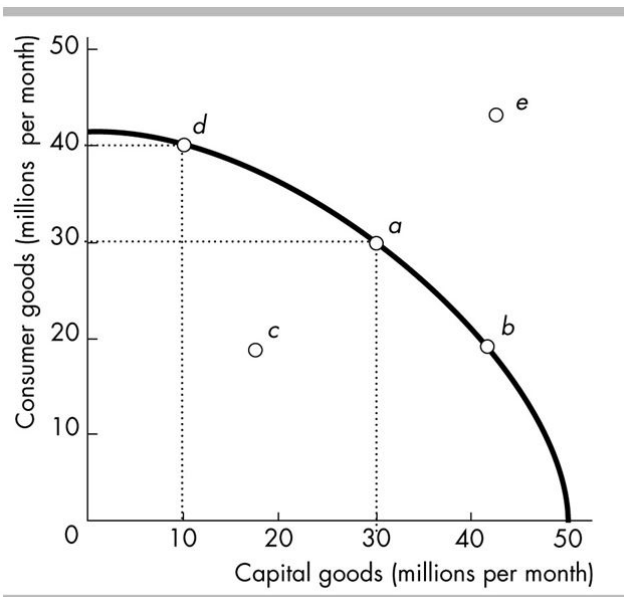
17) In the above figure, at point *a*, what is the opportunity cost of producing one more CD?

- A) 2 DVDs.
B) 14 DVDs.
C) 1 DVD.
D) There is no opportunity cost.

Answer: C

Explanation: A)
B)
C)
D)

17) _____



- 18) Refer to the production possibilities frontier in the figure above. Production point _____ represents an _____ production point. 18) _____
- A) *b*; unattainable. B) *e*; inefficient. C) *c*; inefficient. D) *c*; unattainable.

Answer: C

Explanation: A)
 B)
 C)
 D)

	Don's production possibilities	Bob's production possibilities
Pens	10	5
Pencils	20	15

- 19) The above table shows the number of pencils or pens that could be produced by Don and Bob in an hour. This schedule shows that 19) _____
- A) Bob has a comparative advantage in the production of pencils.
 B) Bob has an absolute advantage in the production of pencils, and Don has an absolute advantage in the production of pens.
 C) Don has an absolute advantage in the production of pencils, and Bob has an absolute advantage in the production of pens.
 D) Don has a comparative advantage in the production of both pencils and pens.

Answer: A

Explanation: A)
 B)
 C)
 D)

- 20) If the marginal benefit of a good exceeds its marginal cost, 20) _____
- A) we should produce more to achieve the allocatively efficient use of resources.
 - B) we've achieved efficient resource use.
 - C) we should produce less to achieve the allocatively efficient use of resources.
 - D) we cannot tell if more or less should be produced to achieve the allocatively efficient use of resources.

Answer: A

Explanation: A)
B)
C)
D)

- 21) The production possibilities frontier itself illustrates 21) _____
- A) all goods that can be produced by an economy.
 - B) all possible production of capital goods.
 - C) all goods and services that are desired but cannot be produced due to scarce resources.
 - D) the combination of goods and services that can be produced efficiently.

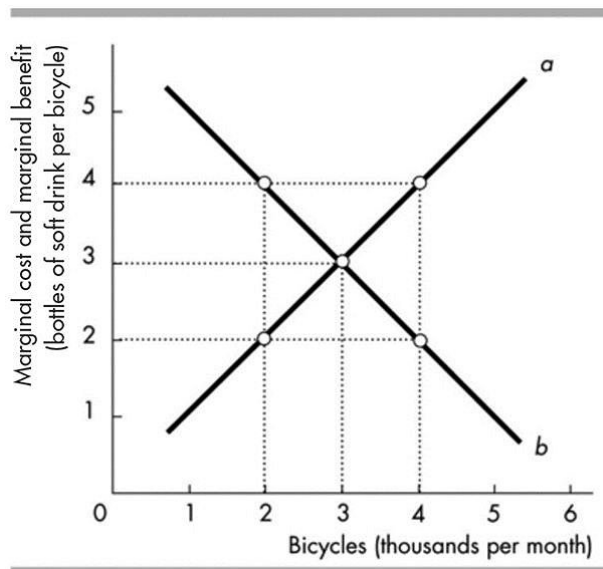
Answer: D

Explanation: A)
B)
C)
D)

- 22) If property rights are not clearly defined and enforced, then 22) _____
- A) some potential gains from specialisation and trade are lost.
 - B) incentives for specialisation based on comparative advantage are weakened.
 - C) resources are devoted to protecting possessions rather than to production.
 - D) All of the above answers are correct.

Answer: D

Explanation: A)
B)
C)
D)



- 23) In the above figure, curve *b* shows the
- A) benefits of producing more bicycles is greater than the benefits of producing more cola.
 - B) benefits of producing more cola is greater than the benefits of producing more bicycles.
 - C) bottles of cola that people *must* forgo to get another bicycle.
 - D) bottles of cola that people are *willing* to forgo to get another bicycle.

23) _____

Answer: D

Explanation: A)
B)
C)
D)

- 24) Suppose a scientific breakthrough made free solar power available in unlimited quantities in Australia. The effect of this invention would be to move
- A) the Australian production possibilities frontier outward.
 - B) Australia beyond its production possibilities frontier.
 - C) the Australian production possibilities frontier inward.
 - D) Australia inside its production possibilities frontier.

24) _____

Answer: A

Explanation: A)
B)
C)
D)

- 25) After cyclone Yasi devastated parts of Queensland in 2011, we can be sure that the production possibilities frontier for that area temporarily
- A) shifted outward, away from the origin.
 - B) became steeper.
 - C) shifted inward, toward the origin.
 - D) became flatter.

25) _____

Answer: C

Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

26) Based on the above table, as the production of pizza increases, the opportunity cost of pizza in terms of forgone cases of cola

26) _____

- A) decreases.
B) does not change.
C) initially increases then decreases.
D) increases.

Answer: D

Explanation: A)
B)
C)
D)

Point	Production of grain (tonnes)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

27) The table above lists six points on the production possibilities frontier for grain and cars. What is the opportunity cost of producing the 5th tonne of grain?

27) _____

- A) 2 cars per tonnes of grain
B) 16 cars per tonnes of grain
C) 3 cars per tonnes of grain
D) 6 cars per tonnes of grain

Answer: C

Explanation: A)
B)
C)
D)

28) A person has a comparative advantage in producing a particular good if that person

28) _____

- A) has less desire to consume that good than anyone else has.
B) has more human capital related to that good than anyone else has.
C) can produce it at lower opportunity cost than anyone else can.
D) has higher productivity in producing it than anyone else has.

Answer: C

Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

29) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following statements is true? 29) _____

- A) Producing 20 chocolate bars and 80 cans of cola is attainable, but inefficient.
- B) Producing 30 chocolate bars and 38 cans of cola is only attainable with an increase in technology.
- C) Producing 40 chocolate bars and 0 cans of cola is unattainable and inefficient.
- D) Producing 0 chocolate bars and 100 cans of cola is both attainable and efficient.

Answer: D

Explanation: A)
B)
C)
D)

30) Consider a production possibilities frontier with corn on the vertical axis and cars on the horizontal. Unusually good weather for growing corn shifts 30) _____

- A) the vertical intercept upward but does not shift the horizontal intercept.
- B) the horizontal intercept rightward but does not shift the vertical intercept.
- C) the horizontal intercept rightward and the vertical intercept upward.
- D) neither the horizontal intercept nor the vertical intercept.

Answer: A

Explanation: A)
B)
C)
D)

31) We measure the marginal _____ of a good by what a _____ for another unit of the good. 31) _____

- A) cost; person is willing to pay
- B) benefit; person is willing to pay
- C) cost; person's preferences are
- D) benefit; person must pay

Answer: B

Explanation: A)
B)
C)
D)

32) The production possibilities frontier

32) _____

- A) shows how many goods and services are consumed by each person in a country.
- B) is a model that assumes there is no scarcity and no opportunity cost.
- C) is a graph with price on the vertical axis and income on the horizontal axis.
- D) depicts the boundary between those combinations of goods and services that can be produced and those that cannot, given resources and the current state of technology.

Answer: D

Explanation: A)
B)
C)
D)

33) Harry produces two balloon rides and four boat rides an hour. Harry could produce more balloon rides but to do so he must produce fewer boat rides. Harry is _____ his production possibilities frontier.

33) _____

- A) producing inside
- B) producing outside
- C) producing on
- D) producing either inside or on

Answer: C

Explanation: A)
B)
C)
D)

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

34) The above table shows production combinations on a country's production possibilities frontier.

34) _____

Which of the following is an example of a point that is unattainable?

- A) 10 units of good X and 16 units of good Y.
- B) 6 units of good X and 28 units of good Y.
- C) 0 units of good X and 40 units of good Y.
- D) 3 units of good X and 35 units of good Y.

Answer: A

Explanation: A)
B)
C)
D)

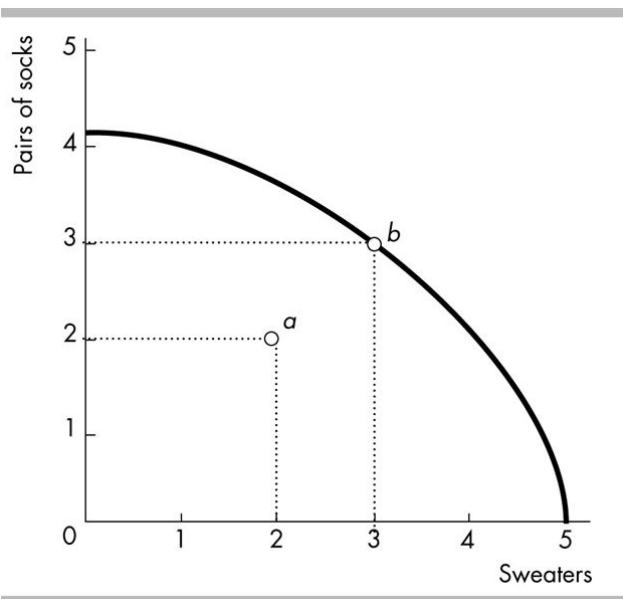
35) When producing goods and services along a *PPF*, tradeoffs exist because

35) _____

- A) society has only a limited amount of productive resources.
- B) buyers and sellers often must negotiate prices.
- C) not all production is efficient.
- D) human wants and needs are limited at a particular point in time.

Answer: A

Explanation: A)
B)
C)
D)



- 36) The opportunity cost of moving from point *a* to point *b* in the above figure is
- A) zero.
 - B) $\frac{3}{2}$ pairs of socks per sweater.
 - C) 2 sweaters.
 - D) 3 pairs of socks.

36) _____

Answer: A

Explanation: A)
B)
C)
D)

- 37) The production possibilities frontier is the boundary between
- A) those combinations of goods and services that can be produced and those that can be consumed.
 - B) those combinations of goods and services that can be produced and those that cannot.
 - C) those resources that are limited and those that are unlimited.
 - D) those wants that are limited and those that are unlimited.

