

Chapter 01 - The Economic Problem

**Chapter 01**  
**The Economic Problem**

**Multiple Choice Questions**

1. What do economists mean when they say that the economy faces scarcity?
- A. There are fewer resources available than there were in the 1960s.
  - B. It is quite evident that the world is running out of resources.
  - C. The economy is producing far below its capacity to produce.
  - D.** The resources available are not sufficient to produce all that everyone wants.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

2. What do economists assume is true about human wants?
- A. They are easily defined.
  - B. That we are on the verge of being able to satisfy them.
  - C.** They are unlimited.
  - D. They haven't changed much over the centuries.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

3. Which of the following terms describes the next best alternative that must be sacrificed as a result of making a particular choice?

- A. Microeconomics.
- B. Opportunity cost.**
- C. Macroeconomics.
- D. The law of increasing costs.
- E. Scarcity.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

4. What is the opportunity cost of a particular product?

- A. The price paid for that product.
- B. The value put on that product by the person who bought it.
- C. The value of the next-best alternative that is given up as a result of buying that particular product.**
- D. The combined value of all the other alternatives that are given up as a result of buying that particular product.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

5. Gwen had only \$10 yesterday. She was uncertain whether to go out for lunch or to buy beer. In the end, she bought beer. Which of the following statements is correct?

- A. The choice of the beer and not lunch is an example of constant costs.
- B. The cost of buying beer is less than lunch.
- C. The opportunity cost of beer is lunch.**
- D. The opportunity cost of beer is \$10.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

6. Which of the following is correct?

- A. Scarcity forces choice which involves opportunity costs.**
- B. Choice causes scarcity which involves increasing costs.
- C. Choice causes scarcity which involves opportunity costs.
- D. Scarcity forces choice which involves increasing costs.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

7. What can we say is true as a result of people engaging in voluntary trade?

- A. One person gains and the other loses.
- B. One person gains while there is a neutral effect on the other person.
- C. Both people gain.**
- D. Neither person gains.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

## Chapter 01 - The Economic Problem

The maximum production possible in Rome and in Cathay are as follows:

<b>Rome</b>	<b>40 bread</b>	<b>Or</b>	<b>20 figs</b>
<b>Cathay</b>	<b>20 bread</b>	<b>Or</b>	<b>40 figs</b>

8. If each country is self-sufficient (no trade) and each allocates one half of its resources to producing each of the two products, what will be the output in each country?

- A. 40 bread and 20 figs in Rome and 20 bread and 40 figs in Cathay.
- B. 40 bread and 0 figs in Rome and 20 bread and 0 figs in Cathay.
- C. 0 bread and 20 figs in Rome and 0 bread and 40 figs in Cathay.
- D.** 20 bread and 10 figs in Rome and 10 bread and 20 figs in Cathay.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

9. If each country is self-sufficient (no trade) and each allocates one half of its resources to producing each of the two products, what is the combined output in the two counties?

- A. 60 bread and 60 figs.
- B. 60 bread and 0 figs.
- C. 0 bread and 60 figs.
- D.** 30 bread and 30 figs.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

10. If each country specializes in the production of what it does best and trades with the other, what is the combined output?

- A. 20 bread and 20 figs.
- B. 30 bread and 30 figs.
- C.** 40 bread and 40 figs.
- D. 60 bread and 60 figs.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

11. If each country specializes in the production of what it does best, what are the gains from trade?

- A. There are no gains.
- B. 20 bread.
- C. 20 figs.
- D.** 10 bread and 10 figs.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

12. What fundamental question is implied by the following statement: Should scarce resources be devoted to persuading people to quit smoking or to developing a less harmful form of tobacco?

- A.** What to produce?
- B. How to produce?
- C. For whom?
- D. How much competition?
- E. How much command?

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-11 What to Produce?*

13. What fundamental question is implied by the following statement: The appropriate technology in one country can be quite different from the appropriate technology in another country.

- A. What to produce?
- B.** How to produce?
- C. For whom?
- D. How much competition?
- E. How much command?

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-12 How to Produce?*

14. What is fundamental question is implied by the following statement: Social policies are needed to ensure that no individual lives in poverty.

- A. What to produce?
- B. How to produce?
- C. For whom?**
- D. How much competition?
- E. How much command?

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-13 For Whom?*

15. All of the following except one are considered to be among the three fundamental questions in economics? Which one is the exception?

- A. What to produce?
- B. How much competition?**
- C. How to produce?
- D. For whom?

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-10 The Three Fundamental Questions*

16. Which of the following was argued by John Stuart Mill?

- A. It is ideas, not vested interests, which are dangerous for good and evil.
- B. The distribution of money is dictated by the pattern of resource use.
- C. As technology changes, what is produced also necessarily changes.
- D. Society can intervene in any fashion that it may wish to redistribute income.**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-13 For Whom?*

17. All of the following except one are factors of production. Which is the exception?

- A. Land.
- B. Labour.
- C. Capital.
- D. Money.**
- E. Enterprise.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

18. Which of the following is an alternative for the term, "factors of production"?

- A. Methods of organizing an economy.
- B. Ways of coordinating an economy.
- C. Productive resources or inputs.**
- D. Goods and services.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

19. All of the following except one are included in the four Cs used, throughout history, by humankind to coordinate its economies. Which is the exception?

- A. Cooperation.
- B. Communism.**
- C. Custom.
- D. Competition.
- E. Command.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*



20. \_\_\_\_\_ efficiency refers to 'getting the most for the least'.

- A. Technical
- B. Economic
- C. Allocative
- D. Productive**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*

21. Ensuring the right type of products are produced is referred to as \_\_\_\_\_ efficiency.

- A. Technical
- B. Economic
- C. Allocative**
- D. Productive

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*

22. Which pair of the four Cs would play the dominant role in a simple hunter/gatherer society such as that of the San people of the Kalahari Desert?

- A. Commercialization and competition.
- B. Cooperation and custom.**
- C. Competition and cooperation.
- D. Command and competition.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

23. Which pair of the four Cs plays the dominant role in Canada today?

- A. Custom and competition.
- B. Cooperation and competition.
- C. Command and competition.**
- D. Command and cooperation.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

24. The fact that the typical movie theatre charges people for popcorn but does not charge them to use the restrooms is an example of which of the four Cs?

