

## **Macroeconomics Chapter 2 A—Some Tools of the Economist**

### **MULTIPLE CHOICE**

1. Which of the following sayings best reflects the concept of opportunity cost?
- "You can't teach an old dog new tricks."
  - "Time is money."
  - "I have a baker's dozen."
  - "There's no business like show business."

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Knowledge                      MSC: Suggested Quiz

2. If an economy is operating at a point inside the production possibilities curve,
- its resources are not being used efficiently.
  - the curve will begin to shift inward.
  - the curve will begin to shift outward.
  - This is a trick question because an economy cannot produce at a point inside the curve.

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost  
TOP: Production Possibilities Curve                      KEY: Bloom's: Knowledge  
MSC: Suggested Quiz

3. The primary benefit that results when a nation employs its resources in accordance with the principle of comparative advantage is
- an expansion in investment resulting from a reallocation of resources away from consumption.
  - a larger output resulting from a more efficient use of resources.
  - greater equality of income resulting from an increase in the number of workers.
  - an increase in the profitability of business enterprises resulting from an increase in investment.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension  
MSC: Suggested Quiz

4. Suppose the price of an airline ticket from Dallas to Boston costs \$600. A bus ticket costs \$150. Traveling by plane takes 6 hours compared with 51 hours by bus. Other things constant, an individual would gain by choosing air travel if, and only if, his time were valued at more than
- \$6 per hour.
  - \$8 per hour.
  - \$10 per hour.
  - \$15 per hour.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension                      MSC: Suggested Quiz

5. With voluntary exchange,
- both the buyer and seller will be made better off.
  - the buyer will be made better off, while the seller will be made worse off.

- c. the seller will be made better off, while the buyer will be made worse off.
- d. both the buyer and the seller will be made worse off.

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Human Ingenuity and the Creation of Wealth                      KEY: Bloom's: Knowledge  
 MSC: Suggested Quiz

6. "Now that Terrance paints the broad surfaces and I do the trim work, we can paint a house in three-fourths the time that it took for each of us to do both." This statement most clearly reflects
- a. the importance of secondary effects.
  - b. the fallacy of composition.
  - c. the law of comparative advantage.
  - d. behavior inconsistent with economizing.

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension  
 MSC: Suggested Quiz

7. Which of the following will most likely occur under a system of clearly defined and enforced private property rights?
- a. Resource owners will fail to conserve vital resources, even if they expect their supply to be highly limited in the future.
  - b. Resource owners will ignore the wishes of others, including others who would like to use the resource that is privately owned.
  - c. Resource owners will fail to consider the wishes of potential future buyers when they decide how to employ privately owned resources.
  - d. Resource owners will gain by discovering and employing their resources in ways that are highly valued by others.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
 STA: DISC: The role of government                      TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension                      MSC: Suggested Quiz

8. Three basic decisions must be made by all economies. What are they?
- a. how much will be produced, when it will be produced, and how much it will cost
  - b. what the price of each good will be, who will produce each good, and who will consume each good
  - c. what will be produced, how goods will be produced, and for whom goods will be produced
  - d. how the opportunity cost principle will be applied, if and how the law of comparative advantage will be utilized, and whether the production possibilities constraint will apply

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade                      TOP: Economic Organization  
 KEY: Bloom's: Knowledge                      MSC: Suggested Quiz

9. If a firm or a nation desires to maximize its output, each productive assignment should be carried out by those persons who
- a. have the highest opportunity cost.
  - b. have a comparative advantage in the productive activity.
  - c. can complete the productive activity most rapidly.
  - d. least enjoy performing the productive activity.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension  
MSC: Suggested Quiz

10. The opportunity cost of an option
- measures the undesirable aspects of the option.
  - includes only the monetary cost of the option.
  - is the highest-valued alternative that must be given up as the result of choosing the option.
  - is objective, and it will be the same for all individuals.

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Knowledge                      MSC: Suggested Quiz

11. Opportunity cost is defined
- only in terms of money spent
  - as the value of all alternatives not chosen
  - as the value of the best alternative not chosen
  - as the difference between the benefits from a choice and the benefits from the next best alternative
  - as the difference between the benefits from a choice and the costs of that choice

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Knowledge

12. The opportunity cost of an activity
- depends on the individual's subjective values and opinions
  - is the same for everyone
  - must be calculated and known before undertaking that activity
  - is irrelevant to decision making
  - is not influenced by time costs

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Knowledge

13. The opportunity cost of an action is
- objective and will be the same for all individuals.
  - a measure of the undesirable aspects involved in the action.
  - applicable only to choices involving material goods like commodities.
  - the highest valued alternative forgone as the result of choosing an option.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Knowledge

14. Hutch Technology makes computer monitors, which sell for \$500 each. What is the opportunity cost of producing ten monitors?
- \$5,000
  - the other goods that could be produced with the resources that produce the ten monitors
  - the profits that Hutch earns when it sells the ten monitors
  - the profits that Hutch loses if it does not produce the monitors
  - All of the above are correct.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

15. A ticket to a concert costs \$45. You have a ticket and can resell it for \$75. Your opportunity cost of actually attending the concert is
- \$30.
  - \$45.
  - \$75.
  - \$120.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

16. For most students attending state universities, the largest cost component of going to college is
- the cost of books and supplies.
  - the cost of room and board.
  - tuition.
  - the opportunity cost in terms of forgone current income from the time spent attending college.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

17. Based on the idea of opportunity cost, which of the following students would be most likely to drop out of college before completing their degree?
- a senior mathematics major with a solid B average
  - a junior physical therapy student who has just read about the fantastic job offers available to students with degrees in her area
  - a star college football player in his junior year that just received a \$5 million offer from a professional team
  - a junior economics major who wants to attend graduate school

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

18. The opportunity cost of building a park in your hometown would be the
- money cost of constructing the park.
  - highest valued bundle of other goods and services that must be forgone because of the park construction.
  - necessary increase in tax revenues to finance the construction.
  - amount of time spent in leisure activities in the park once it is constructed.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

19. Recent legislation provides parents with a substantial reduction in their personal income tax liability for each child that they have. The economic way of thinking indicates that legislation of this type will
- make it more costly for parents to provide for their children.
  - reduce the value of children to their parents and, therefore, lead to a reduction in the birth

rate.

- c. reduce the after-tax cost of raising children and, therefore, increase the birth rate.
- d. exert no impact on either the cost of raising children or the birth rate since having children is a not an economic activity.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

20. Retired persons travel by bus and automobile more frequently than do business executives, who more commonly use air travel. An economic explanation for this would be that
- a. business executives have more time to travel.
  - b. it is more important for retired persons to save time.
  - c. business executives value their time more highly.
  - d. retired persons have more money than do business executives.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

21. Statistical data provided by the U.S. Department of Transportation shows that the median income of individuals traveling on the nation's bus systems is \$18,000 compared to \$65,000 for those who normally travel by air. This finding is best explained by which of the following statements?
- a. Persons with high income are more likely to fly because the opportunity cost of their time is generally higher than those with lesser income.
  - b. Traditionally, lower income groups prefer slower methods of transportation.
  - c. Wealthy individuals own stock in the airlines and, therefore, receive preferential treatment.
  - d. Low-income groups are generally located near bus stations; wealthy groups congregate around airports.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Analysis

22. The wages of house painters will tend to rise when
- a. more people recognize that house painters have very low incomes.
  - b. the alternative earning opportunities of house painters improve.
  - c. house painters can no longer find good paying alternatives for their labor.
  - d. unemployment in the economy is high and there are few alternative jobs available for house painters.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

23. Land used to grow corn could also be used to grow soybeans. Which of the following is true when the farmer plants soybeans and the market price of corn rises?
- a. The opportunity cost of producing soybeans decreases.
  - b. The opportunity cost of producing soybeans increases.
  - c. There will be no change in the opportunity cost of producing soybeans.
  - d. The opportunity cost of producing corn increases.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?

KEY: Bloom's: Application

24. Land used to grow alfalfa could also be used to grow hay. Which of the following is true when the farmer plants hay and the market price of alfalfa rises?
- a. The opportunity cost of producing hay decreases.
  - b. The opportunity cost of producing hay increases.
  - c. There will be no change in the opportunity cost of producing hay.
  - d. The opportunity cost of producing alfalfa increases.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

25. Because of a late night out with friends, Ayana decided to sleep in rather than attend her 8 a.m. economics class. According to economic analysis, her choice was
- a. irrational, because economic analysis suggests you should always attend classes that you have already paid for.
  - b. irrational, because oversleeping is not in Ayana's self-interest.
  - c. rational only if Ayana has not missed any other classes.
  - d. rational if Ayana values sleep more highly than the benefit she expects to receive from attending the class.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

26. Which of the following activities describes the opportunity cost of attending an economics class?
- a. the value of the time it takes to get to campus every day
  - b. the cost of the gasoline needed to drive a car to campus
  - c. the value of the highest valued alternative that must be forgone because of attending the class
  - d. transportation costs plus the cost of tuition and textbooks for the course

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

27. Which of the following most accurately reflects the opportunity cost to a pharmacist who drives a taxi?
- a. the dollars spent on his previously acquired education in pharmacy
  - b. the revenue derived from operating the cab
  - c. zero if the pharmacist received his education on a scholarship that paid his full tuition
  - d. the value of the pharmacist's time in its highest valued use other than driving a cab