37) _____

Answer: B

Explanation: A)
B)
C)
D)

- 38) The term "market" refers to
- A) any arrangement that enables buyers and sellers to get information and trade with one another.
 - B) locations where buyers and sellers physically meet.
 - C) physical structures only.
 - D) trading arrangements that have been approved by the government.

38) _____

Answer: A

Explanation: A)
B)
C)
D)

- 39) Marginal benefit curves slope _____ and marginal cost curves slope _____.
 A) downward; upward
 B) upward; downward
 C) upward; upward
 D) downward; downward

39) _____

Answer: A

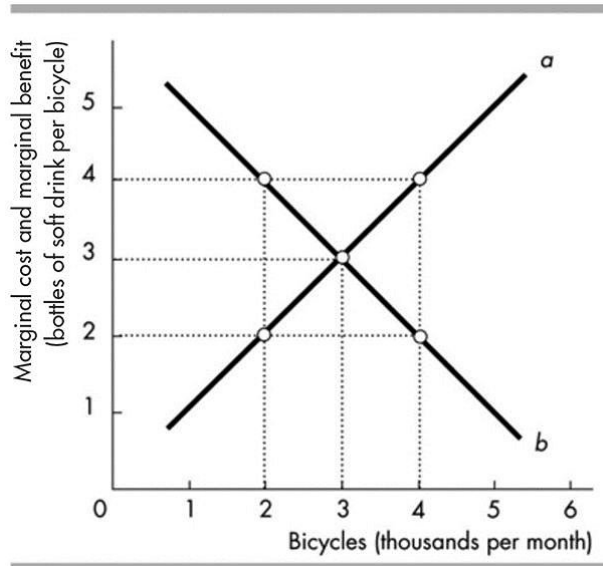
Explanation: A)
 B)
 C)
 D)

- 40) In one week Alice can produce 5 pairs of shoes or 4 bookshelves while Roger can produce 10 pairs of shoes or 6 bookshelves. Alice has _____ advantage in producing _____.
 A) a comparative; shoes
 B) an absolute; bookshelves
 C) a comparative; bookshelves
 D) an absolute; shoes

40) _____

Answer: C

Explanation: A)
 B)
 C)
 D)



- 41) In the above figure, when 2000 bicycles are produced each month, we can see that
 A) the marginal benefit from another bicycle is greater than the marginal cost of another bicycle.
 B) more bicycles should be produced to reach the allocatively efficient level of output.
 C) the economy is very efficient at the production of bicycles because the marginal benefit exceeds the marginal cost.
 D) Both answers A and B are correct.

41) _____

Answer: D

Explanation: A)
 B)
 C)
 D)

Blue Violet's production possibilities			Orange Rose's production possibilities		
Teapots (number per week)		Coffeepots (number per week)	Teapots (number per week)		Coffeepots (number per week)
150	&	0	75	&	0
100	&	25	50	&	50
50	&	50	25	&	100
0	&	75	0	&	150

42) Two countries, Blue Violet and Orange Rose, produce only two goods: teapots and coffeepots. The table above gives their production possibilities. _____ has a comparative advantage in teapots and _____ has a comparative advantage in coffeepots.

42) _____

- A) Blue Violet; Orange Rose
C) Orange Rose; Blue Violet

- B) Blue Violet; Blue Violet
D) Orange Rose; Orange Rose

Answer: A

Explanation: A)
B)
C)
D)

43) Which of the following describes comparative advantage?

43) _____

- A) Company A can produce 4 boxes of cereal in a day, whereas Company B can produce 5 boxes of cereal in a day.
B) Firm A can produce a good at a cost of \$3 and Firm B can produce the same good at a cost of \$4.
C) Jane can type 50 words per minute and Joe can type 60 words per minute.
D) To produce a tonne of wheat Farmer John must give up 2 tonnes of corn, whereas Farmer Ben must give up 3 tonnes of corn.

Answer: D

Explanation: A)
B)
C)
D)

44) Economic growth can be represented by

44) _____

- A) an outward shift of the production possibilities frontier (PPF).
B) an inward shift of the production possibilities frontier (PPF).
C) a movement down the production possibilities frontier (PPF).
D) a movement up the production possibilities frontier (PPF).

Answer: A

Explanation: A)
B)
C)
D)

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

45) In the table above, country B is producing 4 units of X and 6 units of Y. For country B, the opportunity cost of producing an additional unit of X is

45) _____

- A) 2 units of Y per unit of X.
- B) 1 unit of Y per unit of X.
- C) 3/2 units of Y per unit of X.
- D) 4 units of Y per unit of X.

Answer: C

Explanation: A)
B)
C)
D)

46) Production efficiency occurs when production

46) _____

- A) is on the production possibilities frontier or inside it.
- B) is on the production possibilities frontier.
- C) is at a point beyond the production possibilities frontier.
- D) is at any attainable point.

Answer: B

Explanation: A)
B)
C)
D)

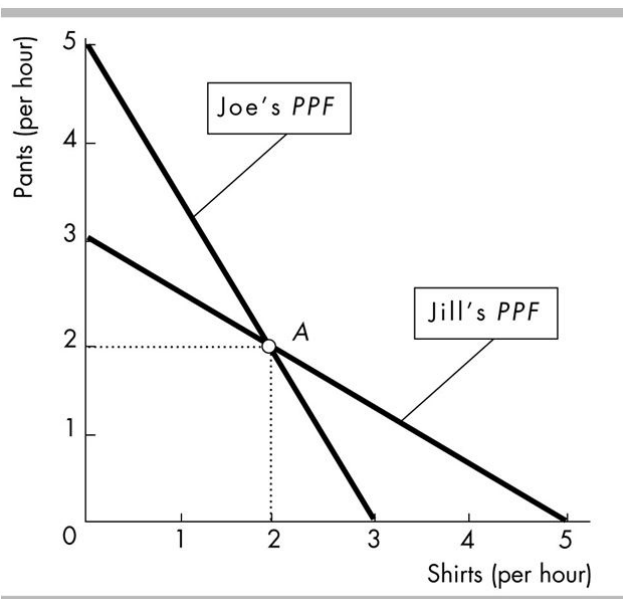
47) Jane produces only corn and cloth. Taking account of her preferences for corn and cloth

47) _____

- A) makes her production possibilities frontier flatter.
- B) makes her production possibilities frontier straighter.
- C) makes her production possibilities frontier steeper.
- D) does not affect her production possibilities frontier.

Answer: D

Explanation: A)
B)
C)
D)



48) In the figure above, Joe is producing at point A. Joe's opportunity cost of producing one shirt is

- A) $\frac{3}{5}$ of a pair of pants per shirt.
- B) 5 pairs of pants per shirt.
- C) $\frac{5}{3}$ of a pair of pants per shirt.
- D) 2 pairs of pants per shirt.

48) _____

Answer: D

Explanation: A)
B)
C)
D)

49) Allocative efficiency occurs when

- A) marginal benefit exceeds marginal cost.
- B) opportunity costs are decreasing.
- C) we cannot produce more of any one good without giving up some other good.
- D) we cannot produce more of any good without giving up some other good that we value more highly.

49) _____

Answer: D

Explanation: A)
B)
C)
D)

50) A nation's production possibilities frontier is bowed outward. Suppose that the government decides to increase the production of armaments by \$20 billion, and that as a result the output of consumer goods falls by \$20 billion. If a further \$20 billion increase beyond the initial \$20 billion increase in armaments output is sought, we can expect that the output of consumer goods and services will fall further by

50) _____

- A) more than \$20 billion.
- B) less than \$20 billion.
- C) \$20 billion.
- D) There is not enough information to determine the answer.

Answer: A

Explanation: A)
B)
C)
D)

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

51) In the table above, country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. Regarding the production of good X

51) _____

- A) country A has an absolute advantage.
- B) country A has a comparative advantage.
- C) country B has a comparative advantage.
- D) country B has an absolute advantage.

Answer: C

Explanation: A)
B)
C)
D)

52) Marginal cost is the _____ one more unit of a good and _____ of the good increases.

52) _____

- A) price that must be paid to consume; decreases as consumption
- B) price that must be paid to consume; increases as consumption
- C) opportunity cost of producing; decreases as production
- D) opportunity cost of producing; increases as production

Answer: D

Explanation: A)
B)
C)
D)

- 53) Increasing opportunity cost occurs along a production possibilities frontier because _____
- A) increasing wants need to be satisfied.
 - B) in order to produce more of one good decreasing amounts of another good must be sacrificed.
 - C) production takes time.
 - D) resources are not equally productive in all activities.

Answer: D

Explanation: A)
B)
C)
D)

- 54) Opportunity cost is BEST defined as _____
- A) the amount of money that an individual is willing to pay to purchase a good that means a great deal to that person.
 - B) a situation in which one individual cannot have an absolute advantage over another individual in the production of all goods.
 - C) the amount of money lost by one individual in an exchange process so that another individual might gain.
 - D) the highest-valued alternative that is forgone when choosing among various alternatives.

Answer: D

Explanation: A)
B)
C)
D)

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

Answer: C

Explanation: A)
B)
C)
D)

- 56) When resources are assigned to inappropriate tasks, the result will be producing at a point _____
- A) outside the *PPF*.
 - B) inside the *PPF*.
 - C) where the slope of the *PPF* is positive.
 - D) where the slope of the *PPF* is zero.

Answer: B

Explanation: A)
B)
C)
D)

Quantity (pizzas per day)	Marginal benefit (cans per day)	Marginal cost (cans per day)
10	26	14
20	24	16
30	22	18
40	20	20
50	18	22
60	16	24
70	14	26

57) The table above shows the marginal benefit from pizza and the marginal cost of pizza in cans of cola forgone. If _____ pizzas are produced, the quantity of cola that people are willing to give up to get an additional pizza is more than the quantity of cola that they must give up to get that additional pizza.

- A) fewer than 40
B) more than 40
C) any quantity other than 40
D) 40

Answer: A

Explanation: A)
B)
C)
D)

Point	Production of grain (tonnes)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

58) The table above lists six points on the production possibilities frontier for grain and cars. Given this information, which of the following combinations is unattainable?