- A. Competition.
- B. Command.
- C. Custom.**
- D. Cooperation.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

25. Which of the following statements concerning capitalism and socialism is false?

- A. Sweden is more of a socialist economy than is Hong Kong.
- B. Government plays a larger role in a capitalist economy.**
- C. There is more economic planning in a socialist economy.
- D. The Canadian economy is more socialist than is the US economy.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

26. Which of the following would best describe a policy of laissez-faire?

- A. More production of capital goods than consumer goods.
- B. More production of consumer goods than capital goods.
- C. An emphasis on the role of the market.**
- D. An emphasis on the role of government.
- E. A reliance on custom.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

27. What do economists always do when they are constructing theories or models?

- A. They make simplifying assumptions.**
- B. They attempt to duplicate the real world.
- C. They ensure that the theory can be expressed mathematically.
- D. They try to include as much information as possible.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

28. What is true about an economic model?

- A. It is built on a series of assumptions.
- B. It establishes cause and effect between variables.
- C. It can make predictions that can be tested with empirical data.
- D. It could also be called an economic theory.
- E.** It is built on a series of assumptions, it establishes cause and effect between variables, it can make predictions that can be tested with empirical data, and it could also be called an economic theory.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

29. All of the following except one are true of economic theories or models. Which one is the exception?

- A. They attempt to establish cause and effect between economic variables.
- B.** They always perfectly reflect reality.
- C. They are built with assumptions and then tested with facts.
- D. They are generalizations used to give context to our observations.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

30. All of the following except one are positive statements. Which is the exception?
- A. The government needs to reduce its budget deficit.
  - B. A decrease in price will lead to a larger quantity bought.
  - C. Production is subject to the law of increasing costs.
  - D. The degree of competition in our economy has been increasing in the last ten years.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

31. All of the following statements, except one, are positive statements. Which is the exception?
- A. Economics is a social science.
  - B. Economics is sometimes referred as the science of choice.
  - C. A majority of economists argue that economics is a very relevant discipline.
  - D. Economics should be a mandatory course in all Canadian colleges and universities.
  - E. Economics is a possible undergraduate major for students who want to go to law school.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

32. All of the following statements, except one, are normative statements. Which is the exception?
- A. The taxes on gasoline should be lower.
  - B. Lowering the taxes on gasoline would decrease the price at the pump.
  - C. It is wrong for the government to tax gasoline.
  - D. The government is trying to mislead people about the tax on gasoline.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

33. What does the term *technology* mean to an economist?

- A. The way various factors of production are combined to obtain output.
- B. The most recent methods of production.
- C. High-tech methods of production as found, for example, in the computer industry.
- D. The way in which products are allocated.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

34. What term is used to describe the way that the various factors of production are combined to obtain output?

- A. Opportunity costs.
- B. Types of economies.
- C. Ways of coordinating an economy.
- D. Technology.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

35. Which of the following is a capital good?

- A. An oven in a bakery.
- B. A home computer.
- C. The first application of CD ROM technology to an economics textbook.
- D. An investment in IBM stock.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

36. Which of the following statements describes the *law of increasing costs*?

- A. As the economy's production level of any particular item decreases, its opportunity cost rises.
- B.** As the economy's production level of any particular item increases, its opportunity cost rises.
- C. The prices of consumer goods always rise and never fall.
- D. If someone waits to make a purchase, she will pay a higher price.
- E. The total cost of production rises as output goes up.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

37. Which of the following statements describes the key assumption behind the *law of increasing costs*?

- A.** Not all resources are equally suitable for the production of goods and services.
- B. All resources are equally suitable for the production of goods and services.
- C. All resources available are not fixed in the production of goods and services.
- D. Although resources are available in unlimited amounts, their usefulness in production is limited over time.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

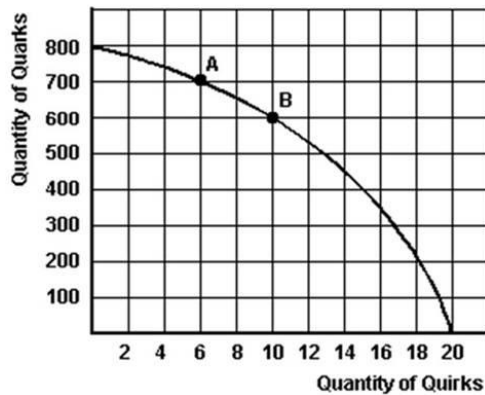
*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

The graph below is Mendork's production possibility curve for the only two goods that it produces-quirks and quarks.



38. Refer to the graph above to answer this question. If this society chooses to produce 10 quirks, what is the maximum quantity of quarks it can produce?

- A. 500 quarks.
- B. 800 quarks.
- C. No quarks.
- D.** 600 quarks.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*



39. Refer to the graph above to answer this question. What is the opportunity cost of producing the first 700 quarks?

- A. It is 6 quirks.
- B. It is 10 quirks.
- C. It is 14 quirks.**
- D. The answer cannot be determined from the information given.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

40. Refer to the graph above to answer this question. If Mendork's current production is at point A, what is the (approximate) cost of producing one more quirk?

- A. 100 quarks.
- B. 50 quarks.
- C. 25 quarks.**
- D. 200 quarks.
- E. One more quark.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

41. Refer to the graph above to answer this question. If Mendork's current production is at point B, what is the opportunity cost of one more quark as output changes from point B to A?

- A. 0.04 quirks.
- B. 4 quirks.
- C. 400 quirks.
- D. 1 quirk.
- E. 0.4 quirks.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

42. Refer to the graph above to answer this question. If new technology increased the output of quirks by 50%, how many quirks could be produced if 600 quarks were produced?

- A. 18 quirks.
- B. 20 quirks.
- C. 15 quirks.
- D. 10 quirks.
- E. No quirks.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

43. Refer to the graph above to answer this question. Which of the following statements is correct if Mendork is currently producing 500 quarks and 8 quirks?

- A. This society is using competition to coordinate its economic activities.
- B. This society is experiencing either unemployment or inefficiency.**
- C. This economy is experiencing full employment.
- D. This society is not adequately answering the question: "What to produce".
- E. This economy is growing quickly.

*Blooms: Remember*

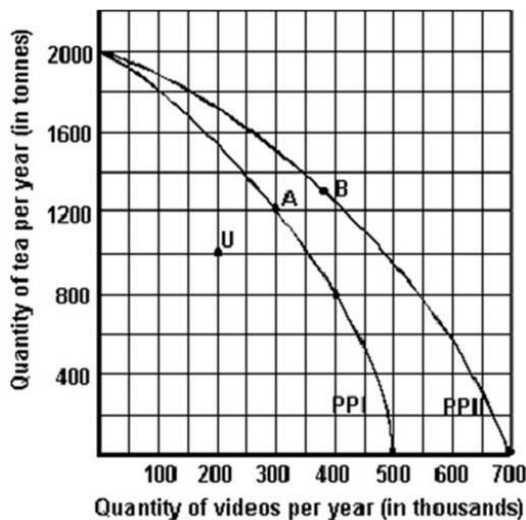
*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

Below is a production possibilities curve involving tea and videos.



44. Refer to the graph above to answer this question. Which of the following illustrates the law of increasing costs?

- A. Any point outside the production possibilities curve.
- B.** A "bowed-out" production possibilities curve.
- C. A straight-line production possibilities curve.
- D. Any point inside the production possibilities curve.

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

45. Refer to the graph above to answer this question. Assume that the economy is facing PPI and that the economy is currently producing the combination of tea and videos represented by point A. What is the opportunity cost of increasing the output of videos to 400,000?

- A.** 400 tons of tea.
- B. 800 tons of tea.
- C. 100,000 videos.
- D. 300,000 videos.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

46. Refer to the graph above to answer this question. Assume that the economy is facing PPI and that 2,000 tons of tea are produced; how many videos could be produced?

- A. 600,000.
- B. 500,000.
- C. 2,000.
- D.** 0.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

47. Refer to the graph above to answer this question. What might point U indicate?

- A. Not all resources available to the economy are being used.
- B. The resources being used are not being used efficiently.
- C. The technology being used is not the most appropriate one.
- D.** All of these.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

48. Refer to the graph above to answer this question. What is indicated by the shape of both the PPI and the PPII curves?