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

28. Which of the following would be most likely to increase your opportunity cost of attending college?
- a. a recession in the economy that made finding a job more difficult
  - b. receiving a very attractive offer to start a job today that would permit you to earn about 50 percent more than you expected to make after graduation
  - c. the retirement of your favorite professor under whom you hoped to study during the next semester
  - d. information indicating that salaries were declining and that there were very few openings for college graduates in your field

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Comprehension

29. Suppose an airline ticket from Portland to Orlando costs \$760. A bus ticket costs \$360. Traveling by plane will take 6 hours, compared with 26 hours by bus. Other things constant, the minimum value of one's time that would induce a rational individual to fly rather than drive would be
- a. \$18 per hour.
  - b. \$20 per hour.
  - c. \$38 per hour.
  - d. \$44 per hour.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

30. Air travel from New York to Miami costs \$300 and takes 6 hours. A bus ticket between the cities costs \$150 and takes 56 hours. Other things constant, the minimum value of one's time that would induce a rational individual to fly rather than drive would be
- a. \$1 per hour.
  - b. \$3 per hour.
  - c. \$5 per hour.
  - d. \$50 per hour.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

31. Maurice can drive or fly from Jacksonville, Florida to Atlanta, Georgia, for a one-day business trip. If he drives, he will be able to work three hours once he arrives in Atlanta, whereas traveling by plane will enable him to work eight hours. His expected income from each hour of work in Atlanta is \$30. If Maurice is a rational decision maker, he will fly if and only if the price differential (air cost minus driving cost) is less than
- a. \$30.
  - b. \$90.
  - c. \$150.
  - d. \$240.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?  
KEY: Bloom's: Application

32. Melanie has a choice of driving or flying from Durham, North Carolina to Knoxville, Tennessee for a one-day business trip. If she travels by air, she will be able to work seven hours in Knoxville, while if she drives, she will only have time to work four hours once there. Her expected income from each hour of work in Knoxville is \$40. If Melanie a rational decision maker, she will chose to fly if and only if the price differential (air cost minus driving cost) is less than
- a. \$40.
  - b. \$120.
  - c. \$160.
  - d. \$280.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Scarcity, tradeoffs, and opportunity cost                      TOP: What Shall We Give Up?

KEY: Bloom's: Application

33. In an informed and voluntary exchange,
- both parties receive something they value more than what they gave up.
  - both parties place an equal value on what they received and what they gave up.
  - neither party can gain more than the other.
  - one trader can gain only at the expense of the other.

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Knowledge

34. In voluntary exchange, if the seller of a product gains,
- the buyer will generally lose an amount greater than the gain to the seller.
  - the buyer must lose an amount equal to what the seller gains.
  - someone else must lose an equal amount.
  - the buyer must also gain; mutual gain provides the foundation for exchange.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

35. Which of the following statements about exchange is *false*?
- The expectation of gain motivates people to engage in trade.
  - If a party to a potential exchange does not believe that it will lead to personal gain, he or she can choose not to engage in the trade.
  - Voluntary exchange is generally mutually beneficial to the trading partners.
  - If one trading partner gains, the other must lose.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

36. Isabella decides to buy a dress that Olivia has for sale; they agree on a price of \$20. Which of the following best describes who gains and who loses from the transaction?
- If the dress originally costs more than \$20, Isabella gains and Olivia loses.
  - If the dress originally costs less than \$20, Olivia gains and Isabella loses.
  - Both parties expect to gain from this transaction.
  - If Olivia gains from the transaction, Isabella must lose an equal amount.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Application

37. If Sean sells Tom a tennis racket for \$50, we would expect
- both parties to gain from this transaction.
  - Sean to gain from the transaction, while Tom loses.
  - Tom to gain from the transaction, while Sean loses.
  - the well-being of both parties to be unchanged.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension



38. Mateo values his camper at \$4,000, and Nicole values it at \$9,000. If Nicole buys it from Mateo for \$7,000, which of the following is true?
- a. Mateo gains \$3,000 of value, and Nicole gains \$2,000 of value.
  - b. Mateo gains \$7,000 of value, and Nicole loses \$7,000 of value.
  - c. Mateo gains \$7,000 of value, and Nicole gains \$6,000 of value.
  - d. Mateo and Nicole both gain \$7,000 of value.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Application

39. Noah values his car at \$10,000, and Emily values it at \$14,000. If Emily buys it from Noah for \$11,000, which of the following is true?
- a. Noah gains \$1,000 of value, and Emily gains \$3,000 of value.
  - b. Noah gains \$11,000 of value, and Emily loses \$11,000 of value.
  - c. Noah gains \$10,000 of value, and Emily loses \$14,000 of value.
  - d. Noah and Emily both gain \$11,000 of value.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Application

40. Which of the following most accurately states the economic significance of exchange?
- a. Physical goods have value because they exist; exchange can neither increase nor decrease their value.
  - b. Production of physical goods creates value; exchange merely redistributes this value.
  - c. Exchange creates value by moving goods from parties who value them less to parties who value them more.
  - d. Exchange reduces value since it consumes resources without adding to the physical supply of goods.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

41. Which of the following about trade is true?
- a. Trade does not produce anything new; therefore, it cannot create value.
  - b. The value of a good is determined by the cost of the material resources required for its production.
  - c. The value of a good generally depends on who uses it and circumstances such as when and where it is used.
  - d. All of the above are true.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

42. In economics, the term that refers to the time, effort, and other resources needed to search out, negotiate, and consummate an exchange is
- a. transaction costs.
  - b. specialization costs.
  - c. pecuniary costs.
  - d. comparative costs.

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic

STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Knowledge

TOP: Trade Creates Value

43. In economics, transaction costs refer to the
- time, effort, and other resources needed to search out and negotiate an exchange.
  - dollar cost or price of the item traded.
  - cost an economy suffers when it allows specialization according to comparative advantage.
  - amount by which the price of an item increases due to the presence of a middleman.

ANS: A                      PTS: 1                      DIF: Easy  
STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Knowledge

NAT: BUSPROG: Analytic  
TOP: Trade Creates Value

44. High transaction costs will tend to
- reduce the number of mutually beneficial exchanges that occur.
  - allow easier specialization according to the law of comparative advantage.
  - increase the value created by exchanges in an economy.
  - increase the number of mutually beneficial exchanges that occur.

ANS: A                      PTS: 1                      DIF: Moderate  
STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Comprehension

NAT: BUSPROG: Analytic  
TOP: Trade Creates Value

45. Compared to a situation where transaction costs are zero, the existence of transaction costs
- will reduce the volume of trade.
  - will reduce the gains from trade.
  - may lead some buyers and sellers to employ middlemen.
  - All of the above are correct.

ANS: D                      PTS: 1                      DIF: Moderate  
STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Comprehension

NAT: BUSPROG: Analytic  
TOP: Trade Creates Value

46. Which of the following is true with regard to value and exchange?
- Exchange generally moves a good from a person who values it more to a person who values it less.
  - Transaction costs reduce our ability to gain from potentially advantageous trades.
  - Middlemen increase transaction costs and, thereby, reduce the potential gains derived from trade.
  - Physical goods have an objective value that is unrelated to time and the person of ownership.

ANS: B                      PTS: 1                      DIF: Moderate  
STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Comprehension

NAT: BUSPROG: Analytic  
TOP: Trade Creates Value

47. A nation with cheap, efficient communications is likely to be
- richer, *ceteris paribus*, because transaction costs will be lower and trade greater.
  - richer only if production of goods is cheaper, too, since trade itself cannot create value.
  - poorer since it spends so much on communication instead of true productivity.
  - spending too much on communications, which adds nothing to the value of output.

ANS: A                      PTS: 1                      DIF: Moderate  
STA: DISC: Gains from trade, specialization and trade

NAT: BUSPROG: Analytic  
TOP: Trade Creates Value

KEY: Bloom's: Comprehension

48. If the Internet makes it easier for sellers to find buyers and makes it easier for buyers to learn about the products that are available for sale, we would expect that
- the volume of trade will decline.
  - transaction costs will rise.
  - the gains from trade will increase.
  - buyers and sellers will be worse off.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

49. Internet sites such as eBay make it easier for sellers and buyers to find one another and, by doing so,
- reduce transactions costs.
  - increase transaction costs.
  - reduce the number of exchanges that occur.
  - lower the value created by the goods and services available.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

50. A middleman is a person who
- specializes in arranging trades and selling, guaranteeing, and servicing items traded.
  - acts as a middle person between the top management of a business firm and the hourly employees who actually produce the goods and services.
  - adds to the seller's expense and the buyer's buying price without providing a service to either.
  - levies a tax on private sector activity and uses the funds to support government activities.

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Knowledge

51. Middlemen are individuals who
- add to the buyer's expense without performing a useful function.
  - add to the seller's cost without performing a useful function.
  - provide services that reduce the cost of transactions and help achieve additional gains from trade.
  - act as a middle person between the top management of a business firm and the hourly employees who actually produce the goods and services.