- A) 2 tonnes of grain and 27 cars
B) 6 tonnes of grain and 18 cars
C) 7 tonnes of grain and 10 cars
D) 4 tonnes of grain and 26 cars

Answer: D

Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

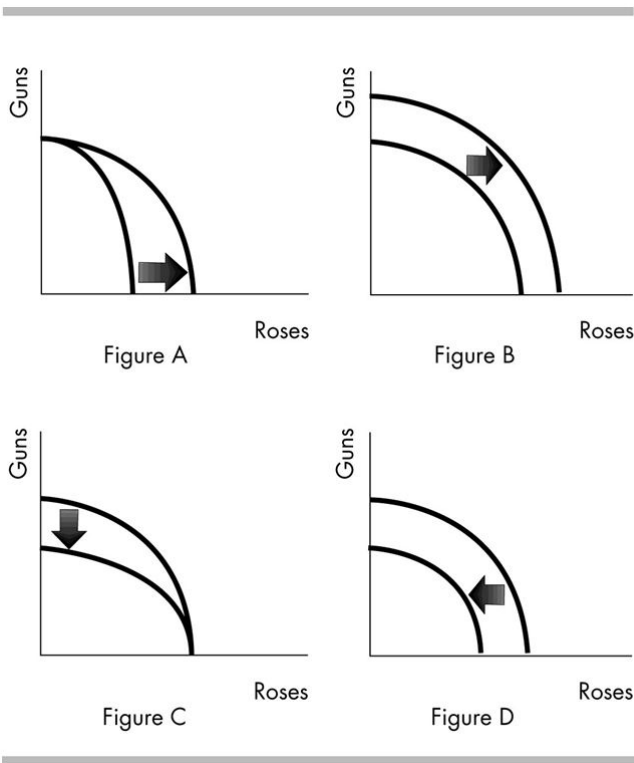
59) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* chocolate bar if Sweet-tooth Land moves from point C to point D?

59) _____

- A) 10 cans of cola per chocolate bar
 B) 3 cans of cola per chocolate bar
 C) 30 cans of cola per chocolate bar
 D) 1/3 can of cola per chocolate bar

Answer: B

Explanation: A)
 B)
 C)
 D)



60) Based on the above diagram, which figure shows the impact of a decrease in the population available to work?

60) _____

- A) Figure D
 B) Figure B
 C) Figure C
 D) Figure A

Answer: A

Explanation: A)
 B)
 C)
 D)

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

61) The above table shows production combinations on a country's production possibilities frontier. The opportunity cost of increasing the production of Y from 16 to 28 units is _____ units of good X. 61) _____

- A) 3
- B) 6
- C) 12
- D) There is no opportunity cost when moving from one point to another along a production possibilities frontier so none of the above answers is correct.

Answer: A

Explanation: A)
B)
C)
D)

62) A country possesses a comparative advantage in the production of a good if 62) _____

- A) it possesses an absolute advantage in the production of this good.
- B) the opportunity cost in terms of forgone output of alternative goods is lower for this country than it is for its trading partners.
- C) it is able to produce more of this good per hour than any other country.
- D) All of the above.

Answer: B

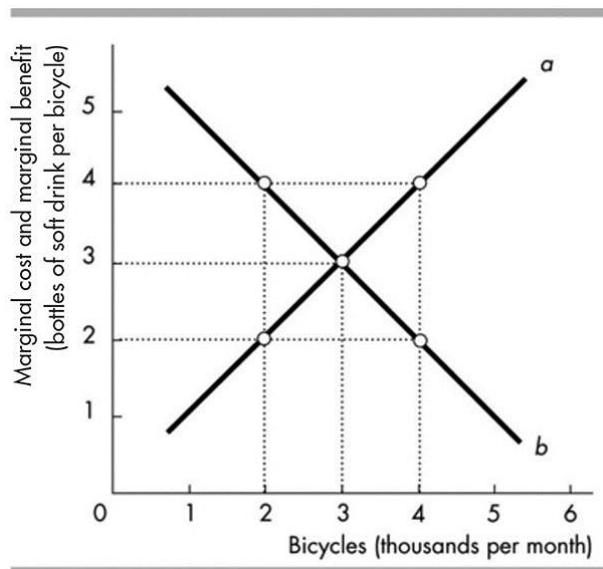
Explanation: A)
B)
C)
D)

63) Economic growth is the result of all of the following EXCEPT 63) _____

- A) opportunity cost.
- B) capital accumulation.
- C) technological change.
- D) investment in human capital.

Answer: A

Explanation: A)
B)
C)
D)



64) In the above figure, the curve labelled *a* is the _____ curve and the curve labelled *b* is the _____ curve.

64) _____

- A) marginal cost; trade line
- B) marginal benefit; trade line
- C) production possibilities frontier; trade line
- D) marginal cost; marginal benefit

Answer: D

Explanation: A)
B)
C)
D)

65) As an economy's capital stock increases, the economy

65) _____

- A) experiences economic growth.
- B) generally experiences increased unemployment of other resources, such as labour.
- C) generally decides to engage in international trade.
- D) gains an absolute advantage in the production of capital goods.

Answer: A

Explanation: A)
B)
C)
D)

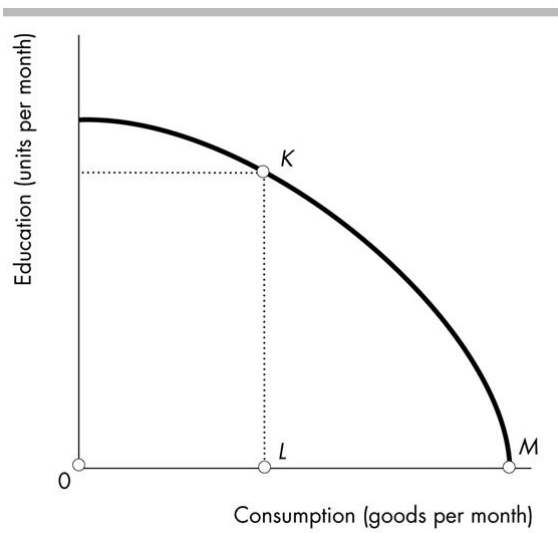
66) Susan likes to drink colas. The _____ cola Susan drinks, the _____ of the last cola.

66) _____

- A) more; higher the marginal benefit
- B) more; lower the marginal benefit
- C) less; higher the opportunity cost
- D) less; lower the marginal benefit

Answer: B

Explanation: A)
B)
C)
D)



- 67) Molly just graduated from high school. The figure shows her possibilities frontier. If Molly goes to university, she will move from point *M* to point *K*. In terms of consumption goods, Molly's opportunity cost of going to university is

A) *LM*. B) *KL*. C) *OL*. D) *MK*.

Answer: A

Explanation: A)
B)
C)
D)

Camel rides (per day)	Marginal benefit (tubes of sunscreen)	Marginal cost (tubes of sunscreen)
1	20	11
2	18	12
3	16	13
4	14	14
5	12	15
6	10	16

- 68) Leisure Land produces only sunscreen and camel rides. The table shows the marginal benefit and marginal cost schedules for sunscreen and camel rides. The allocatively efficient number of camel rides is

A) 4 rides per day.
B) 2 rides per day.
C) 6 rides per day because that is the maximum number of rides.
D) 1 ride per day because the marginal benefit exceeds the marginal cost by as much as possible.

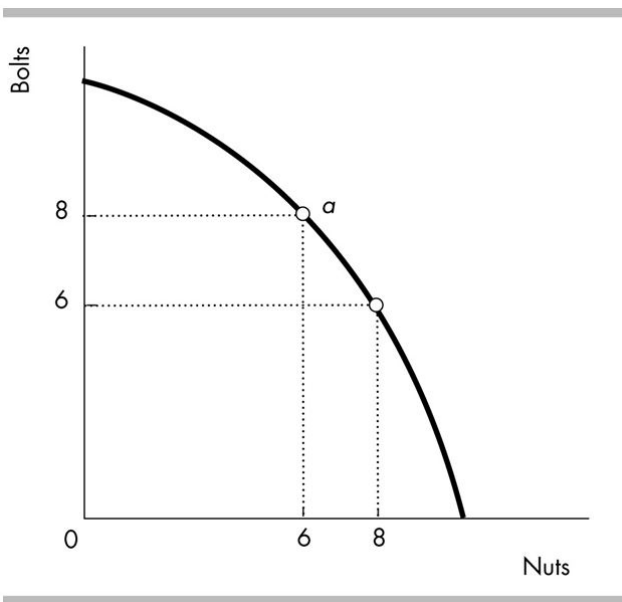
Answer: A

Explanation: A)
B)
C)
D)

- 69) Suppose Joe can prepare 20 sandwiches or 10 pizzas in an hour and Beth can produce 36 sandwiches or 27 pizzas. The concept of comparative advantage concludes that
- A) Beth should produce sandwiches and Joe should produce pizza.
 - B) Beth should produce both goods because she can produce more of both goods in an hour than can Joe.
 - C) Beth should produce pizza and Joe should produce sandwiches.
 - D) Beth should produce both goods and Joe should produce sandwiches.

Answer: C

Explanation: A)
B)
C)
D)



- 70) Victor currently produces nuts and bolts at point *a* in the figure. Victor's marginal cost of producing an additional nut is _____.
- A) 8/6 bolts per nut
 - B) 1/2 bolt per nut
 - C) 1 bolt per nut
 - D) 8 bolts per nut

Answer: C

Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

71) In the above table, the opportunity cost of the 2nd pizza is

- A) 80 cases of cola. B) 95 cases of cola. C) 0 cases of cola. D) 15 cases of cola.

71) _____

Answer: D

Explanation: A)
B)
C)
D)

72) The social arrangements that govern the ownership, use and disposal of property are referred to as

- A) property rights. B) private enterprise.
C) capitalism. D) the double coincidence of wants.

72) _____

Answer: A

Explanation: A)
B)
C)
D)

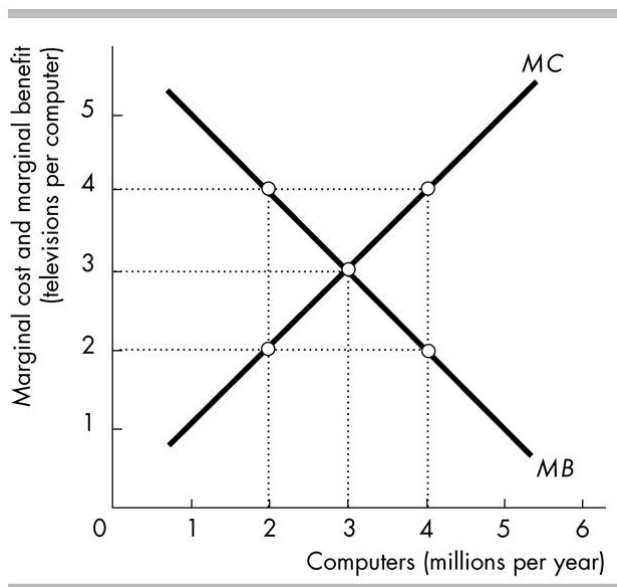
73) Betty and Ann live on a desert island. With a day's labour, Ann can produce 8 fish or 4 coconuts; Betty can produce 6 fish or 2 coconuts. Ann's opportunity cost of producing 1 coconut is _____ and she should specialise in the production of _____.

- A) 0 fish per coconut; coconuts B) 6 fish per coconut; coconuts
C) 8 fish per coconut; fish D) 2 fish per coconut; coconuts

73) _____

Answer: D

Explanation: A)
B)
C)
D)



74) In the figure above, at the allocatively efficient level of computer production consumers are willing to give up 74) _____

- A) more than 3 televisions per computer.
- B) between 0 and 3 televisions per computer.
- C) 3 televisions per computer.
- D) 0 televisions per computer.