- A. Constant costs.
- B. Alternative costs.
- C.** Increasing costs.
- D. Decreasing costs.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

49. Refer to the graph above to answer this question. What could have caused the shift from PPI to PPII?

- A. A decrease in the price of videos.
- B. Capital accumulation in the tea industry.
- C. A decrease in the opportunity cost of tea.
- D.** Technological change in the video industry.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

50. Refer to the graph above to answer this question. Assume that the economy is producing on PPI at point A. After the shift from PPI to PPII, what does point B represent?

- A. An increase in the production of videos but not of tea.
- B. An increase in the production of tea but not of videos.
- C. A decrease in the production of tea but not of videos.
- D.** An increase in the production of both goods.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

51. Refer to the graph above to answer this question. What is indicated by the shift from PPI to PPII?

- A. Unemployment.
- B. Inflation.
- C. Inefficiency.
- D.** Economic growth.

*Blooms: Analyze*

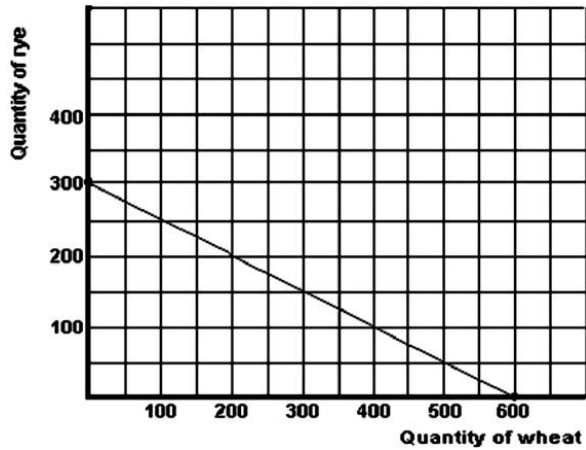
*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

Below is a production possibilities curve for a large tract of prairie farm land.



52. Refer to the graph above to answer this question. What is the total cost of producing 300 units of rye?

- A. 0 units of wheat.
- B. 0.5 units of wheat.
- C. 2 units of wheat.
- D.** 600 units of wheat.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

53. Refer to the graph above to answer this question. What is the opportunity cost of 1 unit of wheat?

- A. 0.5 units of rye.
- B. 2 units of rye.
- C. 5 units of rye.
- D. \$2.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

54. Refer to the graph above to answer this question. What is the opportunity cost of 1 unit of rye?

- A. 0.5 units of wheat.
- B. 2 units of wheat.
- C. 5 units of wheat.
- D. \$400.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

55. Refer to the graph above to answer this question. Given the shape of the PP curve, which of the following statements is correct?

- A. The law of increasing costs doesn't apply.
- B. The resources being used to produce rye and wheat are very similar.
- C. The two goods being produced are very similar.
- D. Opportunity costs are constant.
- E. It is better for the economy to product rye.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*



56. Refer to the graph above to answer this question. If 300 units of rye are being produced, how many units of wheat are possible?

- A. 200 units of wheat.
- B. 300 units of wheat.
- C. 600 units of wheat.
- D.** 0 units of wheat.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

57. Refer to the graph above to answer this question. Which of the following statements would be correct if the land was producing 200 units of rye and 100 units of wheat?

- A. Some of the land might be idle.
- B. The most appropriate technology may not be in use.
- C. There may be inefficiencies in production.
- D.** Some of the land might be idle, the most appropriate technology may not be in use, and there may inefficiencies in production.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

58. Refer to the graph above to answer this question. If 150 units of rye are currently being produced, what is the cost of producing 50 more units of rye?

- A. 25 units of wheat.
- B. 50 units of wheat.
- C. 100 units of wheat.**
- D. 400 units of wheat.
- E. Cannot be determined.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

Below are some production possibilities data for the mystical land of Lhanor.

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Kaldors</b>	0	4	8	12	16
<b>Bouldings</b>	60	54	42	24	0

59. Refer to the information above to answer this question. *Approximately* how many units of Kaldors can be produced if 48 units of Bouldings are being produced?

- A. 0 Kaldors.
- B. 4 Kaldors.
- C. 6 Kaldors.**
- D. 8 Kaldors.
- E. 16 Kaldors.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

60. Refer to the information above to answer this question. Suppose that Lhanor is currently producing combination B. What is the opportunity cost of 1 more Kaldor?

- A. Approximately 1 Boulding.
- B. Approximately 3 Bouldings.**
- C. 4 Bouldings.
- D. 42 Bouldings.
- E. 54 Bouldings.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

61. Refer to the information above to answer this question. Suppose that Lhanor is currently producing combination D. What is the opportunity cost of producing 4 more Kaldors?

- A. Zero.
- B. 6 Bouldings.
- C. 12 Bouldings.
- D. 18 Bouldings.
- E. 24 Bouldings.**

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

62. Refer to the information above to answer this question. Suppose that Lhanor is currently producing combination A. What is the opportunity cost of producing 12 Kaldors?

- A. 3 Bouldings.
- B. 12 Bouldings.
- C. 24 Bouldings.
- D. 36 Bouldings.**
- E. 60 Bouldings.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

63. Refer to the information above to answer this question. Suppose that Lhanor is currently producing combination B. What is the consequence of the production of Kaldors decreasing to 2?

- A. The output of Bouldings will decrease.
- B. The output of Bouldings will increase by 6.
- C. The output of Bouldings will increase by approximately 3.**
- D. The opportunity cost of Bouldings will rise.
- E. The output of Bouldings will decrease by approximately 3.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

64. Refer to the information above to answer this question. Which of the following statements is correct if Lhanor is currently producing 10 Kaldors and 24 Bouldings?

- A. All resources must be fully employed.
- B. 18 more units of Bouldings could be produced.
- C. This combination of goods is not possible.
- D.** Graphically, Lhanor is operating inside its PP curve.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

Below are some production possibilities data for the mystical land of Ghandor.

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Arrows</b>	0	1	2	3	4
<b>Viners</b>	20	18	14	8	0

65. Refer to the information above to answer this question. Suppose that Ghandor is currently producing combination B. How many Viners could be produced if the production of Arrows increased by 2?

- A. 3 units of Viners.
- B. 4 units of Viners.
- C.** 8 units of Viners.
- D. 14 units of Viners.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

66. Refer to the information above to answer this question. What is the opportunity cost of producing the third unit of Arrows?

- A. 1 unit of Viners.
- B. 6 units of Viners.**
- C. 8 units of Viners.
- D. 14 units of Viners.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

67. Refer to the information above to answer this question. Suppose that Ghandor is currently producing combination A. What is the opportunity cost of producing 4 units of Arrows.

- A. Zero.
- B. 4 units of Viners.
- C. 5 units of Viners.
- D. 20 units of Viners.**

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

68. Refer to the information above to answer this question. Suppose that Ghandor is currently producing combination D. What is the opportunity cost of producing an additional 10 units of Viners?