ANS: C                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Knowledge

52. In economics, the term for a person who reduces transaction costs by arranging trades for buyers and sellers is
- an exchange broker.
  - a middleman.
  - a transactions specialist.
  - an opportunity finder.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic

STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Knowledge

TOP: Trade Creates Value

53. Which of the following most accurately states the function of middlemen?
- Middlemen add to the expense of buyers and sellers without providing any benefit.
  - Our economy would work just as well without middlemen since they do not expand the availability of physical goods.
  - Middlemen reduce the number of transactions since they increase the buyer's price and reduce the seller's net revenue.
  - Middlemen create value by arranging trades and providing information to buyers and sellers.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

54. Which of the following most accurately states the function of middlemen?
- Middlemen reduce transaction costs.
  - Middlemen add to the expense of buyers and sellers without providing any benefit.
  - Our economy would work just as well without middlemen since they do not expand the availability of physical goods.
  - Middlemen reduce the number of transactions since they increase the buyer's price and reduce the seller's net receipts.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

55. Which of the following is true regarding value and exchange?
- Middlemen fail to create value since they do not expand the supply of physical goods.
  - A good or service has a given value regardless of who uses it or how it is used.
  - If it were not for middlemen, transaction costs would be zero.
  - Voluntary exchange creates value by channeling goods into the hands of people who value them most.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

56. Which of the following is true regarding value, transaction costs, and exchange?
- Middlemen can be viewed as agents who create value by reducing transaction costs and, thereby, facilitating gains from exchange.
  - Middlemen fail to create value since they do not expand the supply of physical goods.
  - A good or service has a given value regardless of who uses it or how it is used.
  - Voluntary exchange reduces value by channeling goods into the hands of people who value them least.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
KEY: Bloom's: Comprehension

57. Economic thinking suggests that a nation in which middlemen are considered to be unproductive seekers of profit, and where their activities are heavily restricted by law, will
- gain by channeling people's efforts away from unproductive middleman activity toward physical output.

- b. lose the potential gains from trade that would result from lower transaction costs emanating from middleman activities.
- c. find that it is richer because the added transaction costs normally imposed by middlemen will be reduced.
- d. gain because the value of total output will rise.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade                      TOP: Trade Creates Value  
 KEY: Bloom's: Comprehension

58. The government enforces property rights by
- a. requiring property owners to pay property taxes.
  - b. providing police and courts.
  - c. forcing people to own property.
  - d. providing public parks and recreation facilities.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
 STA: DISC: The role of government                      TOP: The Importance of Property Rights  
 KEY: Bloom's: Knowledge

59. Private property rights involve
- a. the right to exclusive use of the property.
  - b. legal protection against those who would seek to use or abuse the property without the owner's permission.
  - c. the right to transfer, sell, exchange, or mortgage the property.
  - d. all of the above.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: The role of government                      TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

60. Which of the following is a private owner prohibited from doing?
- a. selling the property to another person
  - b. erecting a fence designed to keep others from using the property
  - c. painting the property a color that others do not like
  - d. using the property in a manner that invades or infringes on the property of another

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: The role of government                      TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

61. When property rights are clearly defined and enforced, private owners will
- a. use their property for selfish ends because they have little or no incentive to consider the desires of others.
  - b. develop and direct their property toward uses that others value highly because the market will generally reward them for doing so.
  - c. have little or no incentive to take care of their property or conserve it for the future.
  - d. be unable to derive personal gain if they are sensitive to the desires of others when deciding how to use their property.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: The role of government                      TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

62. Which of the following is true regarding private ownership?

- a. Relative to common ownership, private ownership generally leads to less conservation of resources.
- b. With private ownership, owners are held accountable for using their resources in a manner that harms the resources of others.
- c. Private ownership generally gives the owner little incentive to find ways to use the resource wisely.
- d. With private ownership, resource owners have little incentive to consider the preferences of others when deciding how to employ a resource.

ANS: B                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
 STA: DISC: The role of government           TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

63. Because private owners are held responsible for damages their property causes to the property of others, private owners have
- a. a strong incentive to take steps to reduce the chance that they will harm the property of others.
  - b. a strong incentive to use their property now rather than conserving it for the future.
  - c. little incentive to take good care of the property.
  - d. little incentive to consider the harm their property may do to the property of others.

ANS: A                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
 STA: DISC: The role of government           TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

64. When private ownership rights are well-defined and enforced, owners of physical assets and resources
- a. have no incentive to consider the desires of others.
  - b. incur the opportunity cost of ignoring the wishes of others.
  - c. are not responsible if the use of their assets impose harm on others.
  - d. have little incentive to take care of their assets.

ANS: B                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
 STA: DISC: The role of government           TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

65. Which of the following is true of private ownership?
- a. Private ownership links responsibility with the right of control.
  - b. Private owners have little incentive to conserve natural resources for the future.
  - c. Private owners have little incentive to develop and use their assets in ways others value.
  - d. Private owners can do anything they want with the things they own regardless of the damage it does to the property of others.

ANS: A                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
 STA: DISC: The role of government           TOP: The Importance of Property Rights  
 KEY: Bloom's: Comprehension

66. When private ownership of a resource is clearly defined and enforced, the private owner
- a. has little incentive to consider the wishes of others when deciding how to employ the resource.
  - b. has little incentive to use the resource wisely.
  - c. has a strong incentive to consume the resource during the period rather than conserving it for the future.
  - d. has a strong incentive to use the resource wisely.

ANS: D                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic

STA: DISC: The role of government  
KEY: Bloom's: Comprehension

TOP: The Importance of Property Rights

67. Todd owns a truck that he values at \$2,000. Susan, who does a lot of hauling, values the truck at \$6,000. If these two are allowed to negotiate, which of the following will most likely occur?
- Todd will sell the truck for \$1,500.
  - Susan will buy the truck for \$7,000.
  - The truck will be sold at a price greater than \$2,000 but less than \$6,000, and both parties will benefit.
  - Susan will benefit more than Todd if the truck is sold.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: The role of government                      TOP: The Importance of Property Rights  
KEY: Bloom's: Application

68. Given your knowledge of the incentives created by private ownership, which of the following would you expect to be *false*?
- People will take better care of their own personal automobile than they will a rental car.
  - People will take better care of a home they own than they will of a home they rent.
  - Property owned privately will tend to be better conserved and kept than public property or property owned in common.
  - People will be more likely to throw trash out onto their own lawn than they will be to throw it out onto the side of an interstate highway.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: The role of government                      TOP: The Importance of Property Rights  
KEY: Bloom's: Comprehension

69. The student government associations at several universities have experimented with purchasing bicycles to leave around campus for everyone's use. Anyone who needs the bike can use it, and they are not allowed to lock the bike up or take it home, but rather must leave it on campus for someone else to use. Economic theory would predict that
- students will take better care of these commonly owned bicycles than they do their own bicycles.
  - students will take equally as good care of these commonly owned bicycles as they do their own bicycles.
  - students will not take as good of care of these commonly owned bicycles as they do their own bicycles.
  - because universities have a lot of money, these bikes will be better maintained than the ones owned privately by college students who tend to have little money.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: The role of government                      TOP: The Importance of Property Rights  
KEY: Bloom's: Comprehension

70. The number of cattle slaughtered every year for meat far exceeds the number of elephants slaughtered every year for their ivory. Despite this, cows can be found everywhere while elephants are on the verge of extinction in some countries. Which of the following best explains this difference?
- Cows can be privately owned while in many countries elephants can not.
  - The demand for ivory far exceeds the demand for beef.
  - Animals slaughtered for their meat are generally better conserved by humans than animals slaughtered for nonfood uses.
  - People tend to protest more every year to prevent cow extinction than they do for elephant extinction.

ANS: A                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
STA: DISC: The role of government           TOP: The Importance of Property Rights  
KEY: Bloom's: Application

71. In Zimbabwe and Botswana, elephants can be owned by local tribes and trade in ivory is legal, while in countries such as Kenya, it is illegal to trade in ivory and elephants cannot be privately owned but are protected by the government. Which of the following is true regarding the change in the elephant populations since 1979 in these countries?
- a. In Zimbabwe and Botswana, elephants are near the verge of extinction, while in Kenya, the population of elephants is growing rapidly.
  - b. There has been a similar decline in the population of elephants in all of these countries.
  - c. There has been a similar increase in the population of elephants in all of these countries.
  - d. In Zimbabwe and Botswana, elephant populations have more than doubled, while in Kenya, the population of elephants has fallen to less than one-third of its previous level.

ANS: D                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
STA: DISC: The role of government           TOP: The Importance of Property Rights  
KEY: Bloom's: Analysis

72. In Africa, which of the following policies has been most successful at increasing elephant populations?
- a. Banning the ivory trade by making the buying and selling of ivory illegal.
  - b. Making elephants the common property of the people of the country through government ownership and control and making the killing of elephants illegal
  - c. Allowing private ownership of elephants and making the ivory trade legal
  - d. When used together, the policies in a and b have been more successful than the policy in c.

ANS: C                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
STA: DISC: The role of government           TOP: The Importance of Property Rights  
KEY: Bloom's: Comprehension

73. Beginning in the early 1990s, private landowners in Zimbabwe have started fencing in large areas of land that contain black rhinos, which were on the verge of extinction. These private owners charge fees for a stay at the lodges on the property (eco-tourism) and also sell hunting safaris and photo safaris. As a result,
- a. the population of black rhinos has fallen substantially.
  - b. the population of black rhinos has increased.
  - c. many black rhinos are being poached.
  - d. the incomes of residents in Zimbabwe has fallen substantially.

ANS: B                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
STA: DISC: The role of government           TOP: The Importance of Property Rights  
KEY: Bloom's: Comprehension

74. Suppose that in Australia, the government allows private ownership of chickens but not of cows. If the people of Australia permanently increase their desire to purchase more chicken and beef, in the long run, we would expect
- a. the population of chickens to rise and the population of cows to fall.
  - b. the population of cows to rise and the population of chickens to fall.
  - c. the populations of both chickens and cows to increase.
  - d. both chickens and cows to become extinct in Australia unless the government places the animals on the endangered species list.