Answer: C

Explanation: A)
B)
C)
D)

75) The opportunity cost of more capital goods today is 75) _____

- A) fewer capital goods in the future.
- B) fewer consumer goods in the future.
- C) more unemployed resources in the future.
- D) fewer consumer goods today.

Answer: D

Explanation: A)
B)
C)
D)

76) Technological progress makes the production possibilities frontier 76) _____

- A) shift inward toward the origin.
- B) shift outward from the origin.
- C) become less linear and more bowed.
- D) become more linear and less bowed.

Answer: B

Explanation: A)
B)
C)
D)

- 77) When producing at a production efficient point,
A) the opportunity cost of another good is zero.
B) our choice of the goods can be either on or within the production possibilities frontier.
C) we can satisfy our all wants.
D) we face a tradeoff and incur an opportunity cost.

77) _____

Answer: D

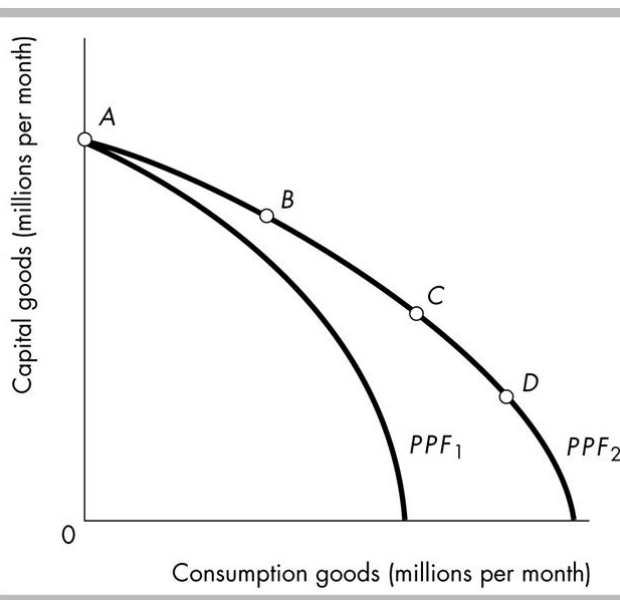
Explanation: A)
B)
C)
D)

- 78) Two social institutions that are essential for trade to be organised are _____.
A) markets and property rights
B) businesses and banks
C) property rights and laws
D) markets and banks

78) _____

Answer: A

Explanation: A)
B)
C)
D)

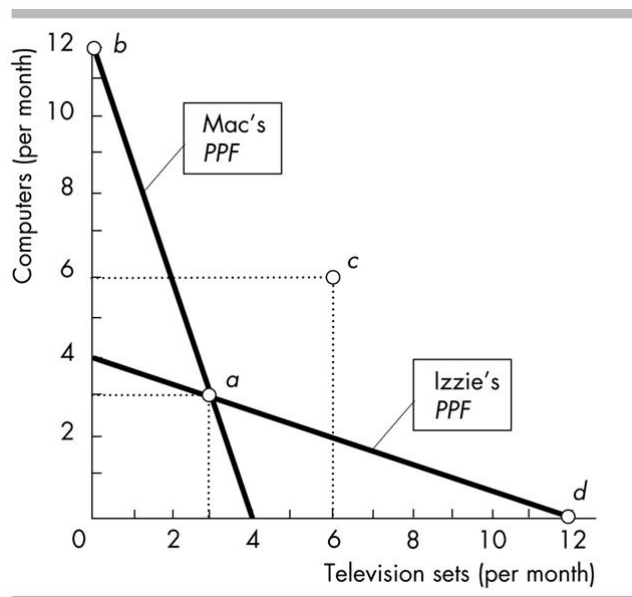


- 79) In the above figure, once on PPF₂, a country would grow slowest by producing at point
A) C.
B) D.
C) B.
D) A.

79) _____

Answer: B

Explanation: A)
B)
C)
D)



- 80) In the figure above, suppose that Mac and Izzie trade and reach point *c*. Then
- A) Mac should produce at point *b* and Izzie should produce at point *d*.
 - B) Mac should produce at point *d* and Izzie should produce at point *b*.
 - C) Mac and Izzie should both produce at point *a*.
 - D) Mac and Izzie should both produce at point *c*.

80) _____

Answer: A

Explanation: A)
B)
C)
D)

- 81) A key factor that leads to economic growth is
- A) avoiding the opportunity cost of investment.
 - B) human capital accumulation.
 - C) increasing current consumption.
 - D) Both answers A and B are correct.

81) _____

Answer: B

Explanation: A)
B)
C)
D)

- 82) Moving from one point on the production possibilities frontier to another
- A) involves no tradeoff but it does incur an opportunity cost.
 - B) involves a tradeoff but does not incur an opportunity cost.
 - C) involves a tradeoff and incurs an opportunity cost.
 - D) involves an opportunity cost but no tradeoff.

82) _____

Answer: C

Explanation: A)
B)
C)
D)

Quantity (pizzas per day)	Marginal benefit (cans per day)	Marginal cost (cans per day)
10	26	14
20	24	16
30	22	18
40	20	20
50	18	22
60	16	24
70	14	26

83) The table above shows the marginal benefit from pizza and the marginal cost of pizza in cans of cola forgone. The allocatively efficient quantity of pizza is _____ pizzas per day. 83) _____

- A) 70 B) 40 C) more than 70 D) 10

Answer: B

Explanation: A)
B)
C)
D)

84) Which of the following is true regarding marginal benefit? 84) _____

I. The marginal benefit curve shows the benefit firms receive by producing another unit of a good.

II. Marginal benefit increases as more of a good is consumed.

- A) I only B) I and II C) II only D) Neither I nor II

Answer: D

Explanation: A)
B)
C)
D)

85) Marginal benefit is the 85) _____

A) benefit that a person receives from consuming one more unit of a good or service.

B) minimum amount a person is willing to pay for one more unit of a good or service.

C) dollars sacrificed to purchase a good or service.

D) amount of one good or service that a person gains when another good or service is consumed.

Answer: A

Explanation: A)
B)
C)
D)

Point	Production of X	Production of Y
A	0	40
B	3	36
C	6	28
D	9	16
E	12	0

86) The above table shows production combinations on a country's production possibilities frontier. A movement from _____ involves the *greatest* opportunity cost of increasing the production of good Y. 86) _____

- A) point B to point A
B) point D to point C
C) point E to point D
D) point C to point B

Answer: A

Explanation: A)
B)
C)
D)

87) Comparative advantage is 87) _____

- A) the ability to perform an activity at a lower opportunity cost than anyone else.
B) another name for absolute advantage.
C) the ability to perform an activity at a zero opportunity cost.
D) the ability to perform an activity at a higher opportunity cost than anyone else.

Answer: A

Explanation: A)
B)
C)
D)

88) In a world lacking property rights, it would be _____ to realise the gains from trade and there would be _____ specialisation. 88) _____

- A) easier; more
B) harder; less
C) harder; more
D) easier; less

Answer: B

Explanation: A)
B)
C)
D)

89) Markets are BEST defined as 89) _____

- A) specific geographic locations where people get together to buy and sell.
B) arrangements where buyers and sellers get together to buy and sell.
C) hypothetical constructs used to analyse how people form their tastes and preferences.
D) places where people can inspect goods and services carefully.

Answer: B

Explanation: A)
B)
C)
D)

90) In March a factory used new technology to produce its output. Then in August a fire destroyed half the factory. The new technology shifted the factory's *PPF* _____ and the fire shifted it _____.

- A) outward; inward
B) inward; outward
C) outward; outward
D) inward; inward

Answer: A

Explanation: A)
B)
C)
D)

91) A person who has an absolute advantage in the production of all goods will

- A) have a production possibilities frontier with a constant slope.
B) have a comparative advantage in the production of some goods but not in the production of others.
C) also have a comparative advantage in the production of all goods.
D) not be able to gain from specialisation and exchange.

Answer: B

Explanation: A)
B)
C)
D)

92) Marginal benefit curves slope 92)

- A) upward because of increasing opportunity cost.
B) downward because of increasing opportunity cost.
C) upward, but not because of increasing opportunity cost.
D) downward because of decreasing marginal benefit.

Answer: D

Explanation: A)
B)
C)
D)

93) The marginal benefit from a good is the amount a person is willing to pay for

- A) one more unit of the good.
B) one more unit of the good divided by the number of units purchased.
C) all of the units of the good the person consumes divided by the number of units he or she purchases.
D) all of the good the person consumes.

Answer: A

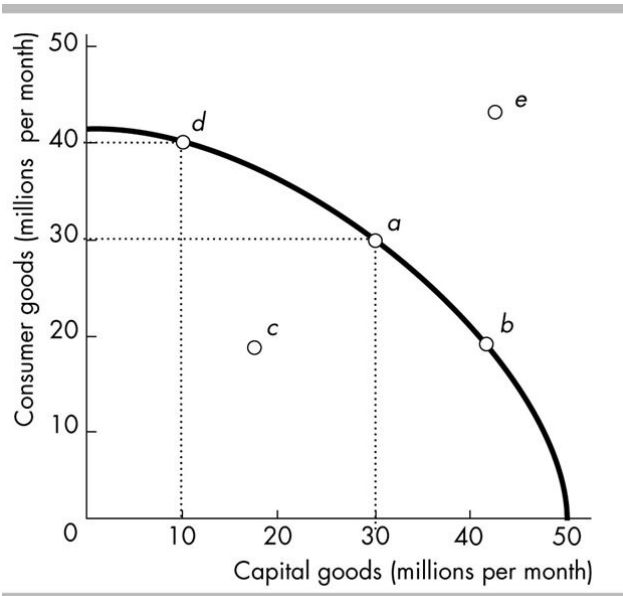
Explanation: A)
B)
C)
D)

- 94) A person has a comparative advantage in an activity whenever he or she
- A) can perform the activity at a lower opportunity cost than anyone else.
 - B) can do everything better than anyone else.
 - C) can do the activity in less time than anyone else.
 - D) has an absolute advantage in the activity.

94) _____

Answer: A

Explanation: A)
B)
C)
D)

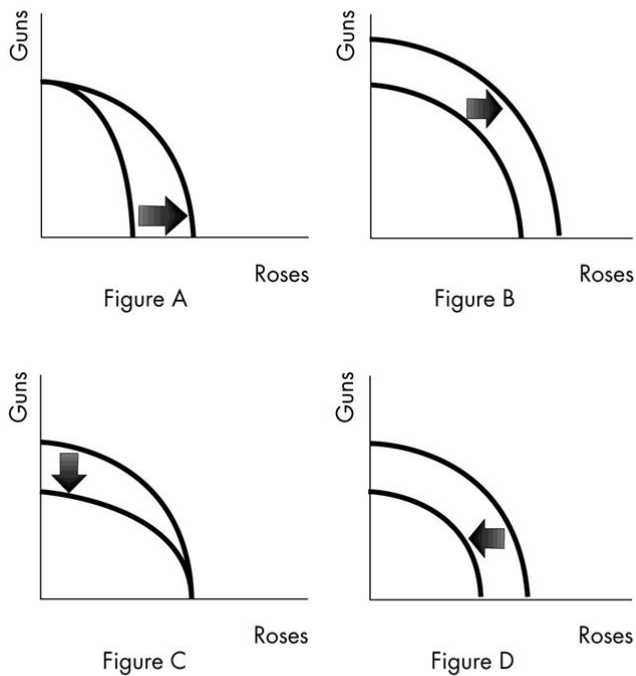


- 95) Refer to the production possibilities frontier in the figure above. Which production point is unattainable?
- A) Point *a*
 - B) Point *b*
 - C) Point *c*
 - D) Point *e*

95) _____

Answer: D

Explanation: A)
B)
C)
D)



96) Which figure shows the impact of scientists developing a more powerful fertiliser?