- A. 1 unit of Arrows.
- B. 2 units of Arrows.
- C. 10 units of Arrows.
- D.** 18 units of Arrows.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

69. Refer to the information above to answer this question. Suppose that Ghandor is currently producing combination E. What is the opportunity cost of producing 20 units of Viners?

- A. 0 unit of Arrows.
- B. 1 units of Arrows.
- C. 2 units of Arrows.
- D. 3 units of Arrows.
- E.** 4 units of Arrows.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

70. All of the following except one would be included in a definition of economics. Which is the exception?

- A. Choice.
- B. Resources.
- C. Unlimited wants.
- D. Scarcity.
- E.** Paradigm.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

1. unemployment in Nova Scotia
2. interest rates
3. wages for farm workers
4. inflation rates
5. government's farm price supports
6. monopoly practices in Canada

71. Refer to the above information to answer this question. Which of the above are macroeconomic concepts?

- A. 2, 4 and 6.
- B.** 1, 2 and 4.
- C. 2, 3 and 6.
- D. 2, 3 and 5.
- E. 1, 3 and 4.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*



72. Refer to the above information to answer this question. Which of the above are microeconomic concepts?

- A. 1, 3 and 5.
- B. 1, 5 and 6.
- C. 2, 5 and 6.
- D.** 3, 5 and 6.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

73. All of the following except one are microeconomic statements. Which is the exception?

- A. The price of wheat declined by 5% in Canada last year.
- B.** GDP increased by 1.8% in Canada last year.
- C. The cost of production in the mining industry has recently declined.
- D. The profits of The Canadian Corporation last year were \$25 million.
- E. The demand for Turbinado sugar is increasing.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

74. Which of the following is a microeconomic topic?

- A. Inflation rates.
- B. Unemployment.
- C. Interest rate determination.
- D. Tax policies.
- E.** Supply and demand analysis of a factor market.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

75. All of the following except one are macroeconomic topics. Which is the exception?

- A. The effect of a tax change on total consumption.
- B.** The effect of an interest rate change on the cost of your monthly loan payment.
- C. The effect of an exchange rate change on total exports.
- D. The effect of the election of a new government on investment in Canada

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

76. What do most of the disagreements among economists involve?

- A.** The appropriate goals and policies for the economy.
- B. Generalizing about facts.
- C. Gathering data.
- D. The use of statistics.
- E. The use of mathematics.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

77. Why do economists feel that their discipline is relevant?

- A. It is able to predict the future very well.
- B. It is a value-free study.
- C. Its methodology is so different from other social sciences.
- D.** The scope and range of subjects that it addresses is very wide.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-01 Describe why economics is a very relevant discipline by demonstrating that many of the controversies in our society have a distinct economic flavour.*

*Topic: 01-01 The Relevance of Economics*

78. Who said: "The ideas of economists, both when they are right and when they are wrong, are more powerful than is commonly understood"?

- A. Sayre and Morris.
- B. Adam Smith.
- C. Pierre Trudeau.
- D. John Maynard Keynes.**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

79. What is the definition of opportunity cost?

- A. The amount of money spent on a good.
- B. The value of the next best alternative that is given up as a result of making a particular decision.**
- C. The value of all the alternatives given up as a result of making a particular decision.
- D. The cost incurred in producing a good.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

80. Meredith had only \$16 to spend this last weekend. She was, at first, uncertain about whether to go to two movies she had been wishing to see or to buy a new CD she had recently heard. In the end she went to the movies. Which of the following statements is correct?

- A. The choice of the two movies and not the CD is an example of increasing costs.
- B. The opportunity cost of the two movies is one CD.**
- C. The opportunity cost of the two movies is \$16.
- D. The choice of two movies rather than one CD was a bad one.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

81. In reference to voluntary trade, what was Adam Smith the first to recognize?

- A. It does not happen very often.
- B. It may or may not benefit one or both of the parties to the trade.
- C. It benefits one party to the trade but only at the expense of the other.
- D. It benefits both parties to the trade.**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

82. What are the three fundamental questions in economics?

- A. What to produce, how to produce it, and for whom is it produced.**
- B. Is it necessary, is it right, and is it valuable.
- C. Who should produce, what is the right way to produce, and how should we decide.
- D. What to produce, how to produce it, and who should produce it.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-10 The Three Fundamental Questions*

83. What are the four basic ways that society can use to organize its economic affairs?

- A. With consumer goods, capital goods, models and positive statements.
- B.** Using cooperation, command, custom or competition.
- C. Using plentiful resources, opportunity costs, technology and specialization.
- D. Using capitalism, communism, fantasy and technology.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

84. "Factors of production" is a term that can be used interchangeably with:

- A. Models.
- B. Consumer goods.
- C.** Either resources or inputs.
- D. Technologies.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

85. What are the factors of production?

- A. Land, labour, money, and enterprise.
- B. Land, labour, money, and capital.
- C.** Land, labour, capital, and enterprise.
- D. Competition, command, custom, and cooperation.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

86. What are the names of the factor payments?
- A. Consumption spending and investment spending.
  - B. Wages and profits.
  - C. Wages, interest, and profits.
  - D.** Wages, interest, rent, and profits.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

87. What is an example of an economic model?
- A. Opportunity costs.
  - B. Scarcity of resources.
  - C. Positive statements.
  - D.** Production possibilities curve.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

88. All of the following, except one, are capital goods. Which is the exception?
- A. An office building.
  - B. A boiler in a pulp mill.
  - C.** A garden shed.
  - D. An airport runway.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

89. Which of the following refers to the concept of specialization?

- A. Different individuals value goods differently.
- B. Some individuals are richer than others.
- C. Different nations have different opportunity costs of producing goods.**
- D. Some nations are richer than others.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

90. Economics is relevant because

- A. economists have all the right answers.
- B. many issues have an economic dimension.**
- C. it teaches us how to make money.
- D. none of these.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-01 Describe why economics is a very relevant discipline by demonstrating that many of the controversies in our society have a distinct economic flavour.*

*Topic: 01-01 The Relevance of Economics*

91. What is the distinction between a positive and a normative statement?

- A. Positive statements are assertions that can be tested with data, whereas normative statements are based on a value system of beliefs.**
- B. Normative statements are assertions that can be tested with data, whereas positive statements are based on a value system of beliefs.
- C. The distinction depends on the context in which each statement is used.
- D. Positive statements are correct statements of fact, whereas normative statements are incorrect.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

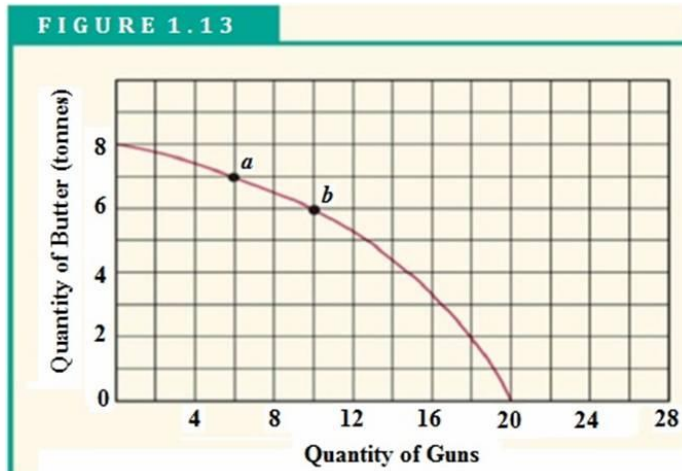
*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

Figure 1.13 shows Mendork's production possibility curve for the only two goods that it produces-guns and butter.