ANS: A                      PTS: 1                      DIF: Moderate           NAT: BUSPROG: Analytic  
STA: DISC: The role of government           TOP: The Importance of Property Rights  
KEY: Bloom's: Analysis



75. Production possibilities curve are usually bowed outward. This is because
- the more resources a society uses to produce one good, the fewer resources it has available to produce another good.
  - it reflects the fact that the opportunity cost of producing a good decreases as more and more of that good is produced.
  - of the effects of technological change.
  - resources are specialized, that is, some are better at producing particular goods rather than other goods.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

76. The reason that the production possibilities curve is usually a bow-shaped curve instead of a straight line is that
- it makes it easier to illustrate the concepts of scarcity and prices with a bow-shaped curve than it is with a straight line
  - early economists began drawing them in this way and the convention has continued throughout the years
  - output eventually reaches a maximum and then declines
  - resources are not perfectly adaptable to the production of all goods

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

77. When the production possibilities curve is bowed out, resources are
- equally well-suited to production of both goods.
  - not being used efficiently.
  - not equally suited to the production of both goods.
  - available in larger and larger quantities as more of one good is produced.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

78. Which of the following most accurately indicates the implications of an economy's production possibilities curve?
- If all the resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.
  - If all the resources of an economy are being used efficiently, it is generally possible to produce more of one good without having to sacrifice the production of other goods.
  - Over time, it is generally impossible for a country to expand its production of goods.
  - An economy will automatically move toward a point that lies outside of the production possibilities curve unless proper government policy constrains production.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

79. The production possibilities curve illustrates the basic principle that
- an economy's capacity to produce is unrelated to its population.
  - if all the resources of an economy are being used efficiently, more of one good can be produced only if more of another good is produced.

- c. an economy will automatically move toward a point at which all of its resources are being used inefficiently.
- d. if all the resources of an economy are being used efficiently, more of one good can be produced only if less of another good is produced.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
 KEY: Bloom's: Comprehension

80. A production possibilities curve indicates that when resources are being used efficiently,
- a. you can only produce more of one good only if you lower its price.
  - b. you can only produce more of one good only if you produce more of another good.
  - c. you can only produce more of one good only if you produce less of another good.
  - d. it is impossible to expand the total output of goods over time.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
 KEY: Bloom's: Comprehension

81. Increasing opportunity costs of producing goods imply that the production possibilities curve will be
- a. downward sloping.
  - b. upward sloping.
  - c. bowed inward.
  - d. bowed outward.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
 KEY: Bloom's: Comprehension

82. As a general rule, technological progress
- a. shifts the production possibilities curve outward, away from the origin.
  - b. reduces the slope of the production possibilities curve, making it flatter.
  - c. increases the slope of the production possibilities curve, making it steeper.
  - d. shifts the production possibilities curve inward, toward the origin.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
 KEY: Bloom's: Comprehension

83. Which of the following is true of a production possibilities curve?
- a. It reveals the maximum amount of any two goods that can be produced from a fixed quantity of resources.
  - b. It reveals the ideal level of technology for a country.
  - c. It assumes that the prices of the two products are equal.
  - d. For a country that could produce many different goods, it shows which two goods are most important to produce.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
 KEY: Bloom's: Comprehension

84. If the resources of an economy are being used inefficiently, it would be
- a. possible to increase production of all goods simultaneously.
  - b. possible to increase production of one good only if production decreased for the other goods.

- c. not possible to increase production of any good.
- d. not possible to increase economic growth.
- e. possible to increase production with no effort.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

85. Abigail wishes to spend more time this week studying for her classes. Using the idea of a production possibilities curve, and assuming Abigail is currently spending all of her time efficiently, Abigail can spend more time studying this week only if
- a. she also spends more time doing other things.
  - b. she spends less time doing other things.
  - c. Daylight Savings Time begins this week, so everyone moves their clocks ahead one hour.
  - d. none of the above.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Application

86. A point outside the production possibilities curve represents a combination of goods that is
- a. inefficient.
  - b. efficient.
  - c. unattainable.
  - d. attainable.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

87. A point inside the production possibilities curve represents a combination of goods that is
- a. inefficient.
  - b. efficient.
  - c. unattainable.
  - d. attainable.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

88. A point on the production possibilities curve represents a combination of goods that is
- a. inefficient.
  - b. efficient.
  - c. unattainable.
  - d. attainable.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

89. If an economy operates at a point within its production possibilities curve,
- a. it lacks the resources necessary to reach the curve.
  - b. it is utilizing all of its resources efficiently.
  - c. it does not confront the problem of scarce goods relative to unlimited wants.
  - d. it is not efficiently using all of its resources.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

90. If an economy uses its resources inefficiently, this situation would be illustrated on a production possibilities diagram as
- an inward shift of the production possibilities curve.
  - an outward shift of the production possibilities curve.
  - operating at a point outside the production possibilities curve.
  - operating at a point inside the production possibilities curve.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

91. A production possibilities curve graphically represents the maximum quantities of two products produced when all resources in the economy are efficiently utilized. An economy that operates inside this production possibilities curve
- is using its resources inefficiently.
  - lacks the necessary technology to produce efficiently.
  - lacks the resources to produce goods efficiently.
  - is utilizing its available resources as efficiently as possible.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

92. Which of the following will be most likely to cause the production possibilities curve for a country to shift inward?
- an increase in the labor force
  - an increase in unemployment
  - development of an improved technological method of production
  - a decrease in the stock of physical capital

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

93. In Europe during the 14th century, the Black Plague killed 24 million people or close to 37 percent of the population. How would this affect the production possibilities curves for the countries of Europe at that time?
- The production possibilities curves for these countries would have shifted outward.
  - The production possibilities curves for these countries would have shifted inward.
  - The production possibilities curves for these countries would have been unaffected.
  - This would have been illustrated by a movement along the production possibilities curves for these countries, but it would not have shifted them.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Analysis

94. If the citizens of a country were to work harder and take less leisure time, it would
- shift the production possibilities curve outward.
  - cause an economy to operate inside its production possibilities curve.
  - shift the production possibilities curve inward.

- d. cause an economy to move from one point on the production possibilities curve to another point on the curve.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

95. Which of the following will most likely cause an outward shift in the production possibilities curve?
- a reduction in the man-made productive resources available to the economy as the result of a decline in investment
  - an increase in government payments to farmers for taking land out of production
  - an increase from 40 to 50 hours in the average number of hours worked per week
  - None of the above would cause an outward shift in the production possibilities curve.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

96. Over time, an increase in a nation's stock of physical capital will
- shift the production possibilities curve inward.
  - cause an economy to operate inside its production possibilities curve.
  - shift the production possibilities curve outward.
  - eliminate the basic economic problem of scarcity.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

97. With time, which one of the following strategies would most likely result in an outward shift in the production possibilities curve of an economy?
- passage of legislation reducing the workweek to 30 hours
  - instituting a tax policy encouraging consumption at the expense of investment
  - instituting a tax policy encouraging investment at the expense of consumption
  - an increase in the marginal income tax rate, which would reduce the work effort of individuals

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Analysis

98. Using a production possibilities curve, a technological advance that increases the amount of output for the same amount of inputs would be illustrated as
- an inward shift of the curve.
  - a movement from one point to another point along the curve.
  - an outward shift of the curve.
  - a movement from a point on the curve to a point inside the curve.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

99. An improvement in a country's legal system that enhanced the ability of citizens to protect their property rights and enforce contracts would result in which of the following changes to the country's production possibilities curve?
- a movement from a point on the curve to a point outside the curve

- b. a movement from one point to another point along the curve
- c. an outward shift of the curve
- d. a movement from a point on the curve to a point inside the curve

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Application

100. Suppose that country A produces mostly consumption goods and few investment goods, while country B produces mostly investment goods with few consumption goods. Other things constant, which of the following is most likely to happen in the future?
- The per capita income of country A will grow more rapidly than country B.
  - The population of country B will grow more rapidly than country A.
  - The production possibilities curve (PPC) of country B will shift out more rapidly than the PPC of country A.
  - The production possibilities curve (PPC) of country A will shift out more rapidly than the PPC of country B.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Application

101. Other things constant, which of the following would you expect to increase the output growth rate of a country?
- an increase in the rate of taxation on personal income
  - an increase in the rate of investment as a share of total output
  - passage of regulations restricting international trade
  - passage of regulations restricting domestic trade

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

102. Which of the following is true?
- a. The production possibilities curve indicates that it will be impossible to expand total output with the passage of time.
  - b. As long as resources are scarce, output cannot be increased.
  - c. The size of the economic pie is fixed, and therefore, if one individual has more income, others must have less.
  - d. Over time, the output of goods and services can be increased through human ingenuity and discovery of better ways of doing things.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

103. With time, which one of the following strategies will most likely result in an outward shift in an economy's production possibilities curve?
- passage of legislation reducing the workweek to 30 hours
  - institution of a tax policy encouraging research that advances technology
  - institution of a tax policy encouraging consumption at the expense of investment
  - passage of a law requiring the minimum wage to increase every year

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve

KEY: Bloom's: Application

104. A nation that protects its workers from unemployment by limiting the use (by employers) of technological improvements will
- grow more rapidly because the rate of unemployment will be lower.
  - grow more rapidly because investors prefer a stable business environment rather than the uncertainties that accompany technological change.
  - grow less rapidly because technological change is an important factor contributing to the growth of output.
  - grow just as much as nations that adopt more rapidly technological improvements.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Application

105. Entrepreneurs are
- profit-seeking decision makers who decide which business projects to undertake.
  - people who loan money to other business decision makers.
  - managers who generally work for a salary because they are unwilling to take risks.
  - none of the above.