A) Figure D

B) Figure C

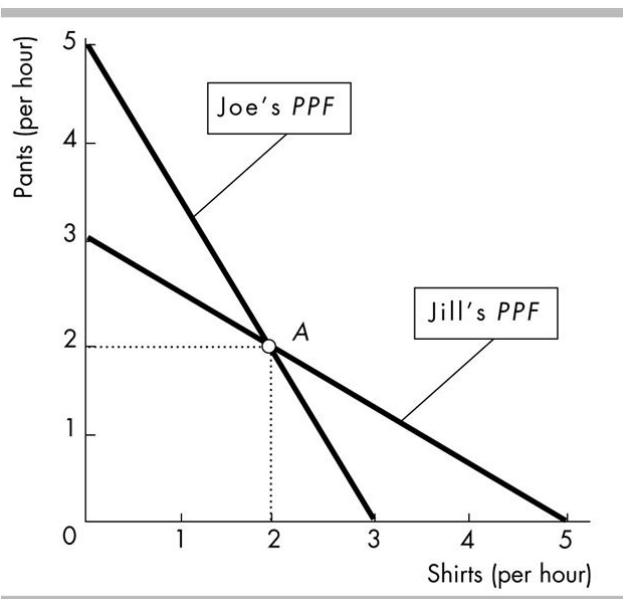
C) Figure B

D) Figure A

96) _____

Answer: D

Explanation: A)
B)
C)
D)



- 97) In the figure above, Jill is producing at point A. Jill's opportunity cost producing one pair of pants is 97) _____
- A) 5/3 of a shirt per pair of pants. B) 2 shirts per pair of pants.
C) 3/5 of a shirt per pair of pants. D) 3 shirts per pair of pants.

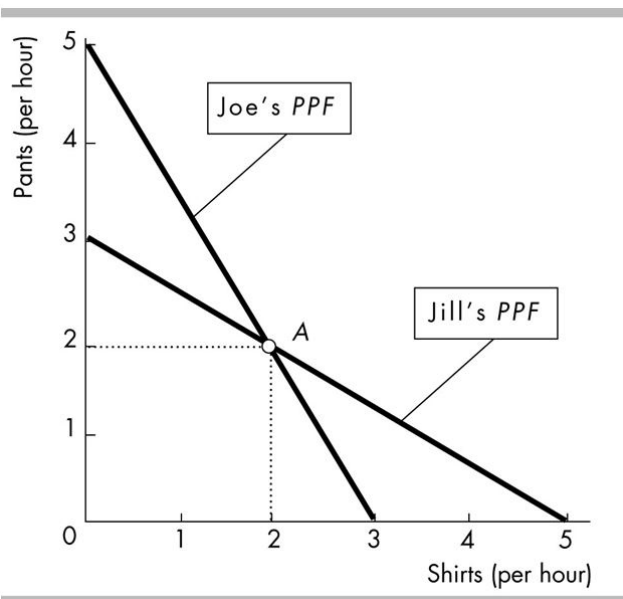
Answer: B

Explanation: A)
B)
C)
D)

- 98) The production possibilities frontier is 98) _____
- A) upward sloping and reflects unlimited choices.
B) downward sloping and reflects tradeoffs in choices.
C) downward sloping and reflects unlimited choices.
D) upward sloping and reflects tradeoffs in choices.

Answer: B

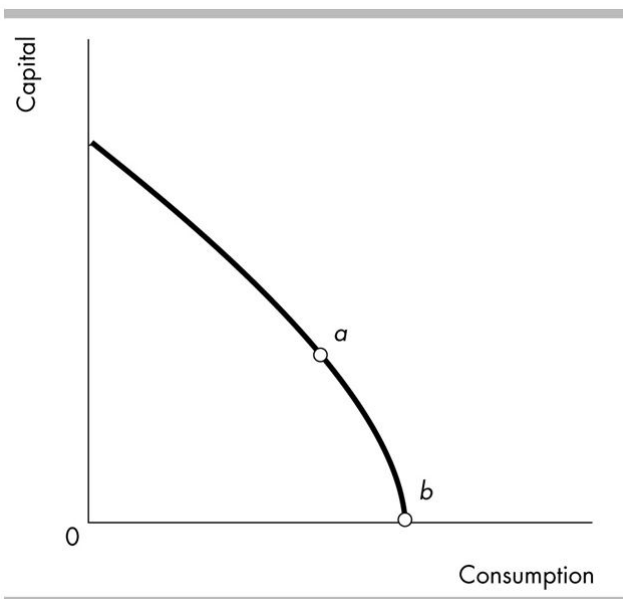
Explanation: A)
B)
C)
D)



- 99) In the figure above, both Joe and Jill initially produce at point A. If Joe and Jill realise that they each possess a comparative advantage, which outcome can we expect? 99) _____
- A) Joe will specialise in shirts and Jill will specialise in pants.
 - B) Joe will specialise in pants and Jill will specialise in shirts.
 - C) Joe and Jill each will be able to consume more than 2 shirts and 2 pairs of pants.
 - D) Both answers B and C are correct.

Answer: D

Explanation: A)
B)
C)
D)



- 100) Two countries, Alpha and Beta, have identical production possibilities frontiers. If Alpha produces at point *a* and Beta produces at point *b*, then _____ 100)
- A) Alpha's and Beta's economic growth rates will be the same.
 - B) Alpha consumes less than Beta today, but it will grow faster than Beta.
 - C) Beta's future consumption will be greater than Alpha's.
 - D) Beta's economic growth rate will exceed Alpha's.

Answer: B

Explanation: A)
B)
C)
D)

Point	Production of grain (tonnes)	Production of cars (cars)
A	0	30
B	2	28
C	4	24
D	6	18
E	8	10
F	10	0

- 101) The table above lists six points on the production possibilities frontier for grain and cars. From this information you can conclude that production is inefficient if this economy produces _____ 101)
- A) 2 tonnes of grain and 27 cars.
 - B) 8 tonnes of grain and 10 cars.
 - C) 6 tonnes of grain and 18 cars.
 - D) 4 tonnes of grain and 26 cars.

Answer: A

Explanation: A)
B)
C)
D)

- 102) The idea of comparative advantage implies that people or countries
- A) can consume at a point outside their production possibilities frontier.
 - B) should specialise in the production of goods.
 - C) can gain from trading.
 - D) All of the above.

102) _____

Answer: D

Explanation: A)
B)
C)
D)

- 103) In one day, Sue can change the oil on 20 cars or change the tyres on 20 cars. In one day, Fred can change the oil on 20 cars or change the tyres on 10 cars. Sue's opportunity cost of changing oil is _____ than Fred's and her opportunity cost for changing tyres is _____ than Fred's.

103) _____

A) less; greater B) less; less C) greater; less D) greater; greater

Answer: C

Explanation: A)
B)
C)
D)

- 104) The opportunity cost of producing one tonne of wheat for Country Gamma is four tonnes of corn. The opportunity cost of producing one tonne of wheat for Country Beta is eight tonnes of corn. Which country has the comparative advantage in the production of wheat?

104) _____

A) Gamma
B) Beta
C) Neither country has a comparative advantage.
D) Both countries have the comparative advantage.

Answer: A

Explanation: A)
B)
C)
D)

Country A		Country B	
Good X (units of X)	Good Y (units of Y)	Good X (units of X)	Good Y (units of Y)
0	16	0	12
2	12	2	9
4	8	4	6
6	4	6	3
8	0	8	0

- 105) In the table above, country A is producing 4 units of X and 8 units of Y and country B is producing 4 units of X and 6 units of Y. The opportunity cost of producing more of _____
- A) good Y is lower in country A. B) good X is lower in country A.
 C) good Y is the same for both countries. D) good X is the same for both countries.

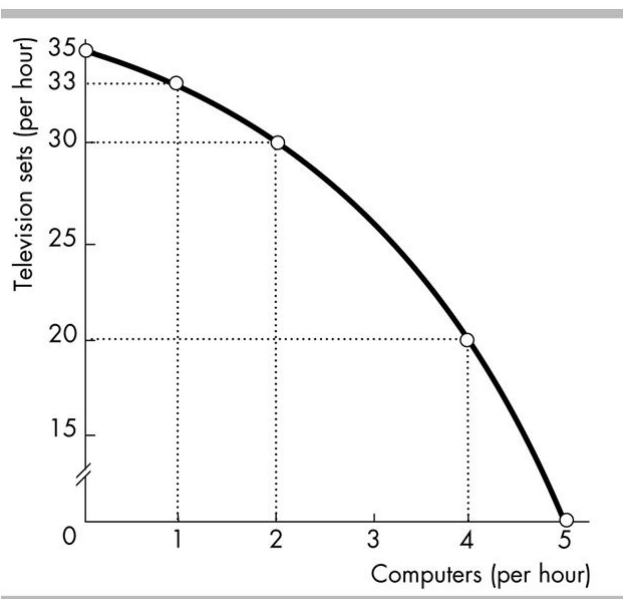
Answer: A

Explanation: A)
 B)
 C)
 D)

- 106) Marginal cost _____
- A) decreases as marginal benefits decrease. B) remains constant as more is produced.
 C) decreases as more is produced. D) increases as more is produced.

Answer: D

Explanation: A)
 B)
 C)
 D)



- 107) In the figure above, the marginal cost of producing a computer
- A) is the same as the marginal cost of producing a television set.
 - B) stays the same as more computers are produced.
 - C) increases as more computers are produced.
 - D) decreases as more computers are produced.