92. Refer to Figure 1.13 to answer this question. If Mendork's production is currently that indicated by point a, what is the cost of producing four more guns?

- A. 1 tonne of butter.
- B. 2 tonnes of butter.
- C. 6 tonnes of butter.
- D. 10 tonnes of butter.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*



93. Refer to Figure 1.13 to answer this question. What is the opportunity cost of one more tonne of butter as output changes from point b to a?

- A. 2 guns.
- B. 4 guns.**
- C. 10 guns.
- D. 6 guns.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

94. Refer to Figure 1.13 to answer this question. Which of the following statements is correct if Mendork is currently producing 5 tonnes of butter and 8 guns?

- A. This society is using competition to coordinate its economic activities.
- B. This society is experiencing either unemployment or inefficiency.**
- C. This economy is experiencing full employment.
- D. This society is not adequately answering the "for whom" question.
- E. This economy is growing quickly.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

95. Refer to Figure 1.13 to answer this question. What is the opportunity cost of producing the first 2 tonnes of butter?

- A. 2 guns.**
- B. 18 guns.
- C. 20 guns.
- D. The answer cannot be determined from the information given.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

96. Refer to Figure 1.13 to answer this question. If new technology increased the output of guns by 50 percent, how many guns could be produced if 6 tonnes of butter were produced?

- A. 18 guns.
- B. 20 guns.
- C. 15 guns.**
- D. 10 guns.
- E. 0 guns.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

97. What is the controversy with economic growth?

- A. Economic growth leads to higher income.
- B. Economic growth leads to greater leisure time.
- C. Economic growth leads to increase pollution.**
- D. Economic growth leads to greater job satisfaction.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-01 Describe why economics is a very relevant discipline by demonstrating that many of the controversies in our society have a distinct economic flavour.*

*Topic: 01-02 Controversy One*

98. Which of the following statements describes the law of increasing costs?

- A. As the quantity produced of any particular item decreases, its per unit cost of production rises.
- B.** As the quantity produced of any particular item increases, its per unit cost of production rises.
- C. The prices of consumer goods and services always rise and never fall.
- D. If you wait to make a purchase, you will pay a higher price.
- E. The total cost of production rises as output goes up.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

99. Which of the following statements is correct for a society that emphasizes the production of capital goods over that of consumer goods?

- A. The society could enjoy the same quantity of capital goods and a larger quantity of consumer goods in the future.
- B. The society will have to save more now than a society that did not emphasize the production of capital goods.
- C. The society could enjoy the same quantity of consumer goods and a larger quantity of capital goods in the future.
- D.** The society will grow faster than a society that emphasizes the production of consumer goods.
- E. The society will have to save less now than a society that did not emphasize the production of capital goods.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

100. All of the following statements, except one, are positive statements. Which is the exception?

- A. Increasing cigarette taxes will result in higher prices.
- B. The government must increase the tax on cigarettes.**
- C. Higher price for cigarettes will decrease the quantity demanded.
- D. The price of cigarettes is higher in Canada than in Russia.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

101. All of the following statements, except one, are normative statements. Which is the exception?

- A. The government should decrease spending.
- B. Government spending is a topic in macroeconomics.**
- C. Cuts to government spending in Canada have had enormous social costs.
- D. Increasing taxes is better than cutting government spending.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

102. In general, how to produce depends most on which of the following?

- A. Demand for goods and services.
- B. Distribution of income.
- C. Opportunity costs and productivity of factors.**
- D. The scientific method.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-12 How to Produce?*

103. Which type of economy would involve a central governing body making all of the fundamental economic decisions?

- A. Cooperation.
- B. Command.**
- C. Custom.
- D. Competition.
- E. Consumer.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

104. Which of the following is the factor payment received for the ability to give practical applications to ideas?

- A. Rent.
- B. Interest.
- C. Wages.
- D. Profit.**
- E. Capital.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

105. Which of the following is true about economics?

- A. It is a pure science.
- B. It deals in generalities.**
- C. It is more complex than reality.
- D. It ignores reality in developing models.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

106. Which of the following best describe the economies of a capitalist society?

- A. Competition.
- B. Command.
- C. Mix of competition and command.**
- D. Mix of competition and custom.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

107. All of the following, except one, are factors of production. Which is the exception?

- A. Labour.
- B. Capital.
- C. Land.
- D. Enterprise.
- E. Competition.**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

108. Which of the following is a consumer good or service?

- A. An office computer.
- B. A farm tractor.
- C. A haircut.**
- D. A menu in a restaurant.
- E. A government bond.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

109. All of the following, except one, are typically macroeconomic topics. Which is the exception?

- A. Unemployment.
- B. Interest rates.
- C. Taxation policies.
- D. Marginal utility.**
- E. National income.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

The following table shows the production possibilities for the country of Erewhon:

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
<b>Wine</b>	0	10	18	24	28	30
<b>Cheese</b>	40	28	18	10	4	0

110. Refer to the table above to answer this question. Erewhon is producing 21 units of wine, approximately how many units of cheese can it produce?

- A. 7 units of cheese
- B. 9 units of cheese
- C. 14 units of cheese**
- D. 19 units of cheese

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

111. Refer to the table above to answer this question. If Erewhon is producing 23 units of cheese, approximately how many units of wine can it produce?

- A. 5 units of wine
- B. 9 units of wine
- C. 14 units of wine**
- D. 19 units of wine

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

112. Refer to the table above to answer this question. What is the total cost of producing the first 10 units of wine?

- A. 6 units of cheese
- B. 12 units of cheese**
- C. 24 units of cheese
- D. 28 units of cheese

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*



113. Refer to the table above to answer this question. What is the total cost of producing the first 10 units of cheese?

- A. 6 units of wine
- B. 20 units of wine
- C. 24 units of wine
- D. 28 units of wine

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

114. Refer to the table above to answer this question. If Erewhon is producing combination D, what is the cost of producing 4 more units of wine?

- A. 2/3 of a unit of cheese
- B. 1 1/2 units of cheese
- C. 6 units of cheese
- D. 8 units of cheese

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

115. Refer to the table above to answer this question. If Erewhon is producing combination D, what is the cost of producing 1 more unit of cheese?

- A.** 3/4 of a unit of wine
- B. 1 1/3 units of wine
- C. 6 units of wine
- D. 8 units of wine

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

The following table shows the production possibilities for producing rice and beans in the country of Aipotu:

% Inputs	Output of rice	% Inputs	Output of beans
0	0	0	0
20	100	20	60
40	180	40	100
60	240	60	130
80	280	80	150
100	300	100	160

116. Refer to the table above to answer this question. If Aipotu produces 240 rice, how many beans can it produce?

- A. 30 beans
- B. 60 beans
- C. 100 beans**
- D. 130 beans

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

117. Refer to the table above to answer this question. If Aipotu produces 60 beans, how much rice can it produce?

- A. 20 rice
- B. 100 rice
- C. 130 rice
- D. 280 rice**

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

118. Refer to the table above to answer this question. What is the total cost of producing 180 rice?

- A.** 30 beans
- B. 40 beans
- C. 60 beans
- D. 100 beans

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

119. Refer to the table above to answer this question. What is the total cost of producing 100 beans?

- A. 40 rice
- B.** 60 rice
- C. 120 rice
- D. 180 rice

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

120. Refer to the table above to answer this question. If Aipotu is presently producing 100 rice, what is the cost of producing 80 more rice?