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Knowledge

106. A profit-seeking decision maker who decides which business projects to undertake and how they should be undertaken is called
- a key man.
  - an entrepreneur.
  - a progressor.
  - a stakeholder.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Knowledge

107. Entrepreneurs have a strong incentive to
- discover new production techniques that reduce costs.
  - introduce new products that are highly valued relative to their cost.
  - produce goods that are valued more highly than the resources required for their production.
  - do all of the above.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Costs of production                      TOP: Production Possibilities Curve  
KEY: Bloom's: Comprehension

108. In order to prosper, entrepreneurs must
- undertake projects that create wealth and increase the value of resources.
  - find ways to prevent technological change.
  - have their own wealth with which to finance projects that they want to undertake.
  - undertake projects that use resources that are more valuable than is the output they produce.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic

STA: DISC: Costs of production  
KEY: Bloom's: Comprehension

TOP: Production Possibilities Curve

109. The creation of a new product or process, often facilitated by the knowledge of engineering and scientific relationships, is known as
- invention.
  - innovation.
  - application.
  - sublimation.

ANS: A PTS: 1

DIF: Easy

NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Knowledge

110. The successful introduction and adoption of a new product or process is known as
- invention.
  - innovation.
  - origination.
  - adaptation.

ANS: B PTS: 1

DIF: Easy

NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Knowledge

111. Creative destruction refers to the process where
- new products and methods of production are continuously replacing old ones
  - producing more of one good causes you to produce less of another
  - everybody involved is made worse off
  - new ways to destroy buildings are employed

ANS: A PTS: 1

DIF: Easy

NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Knowledge

112. The process by which new products and methods of production are continuously replacing old ones is known as
- the invisible hand principle.
  - the production possibilities frontier.
  - creative destruction.
  - the fallacy of composition.

ANS: C PTS: 1

DIF: Easy

NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Knowledge

113. Michael takes 10 minutes to iron a shirt and 20 minutes to type a paper. Aiden takes 10 minutes to iron a shirt and 30 minutes to type a paper. Which of the following statements is correct?
- Aiden has a comparative advantage in ironing.
  - Aiden has a comparative advantage in typing.
  - Michael has a comparative advantage in ironing.
  - Neither can gain from specialization and exchange.

ANS: A PTS: 1

DIF: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Gains from trade, specialization and trade

TOP: Trade, Output, and Living Standards

KEY: Bloom's: Application



114. Jayden can produce 10 pens or 20 pencils in one hour while Alexander can produce 15 pens or 5 pencils in one hour. Which of the following statements is correct?
- Alexander has a comparative advantage over Jayden in the production of pencils
  - Alexander has a comparative advantage over Jayden in the production of pens
  - Jayden has a comparative advantage over Alexander in the production of pens
  - Alexander and Jayden cannot gain from specialization and exchange.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

115. Which of the following is true of exchange?
- Exchange is a zero sum activity; if one party to an exchange gains, the other must lose an equal amount.
  - The exchange value of a good is determined by the cost of the resources required to produce the good.
  - The total output trading partners are able to produce is not influenced by whether the partners trade with each other.
  - Exchange permits trading partners to expand their total output of goods and services as the result of greater specialization in areas where each has a comparative advantage.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

116. The notion that specialization in goods that one can produce at a low opportunity cost will make it possible for trading partners to produce a larger joint output is called
- the law of absolute advantage.
  - the law of comparative advantage.
  - the law of production possibilities.
  - the exchange maximum principle.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Knowledge

117. The economic principle that states that individuals or nations can gain by specializing in the production of goods that they produce cheaply and exchanging for other desired goods that they could only produce at a higher cost is
- the law of absolute advantage.
  - the law of comparative advantage.
  - the law of production possibilities.
  - the exchange maximum principle.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Knowledge

118. According to the law of comparative advantage, both individuals and nations will be able to produce a larger joint output if each productive activity is undertaken by
- the high opportunity cost producer.
  - the low opportunity cost producer.
  - the producer who is able to hire workers at the lowest wage.
  - the party that can complete the productive activity most rapidly.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Knowledge

119. The law of comparative advantage implies that a nation, individual, or region should produce those economic goods for which it
- has an absolute advantage.
  - is a low opportunity cost producer.
  - is a high opportunity cost producer.
  - pays the highest wage rate.

ANS: B                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Knowledge

120. According to the law of comparative advantage,
- individuals and nations gain when they specialize in producing those goods they consume.
  - individuals and nations gain when they specialize in producing goods they can produce at a high opportunity cost and can exchange for other desired goods they can produce cheaply.
  - individuals and nations gain when they specialize in producing those items for which they are the low opportunity cost producers and exchange for other desired goods they can't produce as cheaply.
  - all of the above are true.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

121. The law of comparative advantage suggests that
- curtailing U.S. trade with other countries would make U.S. consumers better off.
  - everyone would be better off if they were self-sufficient.
  - countries will tend to import commodities that they can produce at a relatively low opportunity cost.
  - countries will tend to import commodities that they can produce at a relatively high opportunity cost.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

122. The law of comparative advantage explains why
- specialization and exchange will make it possible for trading partners to expand their combined output.
  - there will be an inverse relationship between the price of a product and the quantity of it that will be demanded.
  - larger firms will have lower per unit costs than smaller firms.
  - an increase in the price of a good will lead to an expansion in the quantity supplied by business firms.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

123. The law of comparative advantage applies to exchange between
- individuals.
  - regions.
  - nations.
  - all of the above.

ANS: D                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Knowledge

124. Which of the following is an implication of the law of comparative advantage?
- Countries with small amounts of labor relative to capital should specialize in producing labor-intensive commodities.
  - Since workers in high-income countries utilize larger amounts of capital than workers in less developed nations, trade between capital-rich and capital-poor nations results in the exploitation of labor in the less developed countries.
  - Countries that are high cost producers of agricultural products should trade those products for goods they can produce only at a low opportunity cost.
  - Countries that are low opportunity cost producers of timber products should trade those products for goods they can produce only at a high opportunity cost.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

125. Which of the following appropriately applies the law of comparative advantage?
- Countries with small amounts of labor relative to capital should specialize in producing labor-intensive commodities.
  - Since Mexican labor is cheaper than American labor, trade between the countries results in exploitation of American workers.
  - Since workers in countries such as the United States utilize larger amounts of capital than workers in less developed nations, trade between capital-rich and capital-poor nations results in the exploitation of labor in the less developed countries.
  - Countries that are low cost producers of agricultural products should trade those products for goods they can produce only at a high opportunity cost.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

126. Ashley is an attorney and also an excellent typist. She can type 120 words per minute, but she charges attorney fees at \$100 per hour. Benjamin would like some typing work but can only type 60 words per minute. According to the law of comparative advantage, Ashley should hire Benjamin to do her typing if and only if his wage rate is less than
- \$10 per hour.
  - \$50 per hour.
  - \$60 per hour.
  - \$100 per hour.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

127. Given freedom of movement for both goods and resources, if Florida producers specialize in oranges and Georgia producers specialize in peaches, it would be reasonable to conclude that

- a. the opportunity cost of growing oranges is higher in Florida than in Georgia.
- b. Georgia has a comparative advantage in producing oranges.
- c. Florida has a comparative advantage in producing oranges.
- d. total output will be expanded when Georgia allocates more resources to producing oranges and Florida allocates more resources to producing peaches.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

128. Opportunity costs differ among nations primarily because
- a. nations employ different currencies.
  - b. nations have different amounts of land, labor skills, capital, and technology.
  - c. nations have different religious, political, and economic institutions.
  - d. the work-leisure preferences of people vary considerably from one nation to another.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

129. Suppose a country attempts to be self-sufficient and doesn't trade with any other countries. From an economic perspective, citizens of this nation can be expected to
- a. gain materially from this policy because they can consume more goods over time than if they engaged in trade with foreigners.
  - b. produce less total value than they could if they specialized and engaged in trade with other nations.
  - c. gain from more rapid growth since home markets are reserved for home producers.
  - d. be just as well off without trade since the value of what is sent to other nations in trade just equals the value of what is received in trade.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

130. Economic analysis suggests that gains from specialization and exchange
- a. will not be realized unless a central planning authority requires that all goods be produced by the low opportunity cost supplier.
  - b. will be realized if individuals are allowed to pursue goals that are in their own self-interest.
  - c. will not be realized unless business firms employ economists when making decisions about the proper combination of resources to utilize in the production process.
  - d. will be realized if individuals place the public interest above the pursuit of their own self-interest.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

131. The most important source of gain from the division of labor is
- a. the repeal of the law of comparative advantage.
  - b. the reduction in work effort because incentives are adversely affected.
  - c. the increase in the number of jobs since more labor is used to produce goods.
  - d. the benefits that result from specialization, adoption of mass production techniques, and exchange.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

132. Specialization in production is beneficial because
- it allows everyone to have a job that they like.
  - it permits people to expand production and achieve rates of output that would otherwise be unattainable.
  - it allows everyone to be self-sufficient.
  - it eliminates the need for the division of labor.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