107) _____

Answer: C

Explanation: A)
B)
C)
D)

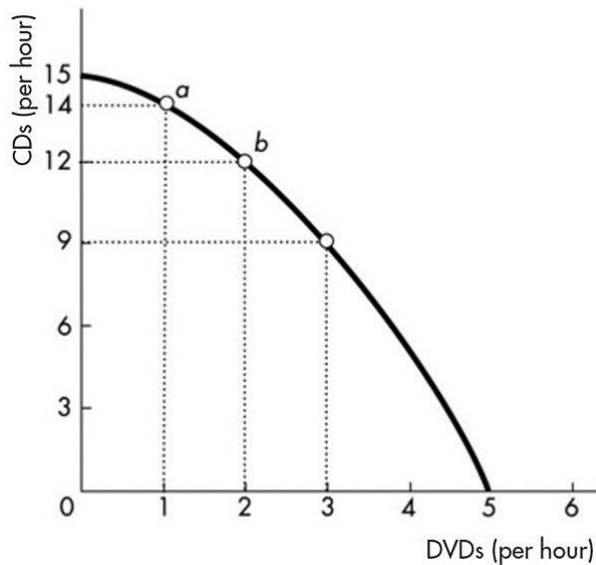
Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

- 108) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. What is the opportunity cost of *one* can of cola if Sweet-tooth Land moves from point C to point B?
- A) 20 chocolate bars per can of cola
 - B) 10 chocolate bars per can of cola
 - C) 1/2 chocolate bar per can of cola
 - D) 2 chocolate bars per can of cola

108) _____

Answer: C

Explanation: A)
B)
C)
D)



- 109) In the above figure, at point *b* what is the opportunity cost of producing 2 more CDs?
 A) 1 DVD per CD.
 B) 1/2 DVD per CD.
 C) 6 DVDs per CD.
 D) There is no opportunity cost.

109) _____

Answer: B

Explanation: A)
 B)
 C)
 D)

- 110) When we cannot produce more of any good without giving up some other good that we value more highly, we have achieved
 A) equity.
 B) allocative efficiency.
 C) the production point where the marginal benefit exceeds the marginal cost by as much as possible.
 D) economic growth.

110) _____

Answer: B

Explanation: A)
 B)
 C)
 D)

- 111) Marginal cost curves slope
 A) upward because of decreasing opportunity cost.
 B) downward because of increasing opportunity cost.
 C) upward because of increasing opportunity cost.
 D) downward because of decreasing opportunity cost.

111) _____

Answer: C

Explanation: A)
 B)
 C)
 D)

112) One of the opportunity costs of economic growth is

- A) capital accumulation.
- C) technological change.

- B) the gain in future consumption.
- D) reduced current consumption.

112) _____

Answer: D

Explanation: A)
B)
C)
D)

113) Resource use is allocatively efficient when marginal benefit is

- A) less than marginal cost.
- C) at its maximum value.

- B) greater than marginal cost.
- D) equal to marginal cost.

113) _____

Answer: D

Explanation: A)
B)
C)
D)

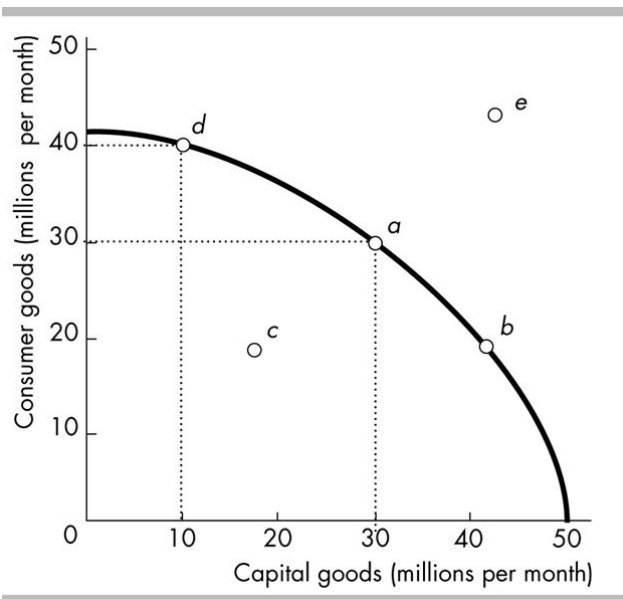
114) When the production possibilities frontier is bowed outwards, the opportunity cost of producing more of one good

- A) increases in terms of the amount forgone of the other good.
- B) remains constant.
- C) decreases in terms of the amount forgone of the other good.
- D) cannot be determined.

114) _____

Answer: A

Explanation: A)
B)
C)
D)



- 115) In the figure above, moving from production at point *d* to production at point *a* requires
- A) both capital accumulation and a decrease in unemployment.
 - B) decreasing the output of consumer goods in order to boost the output of capital goods.
 - C) technological change.
 - D) a decrease in unemployment.

115) _____

Answer: B

Explanation: A)
B)
C)
D)

- 116) Capital accumulation definitely
- A) shifts the production possibilities frontier outward.
 - B) has no impact on the production possibilities frontier.
 - C) makes the production possibilities frontier steeper.
 - D) shifts the production possibilities frontier inward.

116) _____

Answer: A

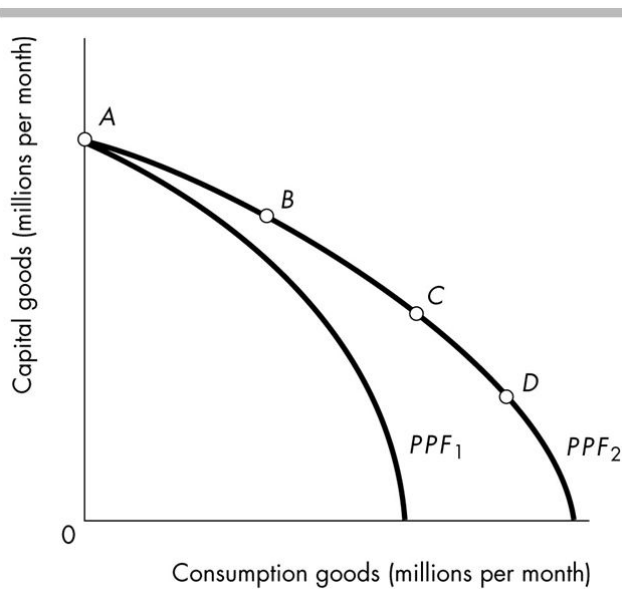
Explanation: A)
B)
C)
D)

- 117) When a nation has a comparative advantage in the production of a particular good,
- A) the nation tends to avoid specialisation.
 - B) the opportunity cost of producing that good is higher than that of other goods.
 - C) the comparative advantage encourages self-sufficiency.
 - D) the nation can gain from trade.

117) _____

Answer: D

Explanation: A)
B)
C)
D)



118) In the above figure, in order for this country to move from production possibilities frontier PPF_1 to PPF_2 , it might _____

- A) put all unemployed resources to work producing desired output.
- B) increase the skills and productivity of its work force.
- C) engage in exchange with other nations.
- D) increase the average level of prices for all goods produced and consumed.

Answer: B

Explanation: A)
B)
C)
D)

Point	Production chocolate bars	Production cans of cola
A	0	100
B	10	90
C	20	70
D	30	40
E	40	0

119) The above table shows production points on Sweet-Tooth Land's production possibilities frontier. Which of the following is an example of a point that is inefficient? _____

- A) 38 chocolate bars and 0 cans of cola
- B) 0 chocolate bars and 100 cans of cola
- C) 32 chocolate bars and 40 cans of cola
- D) 20 chocolate bars and 80 cans of cola

Answer: A

Explanation: A)
B)
C)
D)

120) In goods markets _____ and in factor markets _____.

120) _____

- A) firms sell to households; firms sell to households
- B) households sell to firms; households sell to firms
- C) firms sell to households; households sell to firms
- D) households sell to firms; firms sell to households

Answer: C

Explanation: A)
B)
C)
D)

121) A marginal cost curve

121) _____

- A) is upward sloping.
- B) shows that as more of a good is produced, opportunity costs of producing another unit increase.
- C) is bowed inward so that its slope can become negative.
- D) Both answers A and B are correct.

Answer: D

Explanation: A)
B)
C)
D)

Production possibilities

Possibility	Pizza (per hour)	Cola (cases per hour)
A	0	100
B	1	95
C	2	80
D	3	60
E	4	35
F	5	0

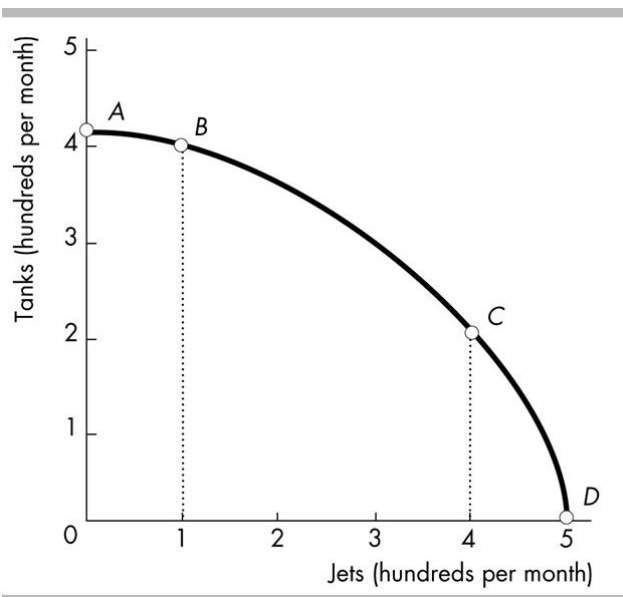
122) In the above table, the production of 3 pizzas and 35 cases of cola is

122) _____

- A) possible only if the economy produces with maximum efficiency.
- B) impossible unless more resources become available.
- C) feasible but would involve unemployed or misallocated resources.
- D) possible only if there is inflation.

Answer: C

Explanation: A)
B)
C)
D)



123) In the above figure, which of the following is true regarding the movements from point A to B and from point C to D? 123) _____

- I. The movement from point A to B shows that the economy has chosen to produce 100 more jets.
- II. The movement from point C to D shows that the economy has chosen to produce 100 more jets.
- III. The movements from point A to B and from point C to D have the same opportunity cost.

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

Answer: A

Explanation: A)
B)
C)
D)

124) Some time ago the government of China required many highly skilled technicians and scientists to engage in unskilled agricultural labour in order to develop "proper social attitudes." This policy probably caused China to produce 124) _____

- A) inside its production possibilities frontier.
- B) inside its production possibilities frontier with respect to food, but outside with respect to high-technology goods.
- C) at an inappropriate point along its production possibilities frontier.
- D) outside its production possibilities frontier with respect to food, but inside with respect to high-technology goods.

Answer: A

Explanation: A)
B)
C)
D)

125) Which of the following is true regarding markets?

125) _____

- I. Economists define a market as a geographic location where trade occurs.
- II. A market enables buyers and sellers to get information about each other and to buy and sell from each other.
- III. Markets coordinate decisions through prices.