- A. 10 beans
- B.** 20 beans
- C. 60 beans
- D. 100 beans

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

121. Refer to the table above to answer this question. If Aipotu is presently producing 100 beans, what is the cost of producing 50 more beans?

- A. 100 rice
- B.** 140 rice
- C. 180 rice
- D. 280 rice

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

## **True / False Questions**

122. The three fundamental questions in economics are what, how, and how many.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-10 The Three Fundamental Questions*

## Chapter 01 - The Economic Problem

123. Opportunity cost is the value of the next-best alternative that is given up as a result of making a particular choice.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

124. There are only three Cs that humankind has used to coordinate its economies: cooperation, custom, and competition.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

125. Wages, interest, rent, and profits are the four factors of production.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

126. A production possibility curve is a graphical representation of the various combinations of output that are wanted.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

127. Macroeconomics focuses on the outcomes of decisions by people and firms, whereas microeconomics is a study of how the major components of an economy interact.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

128. Technological improvement can be illustrated graphically by a rightward shift in the production possibilities curve.

**TRUE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

129. Allocative efficiency is also referred to as productivity.

**FALSE**

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*

### **Short Answer Questions**

130. Identify and explain the three fundamental questions in economics.

The first fundamental question asks: What is to be produced? What this means is that all societies must decide what types of products and what quantities of each it should produce every year. Should it put the emphasis on capital goods or consumer goods, on residential or non-residential goods, on electronic products or food stuffs and so on.

The second question is: How are these products going to be produced, i.e. what technology should we employ? Should we employ a simple but labour-intensive technology, for instance, or alternatively make use of sophisticated but expensive machinery? Should we manufacture things in giant assembly-line plants or in small workshops etc.?

The final question is: For whom are these products produced? How do we allocate the products and the resulting income between people? How are we to decide what share of the economic pie each person should receive?

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-05 Explain the three fundamental questions that all societies must address.*

*Topic: 01-10 The Three Fundamental Questions*

131. Using the table below, identify and explain the four factors of production and the names given to payments received by each.



## Chapter 01 - The Economic Problem

Factors of Production	Factor explained	Factor Payments
1.		
2.		
3.		
4.		

Factors of Production	Factor explained	Factor Payments
Labour	Human physical and mental effort	Wages
Capital	Human made resources	Interest
Land	Natural resources	Rent
Enterprise	The innovator and risk-taker	profit

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

132. Define and give an example of the law of increasing costs.

The law of increasing costs states that as an economy's production level of any particular item increases, its per unit cost of production rises. Perhaps one of the best examples of this law in operation is in the area of pollution. Using hypothetical figures to illustrate: 40 years ago, the cost to reduce harmful automobile emissions by 30% was say \$5 a car (filtering devices etc); to reduce those emissions by a further 30% would have cost an additional \$20 a car (enforced use of unleaded gases etc); a further 30% reduction would cost an additional \$100 a car. To reduce the emissions to zero would likely cost \$2,000 a car. What this means is that the provision of cleaner and cleaner air gets increasingly expensive.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

133. Identify and briefly explain the four Cs used to organize an economy. Which one is the most recent, and when did it emerge.

**Co-operation** means that decisions in society are made by people discussing things together in order to achieve a consensus, as in a commune for instance. **Command** implies a leader or group of leaders who have the authority to determine what happens without consultation with the people as happened in ancient slave societies and in modern totalitarian states like Nazi Germany or the Soviet Union. **Custom** is a feature of traditional societies like Feudal Europe, China and Japan where the fundamental questions were determined by past practice; what was good for our ancestors is good enough for us. **Competition** is the most recent of the four Cs and emerged out of the Industrial Revolution 250 years ago. It places emphasis on individuals acting separately and for their own good in producing and consuming. Here, it is the market that determines how the three fundamental questions are answered.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-06 Explain the four different ways that economic societies can be organized.*

*Topic: 01-14 Four Types of Economies: The Four Cs*

134. The cost of getting a degree (tuition and textbooks) from a private school is \$20,000 a year. Evaluate this statement.

The \$20,000 is the **direct cost** of attending college. The statement failed to incorporate the **opportunity cost** of attending college, which includes the salary a student could have earned during a year, and also the interest rate that could have been earned, had the student deposited the money in the bank.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

135. How does microeconomics differ from macroeconomics?

Microeconomics involves an analysis of individual parts of an economy whereas macroeconomic analysis looks at the big picture, the economy as a whole. Microeconomics is the study of individual choice, and how choice is influenced by economic forces. Macroeconomics is the study of the economy as a whole, which includes inflation, unemployment, business cycles and growth.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

136. Explain how microeconomics differs from macroeconomics and then categorize the following questions as either microeconomic or macroeconomic questions:

- (a) How will interest rates change when the Federal Reserve Bank increases the money supply?
- (b) How will Nike's share of the market change when Reebok increases their marketing expenditures?
- (c) How does a tariff on imported steel affect the U.S. steel industry?
- (d) Should Wal-Mart renovate its stores nationwide?
- (e) Should the government lower income taxes to stimulate consumption?

Microeconomics is the study of individual choice and how that choice is influenced by economic forces, while macroeconomics is the study of inflation, unemployment, business cycles, and growth primarily from the whole to the parts. Micro focuses on individual choices while macro focuses on aggregate relationships.

- (a) macroeconomics
- (b) microeconomics
- (c) microeconomics
- (d) microeconomics
- (e) macroeconomics

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

137. Consider a farmer's production possibilities curve, with corn measured on the vertical axis, and soybeans on the horizontal. Describe the impact of each of the following on the curve:

- (a) The farmer buys or rents more land.
  - (b) A higher yielding variety of corn seed is developed.
  - (c) The farmer hires 50 percent more farm workers.
  - (d) The price of soybeans increases.
- 
- (a) The entire curve should shift out, since more land could presumably be used to grow either crop.
  - (b) The vertical intercept will shift up, as greater amounts of corn can now be grown, but the amount of potential soybean crop remains unchanged.
  - (c) The entire curve will shift out from the origin, though not necessarily by 50 percent since we do not know the productivity of the workers.
  - (d) No effect, since it has changed neither the amount of inputs available nor the technology.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