133. Which of the following most accurately states the economic significance of exchange?
- Physical goods have value because they exist; exchange can neither increase nor decrease their value.
  - Exchange creates value by permitting trading partners to expand total output as the result of specialization in areas where they have a comparative advantage.
  - Exchange creates value by moving goods from people who value the goods less to people who value the goods more.
  - Both b and c are true.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

134. Trade creates value by
- moving goods from people who value the goods less to people who value the goods more.
  - permitting trading partners to expand output through specialization in areas where they each have a comparative advantage.
  - permitting trading partners to expand output through the adoption of mass production methods.
  - all of the above.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

135. Which of the following statements about exchange is true?
- If everyone starts off with the same quantities of each good, it would be impossible to realize gains from trade.
  - Exchange tends to move each good toward those individuals who value the good more highly.
  - Exchange always results in one party being made better off and the other being made worse off.
  - For trade to occur, everyone must start off with the same value of the good that is traded.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

136. Which of the following is true of exchange?
- The value of a good is determined by the cost of the resources required to produce the

- good.
- Exchange makes it possible for trading partners to produce more goods through division of labor and adoption of mass production methods.
  - Nothing new is created by exchange; if one party to an exchange gains, the other must lose an equal amount.
  - Both a and b are true.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

137. Why is trade an important source of economic progress?
- It allows the trading partners to produce a larger joint output through specialization in the areas where they have a comparative advantage.
  - It allows the trading partners to produce a larger joint output as the result of greater realization of cost reductions that accompany the adoption of mass production methods.
  - It makes it possible to realize gains from the discovery and dissemination of innovative products and production processes.
  - All of the above are correct.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Comprehension

Use the production possibilities data below for Austria and Italy to answer the following question(s).

**Table 2-1**

	Food	Clothing
Austria	0	6
	2	4
	4	2
	6	0

	Food	Clothing
Italy	0	9
	1	6
	2	3
	3	0

138. Refer to Table 2-1. Which of the following is true?
- Austria has the comparative advantage in both goods.
  - Austria has the comparative advantage in food.
  - Italy has the comparative advantage in food.
  - It would be impossible for Austria and Italy to gain from trade.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

139. Refer to Table 2-1. Which of the following would be a mutually agreeable rate of exchange?
- 1 Food = 1 Clothing
  - 1 Food = 2 Clothing

- c. 1 Food = 3 Clothing
- d. No exchange rate would be mutually agreeable.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

140. Refer to Table 2-1. According to the law of comparative advantage, both Austria and Italy could gain if
- a. Austria produced all of the food and clothing and Italy did not produce anything.
  - b. Austria specialized in producing clothing, Italy specialized in producing food, and they traded.
  - c. Austria specialized in producing food, Italy specialized in producing clothing, and they traded.
  - d. Italy and Austria were both self-sufficient and did not trade.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

Use the production possibilities data below for Honduras and Nicaragua to answer the following question(s).

**Table 2-2**

	Oranges	Apples
Honduras	0	16
	1	12
	2	8
	3	4
	4	0

	Oranges	Apples
Nicaragua	0	8
	1	6
	2	4
	3	2
	4	0

141. Refer to Table 2-2. Which of the following is correct?
- a. Honduras has the comparative advantage in both goods.
  - b. Nicaragua has the comparative advantage in oranges.
  - c. Honduras has the comparative advantage in oranges.
  - d. It would be impossible for Honduras and Nicaragua to gain from trade.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

142. Refer to Table 2-2. Which of the following would be a mutually agreeable rate of exchange?
- a. Nicaragua trades one orange to Honduras for every one apple.
  - b. Nicaragua trades one orange to Honduras for every two apples.
  - c. Nicaragua trades one orange to Honduras for every three apples.

d. Nicaragua trades one orange to Honduras for every four apples.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

143. Refer to Table 2-2. According to the law of comparative advantage, both Honduras and Nicaragua could gain if
- Honduras produced all of the apples and oranges and Nicaragua did not produce anything.
  - Honduras specialized in producing apples, Nicaragua specialized in producing oranges, and they traded.
  - Honduras specialized in producing oranges, Nicaragua specialized in producing apples, and they traded.
  - Nicaragua and Honduras were both self-sufficient and did not trade.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

Use the production possibilities data below to answer the following question(s).

**Table 2-3**

	Labor Hours Needed to Make 1 Pound of:		Pounds produced in 40 hours:	
	Meat	Potatoes	Meat	Potatoes
Farmer	8	2	5	20
Rancher	4	5	10	8

144. Refer to Table 2-3. The opportunity cost of 1 pound of meat for the farmer is
- 1/4 hour of labor.
  - 4 hours of labor.
  - 4 pounds of potatoes.
  - 1/4 pound of potatoes.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

145. Refer to Table 2-3. The opportunity cost of 1 pound of meat for the rancher is
- 4 hours of labor.
  - 5 hours of labor.
  - 4/5 pounds of potatoes.
  - 5/4 pounds of potatoes.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

146. Refer to Table 2-3. The opportunity cost of 1 pound of potatoes for the farmer is
- 8 hours of labor.
  - 2 hours of labor.
  - 4 pounds of meat.
  - 1/4 pound of meat.



ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

147. Refer to Table 2-3. The opportunity cost of 1 pound of potatoes for the rancher is
- 5 hours of labor.
  - 4 hours of labor.
  - 5/4 pounds of meat.
  - 4/5 pound of meat.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

148. Refer to Table 2-3. The rancher has a comparative advantage in
- neither good, and the farmer has a comparative advantage in both goods.
  - both goods, and the farmer has a comparative advantage in neither good.
  - potatoes, and the farmer has a comparative advantage in meat.
  - meat, and the farmer has a comparative advantage in potatoes.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

149. Refer to Table 2-3. The farmer and the rancher both could benefit if the farmer were to specialize in
- meat and the rancher were to specialize in potatoes.
  - potatoes and the rancher were to specialize in meat.
  - neither good and the rancher were to specialize in both goods.
  - none of the above; they cannot both benefit by specialization and trade.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

150. Use the table below to choose the correct answer. The table outlines the production possibilities of Robinson Crusoe and Joe Friday.

Friday		Crusoe	
Good Y	Good X	Good Y	Good X
1	3	2	3
2	2	4	2
3	1	6	1

If Crusoe and Friday want to maximize their consumption possibilities,

- Crusoe should specialize in producing good X and Friday in producing good Y, but no trade should be allowed.
- Crusoe should specialize in producing good X and Friday in producing good Y; trade should occur to maximize joint consumption.
- Crusoe should specialize in producing good Y and Friday in producing good X; trade should occur to maximize joint consumption.
- Not enough information is provided to conclusively answer this question.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade

151. Use the table below to choose the correct answer. The table outlines the production possibilities of Robinson Crusoe and Joe Friday.

Friday		Crusoe	
Good Y	Good X	Good Y	Good X
2	3	1	3
4	2	2	2
6	1	3	1

If Crusoe and Friday want to maximize their consumption possibilities,

- Crusoe should specialize in producing good X and Friday in producing good Y, but no trade should be allowed.
- Crusoe should specialize in producing good X and Friday in producing good Y; trade should occur to maximize joint consumption.
- Crusoe should specialize in producing good Y and Friday in producing good X; trade should occur to maximize joint consumption.
- both individuals should strive for self-sufficiency, which always maximizes output.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

152. Suppose you can type a paper in two hours or mow the lawn in four hours, while it takes your friend Gabriela eight hours to type a paper or two hours to mow the lawn. Which of the following is true?
- You have a comparative advantage in typing.
  - You have a comparative advantage in mowing the lawn.
  - You and Gabriela could save time if you mowed her lawn while she typed your paper.
  - You and Gabriela cannot gain from specialization and trade.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

153. If Xavier can produce sandwiches at a lower opportunity cost than Kimani, then
- Xavier has a comparative advantage in the production of sandwiches.
  - Kimani has a comparative advantage in the production of sandwiches.
  - Xavier should not produce sandwiches.
  - Xavier is capable of producing more sandwiches than Kimani in a given amount of time.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

154. If Terrell can produce more bagels in one day than Zori can produce in one day, then
- Terrell has a comparative advantage in the production of bagels.
  - Zori has a comparative advantage in the production of bagels.
  - Terrell has an absolute advantage in the production of bagels.
  - Terrell should produce bagels and Zori should spend her time on a different activity.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
 STA: DISC: Gains from trade, specialization and trade  
 TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

155. Darryl can build picnic tables twice as fast as Trevon. Darryl can assemble swing sets three times as fast as Trevon. The law of comparative advantage suggests that
- Darryl can gain only at Trevon's expense.
  - Trevon can gain only at Darryl's expense.
  - both can gain if Darryl specializes in assembling swing sets and Trevon in building picnic tables.
  - both can gain if Darryl specializes in building picnic tables and Trevon in assembling swing sets.

ANS: C                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

156. If Mia can either wash 10 cars or wax 2 cars during a day, and Daniel can either wash 17 cars or wax 2 cars during a day, then according to the law of comparative advantage,
- Daniel's opportunity cost of waxing a car is less than Mia's.
  - their total output can be expanded if Mia specializes in waxing and Daniel in washing.
  - their total output can be expanded if Mia specializes in washing and Daniel in waxing.
  - it would be impossible for Daniel and Mia to increase their total output through specialization and mutual exchange.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade  
TOP: Trade, Output, and Living Standards                      KEY: Bloom's: Application

157. What are the three basic questions faced by every economy?
- What, how, and for whom will goods be produced?
  - When, where, and how much will be produced?
  - Why, where, and when will goods be produced?
  - How, how much, and why will goods be produced?