A) I only

B) I and III

C) II and III

D) I, II and III

Answer: C

Explanation: A)
B)
C)
D)

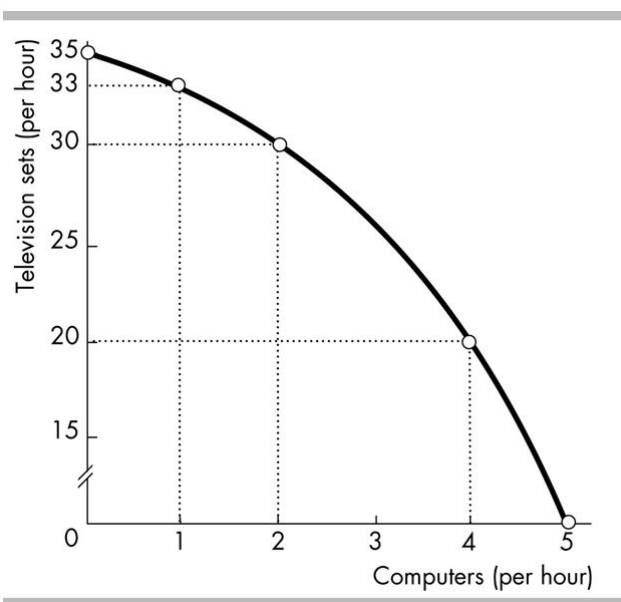
126) If an economy is operating at a point inside the production possibilities frontier, then

126) _____

- A) society's resources are being used to produce too many consumer goods.
- B) economic policy must retard further growth of the economy.
- C) society's resources are being inefficiently utilised.
- D) the PPF curve will shift inward.

Answer: C

Explanation: A)
B)
C)
D)



127) In the figure above, the marginal cost of the second computer is

127) _____

A) 3 television sets.

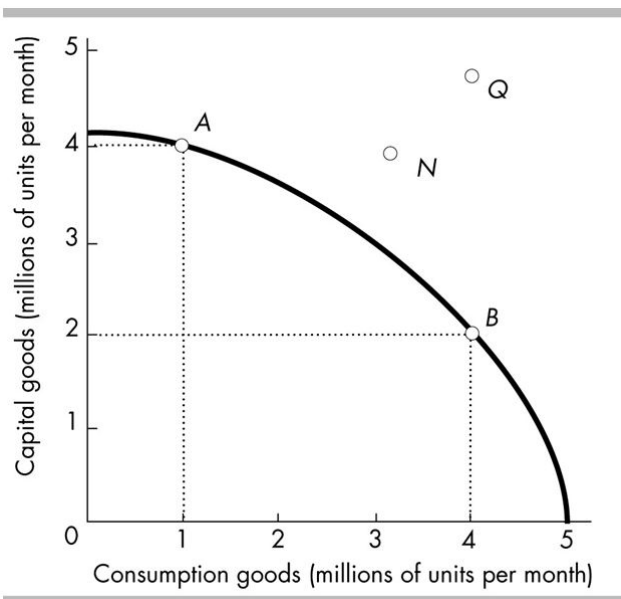
B) 5 television sets.

C) 30 television sets.

D) 2 television sets.

Answer: A

Explanation: A)
B)
C)
D)



128) In 2006, Country X and Country Y had the same production possibilities, illustrated in the figure above. Country X chose to produce at point A, while country Y chose to produce at point B. In 2012, most likely, Country X will be at a point such as _____ while Country Y will be at a point such as _____.

128) _____

A) Q; N

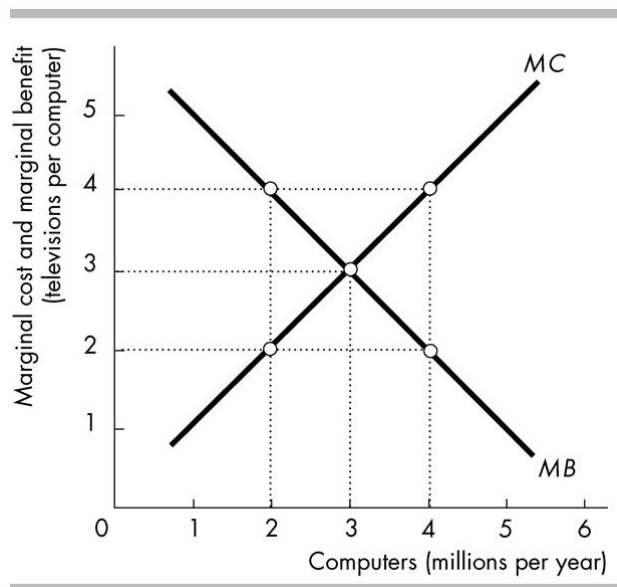
B) A; B

C) B; A

D) N; Q

Answer: A

Explanation: A)
B)
C)
D)



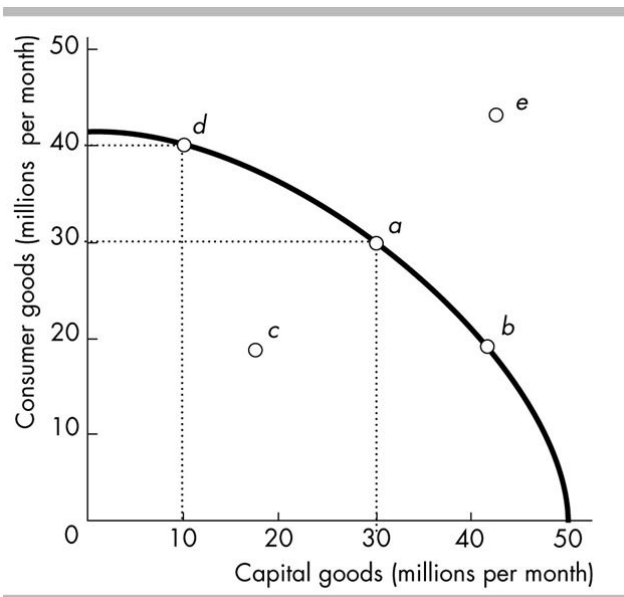
129) In the figure above, if 4 million computers are produced per year then the _____ should be produced to achieve the allocatively efficient use of resources.

129) _____

- A) marginal cost of a computer exceeds the marginal benefit of a computer, so fewer computers
- B) marginal benefit of a computer exceeds the marginal cost of a computer, so more computers
- C) marginal benefit of a computer exceeds the marginal cost of a computer, so fewer computers
- D) marginal cost of a computer exceeds the marginal benefit of a computer, so more computers

Answer: A

Explanation: A)
B)
C)
D)



130) Refer to the production possibilities frontier in the figure above. Suppose a country is producing at point *a*. A movement to point _____ means that the country _____. 130) _____

- A) *d*; must give up 20 million capital goods B) *e*; is not operating efficiently
C) *b*; is producing at an inefficient point. D) *d*; gives up 10 million consumer goods.

Answer: A

Explanation: A)
B)
C)
D)

131) Scarcity is represented on a production possibilities frontier figure by 131) _____

- A) technological progress.
B) the fact that there are attainable and unattainable points.
C) the fact that there are only two goods in the diagram.
D) the amount of the good on the horizontal axis forgone.

Answer: B

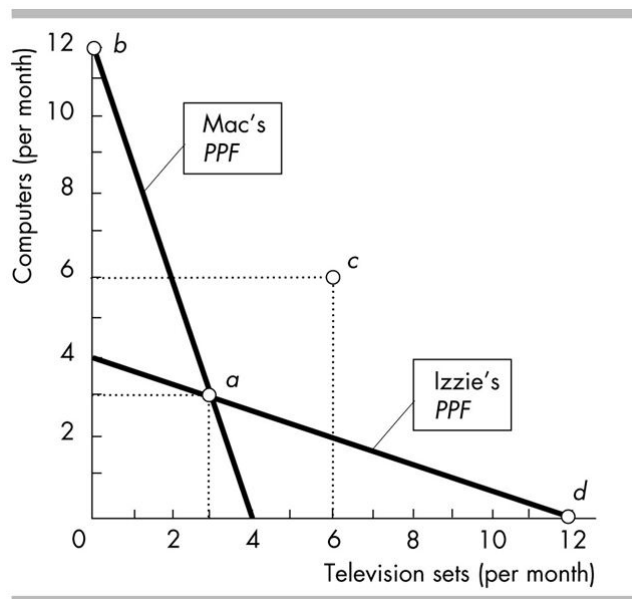
Explanation: A)
B)
C)
D)

132) A computer software program is most strongly an example of 132) _____

- A) intellectual property. B) real property.
C) vicarious property. D) fiat property.

Answer: A

Explanation: A)
B)
C)
D)



133) In the figure above, suppose that Mac and Izzie specialise and trade to reach point c. Mac sends Izzie

133) _____

- A) 6 computers in exchange for 12 TVs.
- B) 6 computers in exchange for 6 TVs.
- C) 12 computers in exchange for 12 TVs.
- D) 12 computers in exchange for 6 TVs.

Answer: B

Explanation: A)
B)
C)
D)

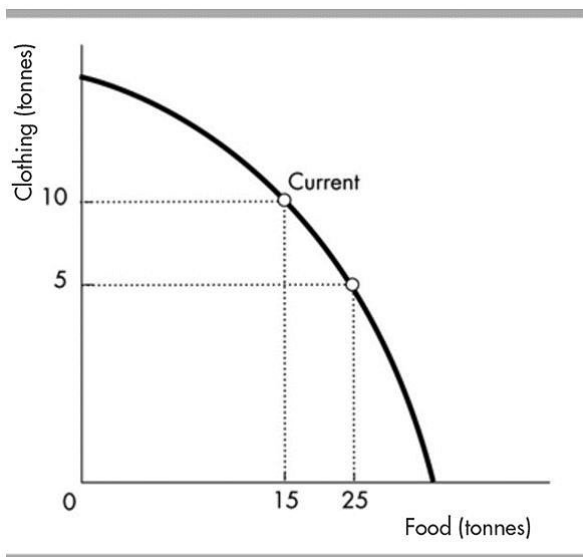
134) An increase in the production of capital goods

134) _____

- A) shifts the production possibilities frontier inward in the future.
- B) must decrease the future production of consumer goods.
- C) shifts the production possibilities frontier outward in the future.
- D) must increase the current production of consumer goods.

Answer: C

Explanation: A)
B)
C)
D)



- 135) The above figure illustrates that if this country wishes to move from its current production point (labelled "Current") and have 10 more tonnes of food, it can do this by producing
- A) 10 more tonnes of clothing.
 - B) 10 fewer tonnes of clothing.
 - C) 5 fewer tonnes of clothing.
 - D) 5 more tonnes of clothing.

135) _____

Answer: C

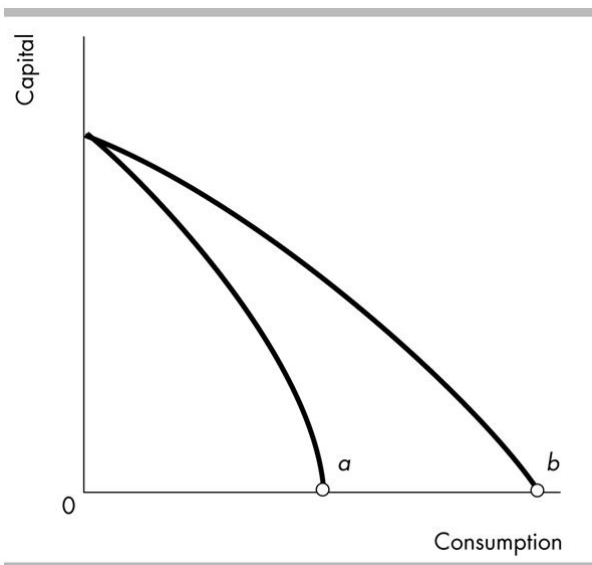
Explanation: A)
B)
C)
D)

- 136) Tom takes 20 minutes to cook an egg and 5 minutes to make a sandwich. Jerry takes 15 minutes to cook an egg and 3 minutes to make a sandwich. Both individuals will be better off if
- A) they don't trade as no one has the comparative advantage in either of the two goods.
 - B) Jerry trades sandwiches in exchange for eggs.
 - C) they trade, no matter who trades sandwiches and who eggs.
 - D) Tom trades sandwiches in exchange for eggs.