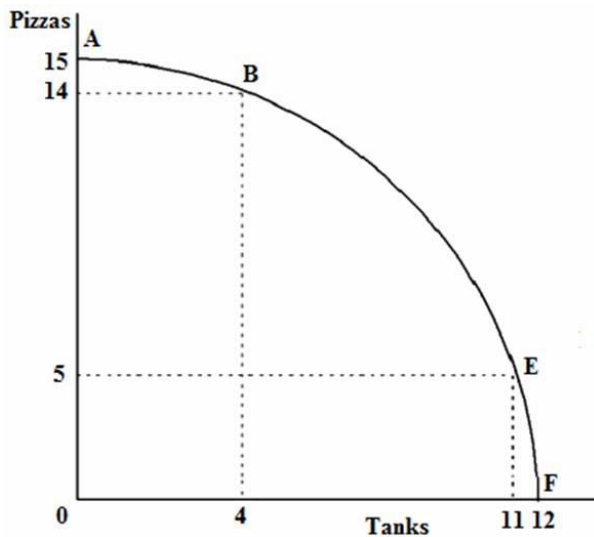
*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

138. Below is the production possibilities table for the country of Lavaland.

<b>%Resources devoted to production of tanks</b>	<b>Number of tanks</b>	<b>%Resources devoted to production of pizza</b>	<b>Number of Pizzas</b>	<b>Row</b>
0	0	100	15	A
20	4	80	14	B
40	7	60	12	C
60	9	40	9	D
80	11	20	5	E
100	12	0	0	F

- (a) Use the information in the Table to draw the production possibilities curve (PP1) for Lavaland. Put tanks on the horizontal axis.
- (b) What is the cost to Lavaland of moving from point A to point B on its PP1?
- (c) What is the cost to Lavaland of moving from point E to point F?
- (d) What general economic principle is being illustrated by your answers to part (b) and (c) above? Explain.

- (a) The diagram should look like this:



- (b) The opportunity cost of moving from point A to point B is 1 pizza.
- (c) The cost of moving from point E to point F is 5 pizzas.
- (d) In moving from A to B, Lavaland gained 4 tanks. In moving from E to F, Lavaland gained 1 tank. But the cost of attaining one tank was much more with the move from E to F than it was when the movement was from A to B. In moving from A to B each tank required the giving up of an average of  $\frac{1}{4}$  of a pizza, whereas moving from E to F one tank required giving up 5 pizzas. The increasing cost of another tank (in terms of pizzas foregone) as Lavaland moved from A to F illustrates the principle of increasing marginal opportunity cost.

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

139. Below is a list of resources. Indicate whether each is labour (L), capital (K), land (N), or enterprise (E).

- a) A shopping mall.
- b) A shoal of salmon on the high seas.
- c) Lumber in a lumber yard.
- d) The work of a brain surgeon.
- e) The work done by Todd Bertuzzi, hockey player.

- a) K
- b) N
- c) K
- d) L
- e) L

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

140. Tigris produces only two products: tennis balls and tennis racquets. Each worker comes with a fixed quantity of materials and capital, and the economy's labour force is fixed at 100 workers. The following table indicates the amounts of balls and racquets that can be produced daily with various quantities of labour:

Number of Workers	Daily production of Tennis Balls	Number of Workers	Daily Production of Racquets
0	0	0	0
20	80	20	30
40	150	40	50
60	200	60	65
80	230	80	75
100	250	100	80

- a) Can Tigris produce 200 balls and 60 racquets?
- b) What is the total cost of producing 150 balls?
- c) What is the total cost of producing 75 racquets?
- d) If Tigris is currently producing 230 balls, what is the cost of an additional 20 balls?
- e) If Tigris is currently producing 30 racquets, what is the cost of an additional 20 racquets?

- a) No.
- b) 15 racquets.
- c) 170 balls.
- d) 30 racquets.
- e) 30 balls.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

141. The data below show the total production (in millions) of the only two goods produced in the countries of Carleton and Cumbria.

<b>Carleton</b>	10 binoculars or 15 cameras
<b>Cumbria</b>	12 binoculars or 9 cameras

- a) What is the opportunity cost of a binocular in Carleton?
- b) What is the opportunity cost of a camera in Cumbria?
- c) If, before trade, each country was devoting half its resources to producing each product, what is the total amount they were both producing?
- d) If the two countries were to specialize in producing the product they do best, what would be the total amount they could produce?
- e) What are the total gains as a result of specialization?

- a) 1 1/2 cameras.
- b) 1 1/3 binoculars.
- c) 11 binoculars and 12 cameras.
- d) 12 binoculars and 15 cameras.
- e) 1 binocular and 3 cameras.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

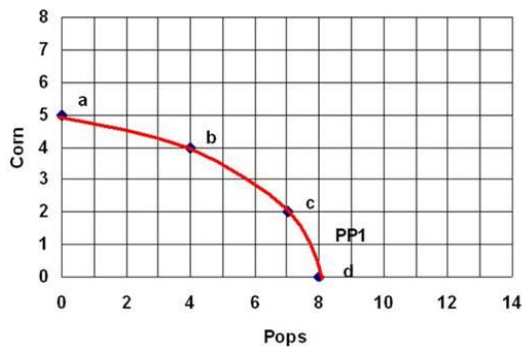
*Difficulty: Hard*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*



142. The following graph shows the production possibilities for the economy of Esher:



a) What is the total cost of producing 7 pops?

b) What is the total cost of producing 4 corns?

c) What is the cost of moving from point b to point c?

Suppose that Esher experiences a 50% increase in the productivity of producing Pops.

d) Draw in the new production possibilities curve labelled PP2.

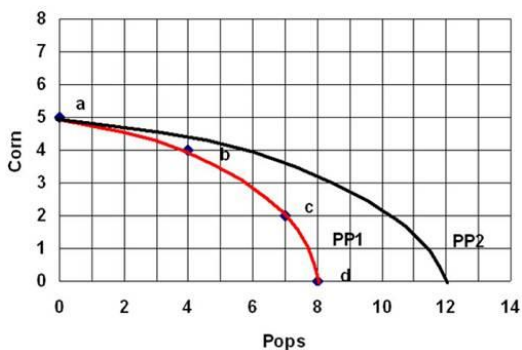
e) If Esher wants to have 6 pops, how many corn can it now have?

a) 3 corn

b) 4 pops

c) 2 corn

d) See the following graph:



e) 4 corn.

Blooms: Analyze

Blooms: Apply

Difficulty: Hard

Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.

Topic: 01-20 Production Possibilities

143. Identify the following statements as either positive (P) or normative (N) and also whether they are microeconomic (MI) or macroeconomic (MA) in nature:

- a) The government should impose a maximum on the price of oil.
- b) The price of oil in Canada is determined by the market.
- c) Economic growth is too low in Canada.
- d) The lowest earning 20 percent of the Canadian population earn only 5 percent of the total income.
- e) Unemployment is a far more serious problem than inflation.

- a) N MI
- b) P MI
- c) N MA
- d) P MA
- e) N MA

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

144. Why is economics relevant?

The study of economics helps us to understand better how the world functions. Analyzing issues from an economic dimension gives you the insight to the different arguments of many controversies in our society.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-01 Describe why economics is a very relevant discipline by demonstrating that many of the controversies in our society have a distinct economic flavour.*

*Topic: 01-01 The Relevance of Economics*

145. Discuss the pros and cons of economic growth.

### **Pros**

- Greater income which allowing consumers to purchase more and bigger goods.
- Higher standard of living enabling people to enjoy more leisure time.
- Increase social and political stability because dividing a growing pie is easier than dividing a shrinking pie.
- Decrease in birth rate reduces the strain on the environment.