ANS: A                      PTS: 1                      DIF: Easy                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Economic Organization  
KEY: Bloom's: Knowledge

158. Which of the following is not a basic question that each economy must answer?
- Which resources are scarce?
  - For whom shall the goods be produced?
  - How shall goods be produced?
  - What goods shall be produced?

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Economic Organization  
KEY: Bloom's: Comprehension

159. Three basic decisions must be made by all economies. What are they?
- How much will be produced; when will it be produced; who will produce it?
  - What goods will be produced; how will goods be produced; for whom will goods be produced?
  - What will be consumed; how will goods be consumed; for whom will goods be consumed?
  - How will the opportunity cost principle be applied; if the law of comparative advantage will be utilized, how will it be utilized; will the production possibilities constraint apply?

ANS: B                      PTS: 1                      DIF: Easy  
STA: DISC: Gains from trade, specialization and trade  
KEY: Bloom's: Knowledge

NAT: BUSPROG: Analytic  
TOP: Economic Organization

160. Even countries that depend primarily on market forces to resolve the basic economic questions will usually rely on the collective decision-making process to
- determine the prices of goods and resources.
  - allocate goods that are essential to life.
  - determine the distribution of income among citizens.
  - define and enforce private-property rights and designate the acceptable forms of competitive economic behavior.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: The role of government                      TOP: Economic Organization  
KEY: Bloom's: Comprehension

161. When collective decision making is utilized to resolve economic questions regarding the allocation of resources,
- decentralized decision making is inevitable.
  - central planning and political bargaining will replace market forces.
  - individual preferences are of no importance.
  - economic equality will result.

ANS: B                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: The role of government                      TOP: Economic Organization  
KEY: Bloom's: Comprehension

162. When collective decision making is utilized to resolve economic questions regarding the allocation of resources,
- the role of markets will be replaced by political decision making.
  - centralized decision making in all areas is inevitable.
  - the preferences of individuals are of no importance.
  - economic efficiency will be assured.

ANS: A                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: The role of government                      TOP: Economic Organization  
KEY: Bloom's: Comprehension

163. A form of economic organization that relies primarily on private ownership of productive assets, freedom of exchange, and market prices to allocate goods and resources is often called
- national socialism.
  - the welfare state.
  - a corporate economy.
  - capitalism.

ANS: D                      PTS: 1                      DIF: Moderate                      NAT: BUSPROG: Analytic  
STA: DISC: Gains from trade, specialization and trade                      TOP: Economic Organization  
KEY: Bloom's: Comprehension

164. A system of economic organization in which the ownership and control of productive capital assets rests with the state and in which resources are allocated through central planning and political decision making is called
- socialism.
  - a market economy.
  - a corporate economy.

d. capitalism.

ANS: A

PTS: 1

DIF: Moderate

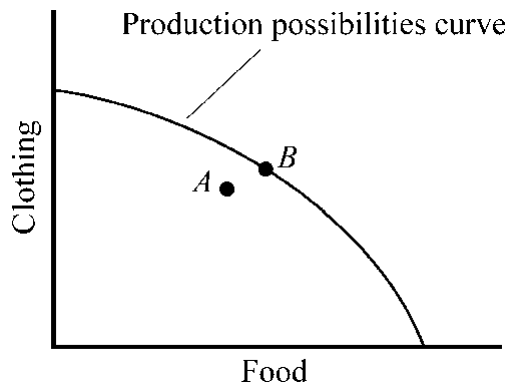
NAT: BUSPROG: Analytic

STA: DISC: The role of government

TOP: Economic Organization

KEY: Bloom's: Comprehension

**Figure 2-1**



165. In Figure 2-1, point A is
- unattainable.
  - inefficient.
  - efficient.
  - preferable to point B.

ANS: B

PTS: 1

DIF: Moderate

NAT: BUSPROG: Analytic

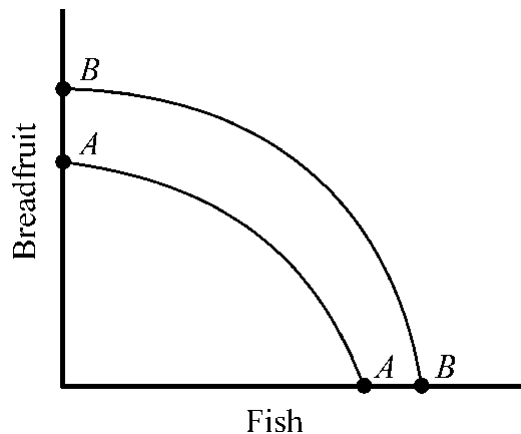
STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Analysis

MSC: Graphics Questions

**Figure 2-2**



166. Which of the following would most likely cause the production possibilities curve for breadfruit and fish to shift outward from *AA* to *BB* in Figure 2-2?
- a decrease in the labor force of the country
  - a sudden change in consumer preferences for more fish and less breadfruit
  - a major technological advance
  - a decrease in the capital stock

ANS: C

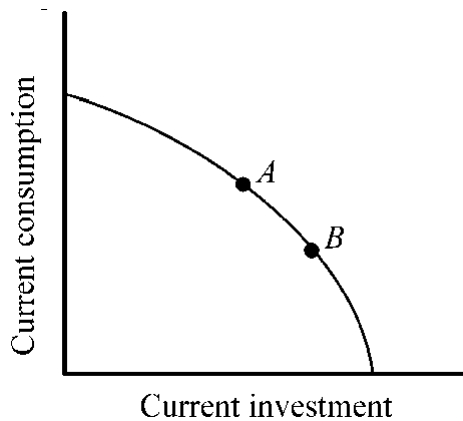
PTS: 1

DIF: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

**Figure 2-3**

167. Points A and B in Figure 2-3 indicate consumption and investment for two economies. Other things constant, which of the economies is likely to grow more rapidly in the future?
- economy A
  - economy B
  - They can be expected to grow at the same rate.
  - This is uncertain since growth is not influenced by the factors indicated in this example.

ANS: B

PTS: 1

DIF: Moderate

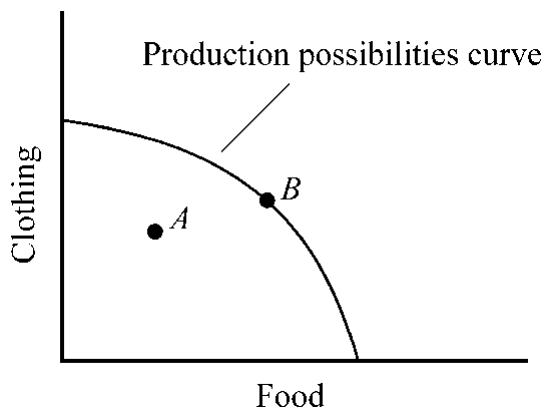
NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Analysis

MSC: Graphics Questions

**Figure 2-4**

168. Which of the following is true of Figure 2-4?
- If the economy operates at point A, it is impossible to produce more of both food and clothing.
  - If the economy operates at point B, it is impossible to increase the output of clothing without giving up food production.
  - If the economy operates at point A, resources are being used efficiently.
  - If the economy operates at point B, resources are being used inefficiently.

ANS: B

PTS: 1

DIF: Moderate

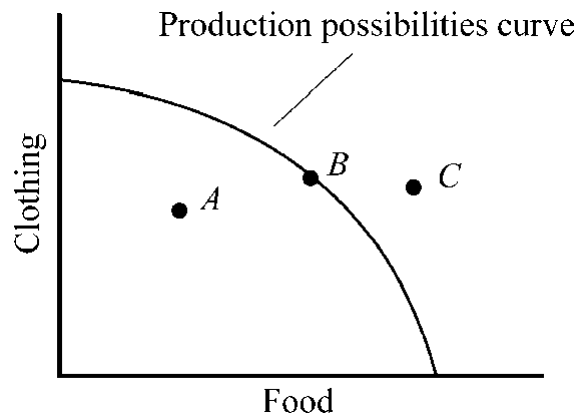
NAT: BUSPROG: Analytic

STA: DISC: Gains from trade, specialization and trade

TOP: Production Possibilities Curve

KEY: Bloom's: Analysis

**Figure 2-5**

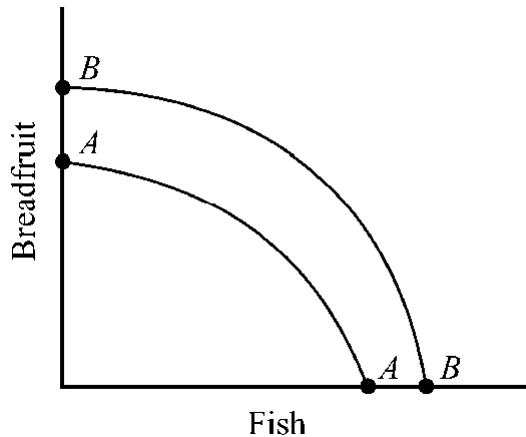


169. In Figure 2-5, which of the following is true?
- Point A is inefficient.
  - Point B is efficient.
  - Point C is unattainable.
  - All of the above are true.