136) _____

Answer: B

Explanation: A)
B)
C)
D)



137) The opportunity cost of producing a unit of consumption goods at point *b* in the figure _____ 137) _____
point *a*.

- A) is less than at
- B) is greater than at
- C) is the same as
- D) cannot be compared with

Answer: A

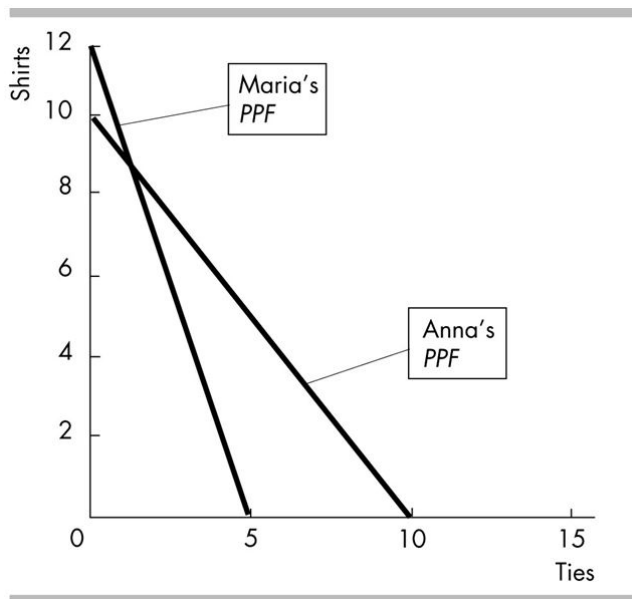
Explanation: A)
B)
C)
D)

138) Suppose that a typical German factory can produce 20 cameras or one computer in an hour, and 138) _____
that a typical American factory can produce 10 cameras or one computer in an hour. Germany
wishes to purchase computers from the United States in exchange for cameras. What is the
maximum number of cameras per computer that Germany would be willing to pay the United
States?

- A) 20 cameras per computer
- B) 2 cameras per computer
- C) 1 camera per computer
- D) 10 cameras per computer

Answer: A

Explanation: A)
B)
C)
D)



- 139) Anna and Maria produce shirts and ties. The figure above shows Anna's *PPF* and Maria's *PPF*. Anna and Maria can achieve the gains from trade if Anna produces _____ and Maria produces _____.
- A) shirts and ties; only ties
B) shirts; ties
C) only ties; shirts and ties
D) ties; shirts

Answer: D

Explanation: A)
B)
C)
D)

- 140) While producing on the production possibilities frontier, if additional units of a good could be produced at a constant opportunity cost, the production possibilities frontier would be
- A) bowed outward.
B) positively sloped.
C) bowed inward.
D) a straight line.

Answer: D

Explanation: A)
B)
C)
D)

- 141) A tradeoff is
- A) represented by a point inside a *PPF*.
B) a transaction at a price either above or below the equilibrium price.
C) represented by a point outside a *PPF*.
D) a constraint that requires giving up one thing to get another.

Answer: D

Explanation: A)
B)
C)
D)

- 142) Resource use is allocatively efficient when 142) _____
A) we produce the goods with the highest opportunity cost.
B) we cannot produce more goods and services.
C) we produce the goods with the lowest opportunity cost.
D) we produce the amount of the different goods we value most highly.

Answer: D

Explanation: A)
B)
C)
D)

- 143) Individual economic decisions are coordinated by 143) _____
A) governments through adjustments in sales taxes.
B) markets through adjustments in prices.
C) markets through adjustments in sales levels.
D) governments through adjustments in income taxes.

Answer: B

Explanation: A)
B)
C)
D)

- 144) In order for societies to reap the gains from trade, it is necessary to 144) _____
A) achieve productive efficiency. B) foster economic growth.
C) define and enforce property rights. D) distribute resources equally.

Answer: C

Explanation: A)
B)
C)
D)

- 145) When operating on its *PPF*, a country can produce two tonnes of butter and 200 cars OR three tonnes of butter and 150 cars. The opportunity cost of one tonne of butter is _____ cars per tonne of butter. 145) _____
A) 300 B) 0.75 C) 50 D) 200

Answer: C

Explanation: A)
B)
C)
D)

- 146) According to the principle of comparative advantage, if a rich country trades with a poor country, then 146) _____
- A) the rich country will benefit and the poor country will lose.
 - B) the rich country will lose and the poor country will benefit.
 - C) both countries will benefit.
 - D) neither of the countries will benefit.
- Answer: C
- Explanation: A)
B)
C)
D)
- 147) A PPF bows outward because 147) _____
- A) resources are used inefficiently.
 - B) not all resources are equally productive in all activities.
 - C) consumers prefer about equal amounts of the different goods.
 - D) entrepreneurial talent is more abundant than human capital.
- Answer: B
- Explanation: A)
B)
C)
D)
- 148) The production possibilities frontier separates 148) _____
- A) the combinations of goods that people value and those that they don't.
 - B) the types of goods that can be attained from those that can't be attained.
 - C) the quantities of goods and services that can be produced from those that cannot be produced.
 - D) the goods and services people want from those they do not want.
- Answer: C
- Explanation: A)
B)
C)
D)
- 149) Suppose the country of Popcorn produces only jets and corn. If Popcorn cannot produce any more jets without giving up corn, we say that Popcorn has achieved 149) _____
- A) the highest marginal benefit.
 - B) the lowest marginal cost.
 - C) the highest opportunity cost.
 - D) production efficiency.
- Answer: D
- Explanation: A)
B)
C)
D)

150) Homer and Teddy are stranded on a desert island. To feed themselves each day they can either catch fish or pick fruit. In a day, Teddy could pick 60 pieces of fruit or catch 20 fish. Homer could pick 100 pieces of fruit or catch 150 fish. Which of the following statements is correct?

150) _____

- A) Homer has an absolute advantage in both catching fish and picking fruit.
- B) Teddy has an absolute advantage in both catching fish and picking fruit.
- C) Homer has an absolute advantage in picking fruit and Teddy has an absolute advantage in catching fish.
- D) Homer has an absolute advantage in catching fish and Teddy has an absolute advantage in picking fruit.

Answer: A

Explanation: A)
B)
C)
D)

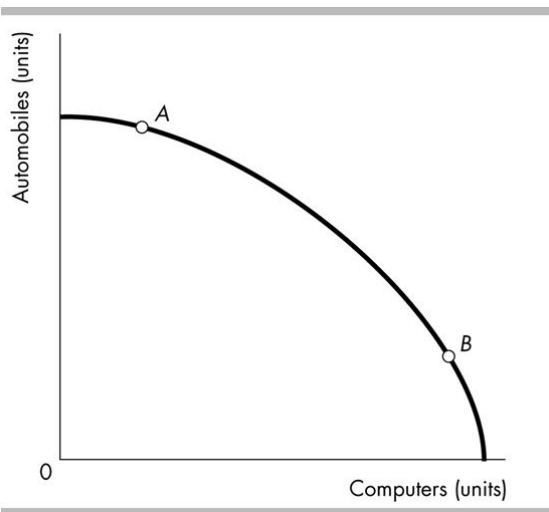
151) The kitchen manager at an Italian restaurant is deciding what assignments he should give to his two cooks, John and David. John can make 25 pizzas or 40 servings of pasta per hour and David can make 20 pizzas or 30 servings of pasta. Which of the following should be the manager's choice?

151) _____

- A) John will make pizza because he has comparative advantage in making pizza.
- B) David will make pizza because he has comparative advantage in making pizza.
- C) Fire David because he is not as productive as John. John will do both jobs.
- D) John and David both will spend half their time making pizza and half their time making pasta because each has a comparative advantage in making pizza.

Answer: B

Explanation: A)
B)
C)
D)



152) According to the figure above, the opportunity cost of producing another computer is

152) _____

- A) higher at *A*.
- B) higher at *B*.
- C) the same at every point along the frontier.
- D) different at most points along the frontier but equal at points *A* and *B* because they are equally distant from the axes.

Answer: B

Explanation: A)
 B)
 C)
 D)

Answer Key
Testname: C2

- 1) D
- 2) B
- 3) C
- 4) D
- 5) D
- 6) D
- 7) C
- 8) B
- 9) A
- 10) D
- 11) D
- 12) D
- 13) D
- 14) A
- 15) A
- 16) C
- 17) C
- 18) C
- 19) A
- 20) A
- 21) D
- 22) D
- 23) D
- 24) A
- 25) C
- 26) D
- 27) C
- 28) C
- 29) D
- 30) A
- 31) B
- 32) D
- 33) C
- 34) A
- 35) A
- 36) A
- 37) B
- 38) A
- 39) A
- 40) C
- 41) D
- 42) A
- 43) D
- 44) A
- 45) C
- 46) B
- 47) D
- 48) D
- 49) D
- 50) A

Answer Key
Testname: C2

- 51) C
- 52) D
- 53) D
- 54) D
- 55) C
- 56) B
- 57) A
- 58) D
- 59) B
- 60) A
- 61) A
- 62) B
- 63) A
- 64) D
- 65) A
- 66) B
- 67) A
- 68) A
- 69) C
- 70) C
- 71) D
- 72) A
- 73) D
- 74) C
- 75) D
- 76) B
- 77) D
- 78) A
- 79) B
- 80) A
- 81) B
- 82) C
- 83) B
- 84) D
- 85) A
- 86) A
- 87) A
- 88) B
- 89) B
- 90) A
- 91) B
- 92) D
- 93) A
- 94) A
- 95) D
- 96) D
- 97) B
- 98) B
- 99) D
- 100) B

Answer Key

Testname: C2

- 101) A
- 102) D
- 103) C
- 104) A
- 105) A
- 106) D
- 107) C
- 108) C
- 109) B
- 110) B
- 111) C
- 112) D
- 113) D
- 114) A
- 115) B
- 116) A
- 117) D
- 118) B
- 119) A
- 120) C
- 121) D
- 122) C
- 123) A
- 124) A
- 125) C
- 126) C
- 127) A
- 128) A
- 129) A
- 130) A
- 131) B
- 132) A
- 133) B
- 134) C
- 135) C
- 136) B
- 137) A
- 138) A
- 139) D
- 140) D
- 141) D
- 142) D
- 143) B
- 144) C
- 145) C
- 146) C
- 147) B
- 148) C
- 149) D
- 150) A

Answer Key

Testname: C2

151) B

152) B