### **Cons**

- Leads to greater environmental damage, increase stress and traffic congestion in people's daily life.
- Too much emphasis on material things at the expense of things that are more important for personal well-being (for example, job satisfaction).

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-01 Describe why economics is a very relevant discipline by demonstrating that many of the controversies in our society have a distinct economic flavour.*

*Topic: 01-02 Controversy One*

146. Discuss the pros and cons of taking from the rich and giving to the poor.

### **Pros**

- Government might be able to lower social unrest and disharmony by reducing the income gap between the rich and poor.

### **Cons**

- Higher taxes distort markets.
- Disincentive to work hard and to take on risks.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Hard*

*Learning Objective: 01-01 Describe why economics is a very relevant discipline by demonstrating that many of the controversies in our society have a distinct economic flavour.*

*Topic: 01-03 Controversy Two*

147. Define economics.

Economics is a social science that studies the ways humans and societies organize themselves to make choices about the use of scarce resources, which are used to produce the goods and services necessary to satisfy human wants and needs.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

148. What is the difference between a positive and a normative statement?

Positive statements are assertions about the world that can be verified by using empirical data. Normative statements are based on personal value systems and cannot be verified by appealing to facts. Economic theory attempts to relate to positive statements and not normative statements.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

149. Define normative statement. Give an example.

Normative statements are based on personal value systems and cannot be verified by appealing to facts. Example, the unemployment rate should be 5% or the unemployment rate ought to be 5%.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-02 Define economics and then make a distinction between microeconomics and macroeconomics.*

*Topic: 01-06 What Is Economics?*

150. What is the difference between a factor of production and factor price? Give an example of each.

Factor of production is a productive resource. Factor price is what is paid for the productive resource.

Factors of production: land, labour, capital, enterprise.

Factor price: rent for land, wage for labour, interest for capital, and profit for enterprise.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Easy*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

151. Explain why voluntary trade is mutual beneficial.

Voluntary trade always benefits both parties because if one party does not benefit, that party will not trade.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

152. Scarcity implies choice. Explain

Society cannot produce all the goods and service everybody wants because resources are scarce. The basic problem to an economy is unlimited needs and wants and limited resources. To best solve this problem, the economy has to decide what goods and service to produce to best satisfy human needs and wants. Thus scarcity implies choice.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

153. Choice implies opportunity cost. Explain.

Since the economy cannot produce all the goods and service everybody wants, the economy has to decide what goods and services to produce. By deciding to produce one good, the economy is giving up the opportunity to produce something else. This is opportunity cost.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

154. Distinguish between a capital good and a consumer good.

Consumer goods are products used by consumers to satisfy their wants and needs, for example bread and beer. Capital goods are goods used to produce consumer goods and they do not directly satisfy consumer wants and needs.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

155. Suppose two identical economies with the same production possibility curve. If country A produces more capital goods relative to country B, which country will grow faster? Explain.

Country A will have higher economic growth. By producing more capital goods in the current period, country A will be able to produce more capital and consumer goods in the future.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-22 Shifts in the Production Possibilities Curve: The Causes of Economic Growth*

156. Given the following production possibility curve.

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Good X</b>	20	18	15	9	0
<b>Good Y</b>	0	5	8	11	12

## Chapter 01 - The Economic Problem

- a) What is the per unit opportunity cost from point A to point B?
- b) What is the per unit opportunity cost from point B to point C?
- c) What is the per unit opportunity cost from point C to point D?
- d) What is the per unit opportunity cost from point D to point E?

- a) The per unit opportunity cost from point A to point B is 0.40 units of Good X.
- b) The per unit opportunity cost from point B to point C is 1 units of Good X.
- c) The per unit opportunity cost from point B to point C is 1.33 units of Good X.
- d) The per unit opportunity cost from point B to point C is 9 units of Good X.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Medium*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-21 The Law of Increasing Costs*

157. Is it more cost effective to remove snow from city highways with labour or capital? Explain.

It depends on the opportunity cost, if the city's opportunity cost for labour is lower then the city will use labour to remove snow from city highways.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-07 Efficiency and Allocation*

158. Given the following production possibility curve.

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
<b>Peanut Butter</b>	30	27	22	15	0
<b>Jelly</b>	0	8	11	14	15



## Chapter 01 - The Economic Problem

- a) What is the total cost of producing 27 units of peanut butter?
- b) What is the total cost of producing 8 units of jelly?
- c) What is the opportunity cost from point B to point D?
- d) What is the per unit cost of going from point B to point A?

- a) 7 units of jelly
- b) 3 units of peanut butter
- c) 12 units of peanut butter
- d)  $8/3$  units of jelly

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-07 Use the production possibilities model to illustrate choice and opportunity cost; as well as efficiency and unemployment.*

*Topic: 01-20 Production Possibilities*

159. Using the following information,

Method	Labour	Capital	Output
A	3 units	1 unit	5 units
B	4 units	1 unit	5 units
C	2 units	2units	5 units

a) which method is more efficient, Method A or Method B?

b) which method is more efficient, Method A or Method C?

a) Method A is more efficient. Method A requires one less unit of labour to produce the same amount of output as Method B. Efficiency means getting the most for the least.

b) Indeterminate, Method A requires one less unit of capital but one more unit of labour to produce the same amount of Method C's output. Method A and Method C use different technology.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*

160. Suppose both Alpha and Beta has 10 units of economic resource.

One unit of economic resource can produce:

	<b>Cups</b>		<b>Saucer</b>
<b>Alpha</b>	3 units	or	1 unit
<b>Beta</b>	2 units	or	4 units

- a) What is the opportunity cost of 1 cup for Alpha?
- b) What is the opportunity cost of 1 saucer for Beta?
- c) If Alpha and Beta are allowed to trade, would Alpha specialize in the production of cups or saucer? Explain

- a) The opportunity cost of 1 cup in Alpha is 1/3 saucer.
- b) The opportunity cost of 1 saucer in Beta is 1/2 cup.
- c) Alpha would specialize in the production of cups because it has a lower opportunity cost in cup production. The opportunity cost of 1 cup for Alpha is 1/3 saucer and 2 cups for Beta.

*Accessibility: Keyboard Navigation*

*Blooms: Analyze*

*Blooms: Apply*

*Difficulty: Hard*

*Learning Objective: 01-04 Explain why greater trade results in more productive economies.*

*Topic: 01-09 The Power of Trade*

161. What is the difference between *productive* and *allocative* efficiency?

*Productive efficiency* refers to 'the production of an output at the lowest average cost.'

*Allocative efficiency* refers to 'the production of the combination of products that best satisfies consumer's demand'.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*

162. Productivity refers to which type of efficiency?

Productive efficiency.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*

Chapter 01 - The Economic Problem

163. Which form of efficiency stresses the production of the 'right type' of products?

Allocative efficiency.

*Accessibility: Keyboard Navigation*

*Blooms: Remember*

*Blooms: Understand*

*Difficulty: Medium*

*Learning Objective: 01-03 Demonstrate that because scarcity; choice; and opportunity cost are at the heart of economics; efficiency—both productive and allocative—provides a major cornerstone.*

*Topic: 01-08 The Importance of Efficiency*