ANS: D      PTS: 1  
 STA: DISC: Costs of production  
 KEY: Bloom's: Analysis

DIF: Moderate      NAT: BUSPROG: Analytic  
 TOP: Production Possibilities Curve  
 MSC: Graphics Questions

**Figure 2-6**

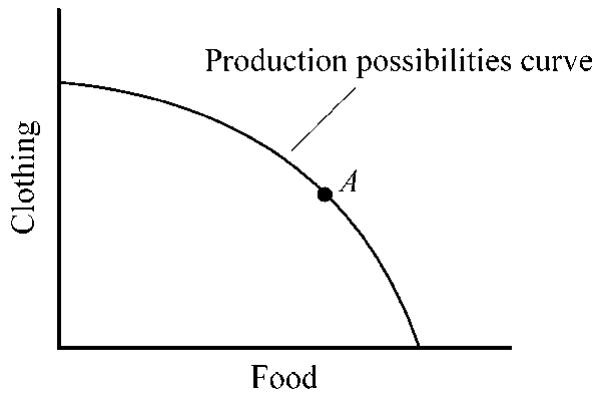


170. Which of the following will most likely shift the production possibilities curve for breadfruit and fish outward from AA to BB in Figure 2-6?
- an improvement in the form of economic organization
  - lower investment and a reduction in the country's capital stock
  - an increase in the price of breadfruit
  - a decrease in the average number of hours worked

ANS: A      PTS: 1  
 STA: DISC: Costs of production  
 KEY: Bloom's: Analysis

DIF: Moderate      NAT: BUSPROG: Analytic  
 TOP: Production Possibilities Curve  
 MSC: Graphics Questions

**Figure 2-7**



171. If an economy operates at point A on the production possibilities curve shown in Figure 2-7,
- to produce more food, it would have to reduce its production of clothing.
  - to produce more clothing, it would have to reduce the production of food.
  - it is operating efficiently.
  - all of the above would be correct.

ANS: D

PTS: 1

DIF: Moderate NAT: BUSPROG: Analytic

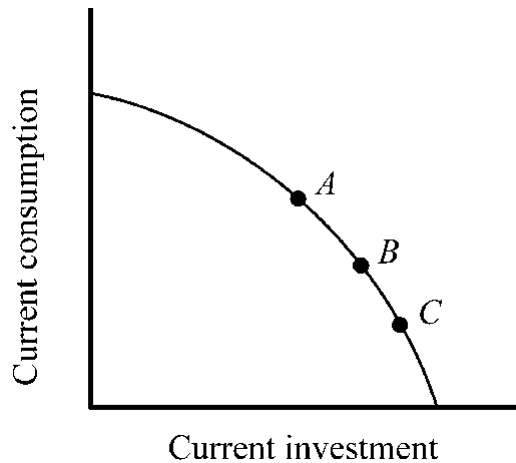
STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Analysis

MSC: Graphics Questions

**Figure 2-8**



172. Points A, B, and C in Figure 2-8 indicate consumption and investment for three economies. Other things constant, which of the economies is likely to grow more rapidly in the future?
- economy A
  - economy B
  - economy C
  - They would all be expected to grow at the same rate.

ANS: C

PTS: 1

DIF: Moderate NAT: BUSPROG: Analytic

STA: DISC: Costs of production

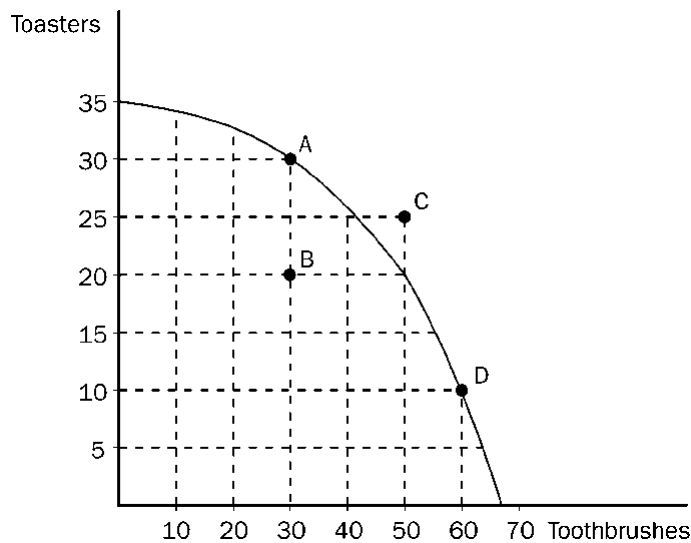
TOP: Production Possibilities Curve

KEY: Bloom's: Analysis

MSC: Graphics Questions

**Figure 2-9**





173. Refer to Figure 2-9. If the economy moves from point A to point D, the opportunity cost is
- 10 toasters.
  - 20 toasters.
  - 30 toasters.
  - 30 toothbrushes.

ANS: B      PTS: 1      DIF: Moderate      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production      TOP: Production Possibilities Curve  
 KEY: Bloom's: Analysis      MSC: Graphics Questions

174. Refer to Figure 2-9. The opportunity cost of obtaining 15 additional toasters by moving from point D to point C is
- 10 toothbrushes.
  - 20 toothbrushes.
  - 30 toothbrushes.
  - none of the above; the economy cannot move from point D to point C.

ANS: D      PTS: 1      DIF: Moderate      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production      TOP: Production Possibilities Curve  
 KEY: Bloom's: Analysis      MSC: Graphics Questions

175. Refer to Figure 2-9. The opportunity cost of obtaining 10 additional toasters by moving from point B to point A is
- 10 toothbrushes.
  - 20 toothbrushes.
  - 30 toothbrushes.
  - zero, since the economy has the additional resources to produce 10 additional toasters.

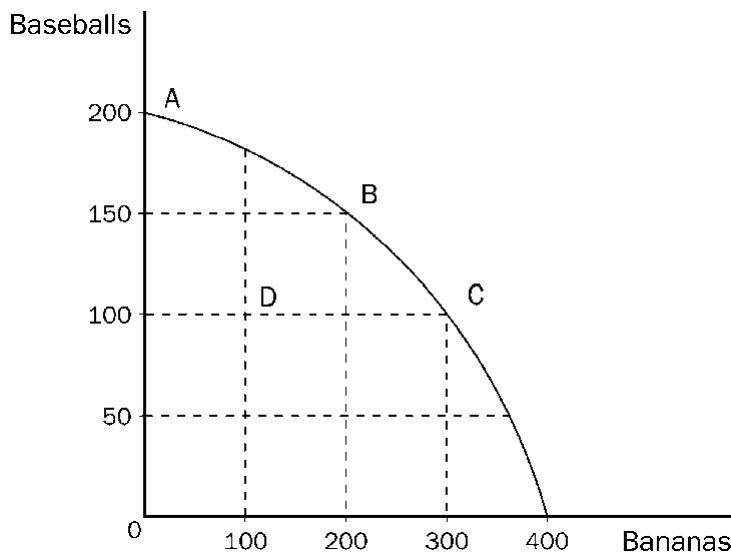
ANS: D      PTS: 1      DIF: Moderate      NAT: BUSPROG: Analytic  
 STA: DISC: Costs of production      TOP: Production Possibilities Curve  
 KEY: Bloom's: Analysis      MSC: Graphics Questions

176. Refer to Figure 2-9. Suppose the economy is producing at point B. Which of the following statements would best explain this situation?
- The economy lacks the resources to produce at a more desirable point.
  - The economy's available technology prevents it from producing at a more desirable point.
  - There is widespread unemployment in the economy.
  - Any of the above statements would be a legitimate explanation for this situation.

ANS: C                      PTS: 1  
STA: DISC: Costs of production  
KEY: Bloom's: Analysis

DIF: Moderate           NAT: BUSPROG: Analytic  
TOP: Production Possibilities Curve  
MSC: Graphics Questions

**Figure 2-10**



177. Refer to Figure 2-10. What is the opportunity cost of the movement from point A to point C?
- 50 baseballs
  - 100 baseballs
  - 100 bananas
  - 300 bananas

ANS: B                      PTS: 1  
STA: DISC: Costs of production  
KEY: Bloom's: Analysis

DIF: Moderate           NAT: BUSPROG: Analytic  
TOP: Production Possibilities Curve  
MSC: Graphics Questions

178. Refer to Figure 2-10. A movement from point C to point D could be caused by
- unemployment.
  - a decrease in society's preference for bananas.
  - fewer resources available for production of bananas.
  - All of the above are correct.

ANS: A                      PTS: 1  
STA: DISC: Costs of production  
KEY: Bloom's: Analysis

DIF: Moderate           NAT: BUSPROG: Analytic  
TOP: Production Possibilities Curve  
MSC: Graphics Questions

179. Refer to Figure 2-10. If this economy put all available resources into the production of bananas, it could produce
- 200 bananas and also 150 baseballs.
  - 300 bananas and also 100 baseballs.
  - 400 bananas and no baseballs.
  - It is impossible to know unless we know the quantity of resources available.

ANS: C                      PTS: 1  
STA: DISC: Costs of production  
KEY: Bloom's: Analysis

DIF: Moderate           NAT: BUSPROG: Analytic  
TOP: Production Possibilities Curve  
MSC: Graphics Questions

180. Refer to Figure 2-10. If the economy moves from point C to point B, then which of the following statements is correct?
- a. The economy benefited from a technological advance in the production of baseballs.
  - b. The opportunity cost of each additional baseball is 2 bananas.
  - c. The opportunity cost of each additional banana is 2 baseballs.
  - d. The move involves no opportunity cost; it simply reflects the desires of the economy's citizens.

ANS: B

PTS: 1

DIF: Moderate

NAT: BUSPROG: Analytic

STA: DISC: Costs of production

TOP: Production Possibilities Curve

KEY: Bloom's: Analysis

MSC: Graphics Questions