

***Microeconomics, 4e (Hubbard/O'Brien)***

**Chapter 2 Trade-offs, Comparative Advantage, and the Market System**

**2.1 Production Possibilities Frontiers and Opportunity Costs**

**1) Scarcity**

A) stems from the incompatibility between limited resources and unlimited wants.

B) can be overcome by discovering new resources.

C) can be eliminated by rationing products.

D) is a bigger problem in market economies than in socialist economies.

Answer: A

Diff: 2 Page Ref: 40/40

Topic: Scarcity

\*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

2) BMW recently decided to build a manufacturing plant in Shenyang, China. At this plant, BMW is able to take advantage of paying lower wages to its Chinese workers than it pays its German workers, but it also sacrifices the high levels of technical training possessed by its German workers. In deciding to open the Shenyang plant, BMW

A) faced no trade-offs because employing lower-wage workers increased efficiency.

B) faced a trade-off between higher cost and lower precision.

C) adopted a negative technological change because it replaced high-skilled workers with low-skilled workers.

D) eroded some of its competitiveness in the luxury car market because of its decreased cost of production.

Answer: B

Diff: 2 Page Ref: 39/39

Topic: Opportunity Cost

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Chapter Opener: Managers Making Choices at BMW

3) The principle of opportunity cost is that

A) in a market economy, taking advantage of profitable opportunities involves some money cost.

B) the economic cost of using a factor of production is the alternative use of that factor that is given up.

C) taking advantage of investment opportunities involves costs.

D) the cost of production varies depending on the opportunity for technological application.

Answer: B

Diff: 3 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

4) The production possibilities frontier shows the \_\_\_\_\_ combinations of two products that may be produced in a particular time period with available resources.

A) minimum attainable

B) maximum attainable

C) only

D) equitable

Answer: B

Diff: 2 Page Ref: 40/40

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

5) The production possibilities frontier model shows that

A) if consumers decide to buy more of a product its price will increase.

B) a market economy is more efficient in producing goods and services than is a centrally planned economy.

C) economic growth can only be achieved by free market economies.

D) if all resources are fully and efficiently utilized, more of one good can be produced only by producing less of another good.

Answer: D

Diff: 2 Page Ref: 40/40

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

- 6) The production possibilities frontier model assumes which of the following?
- A) Labor, capital, land and natural resources are unlimited in quantity.
  - B) The economy produces only two products.
  - C) Any level of the two products that the economy produces is currently possible.
  - D) The level of technology is variable.

Answer: B

Diff: 2 Page Ref: 40/40

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

- 7) The attainable production points on a production possibility curve are
- A) the horizontal and vertical intercepts.
  - B) the points along the production possibilities frontier.
  - C) the points outside the area enclosed by the production possibilities frontier.
  - D) the points along and inside the production possibility frontier.

Answer: D

Diff: 2 Page Ref: 40/40

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

- 8) The points outside the production possibilities frontier are
- A) efficient.
  - B) attainable.
  - C) inefficient.
  - D) unattainable.

Answer: D

Diff: 2 Page Ref: 41/41

Topic: Production Possibilities Frontiers

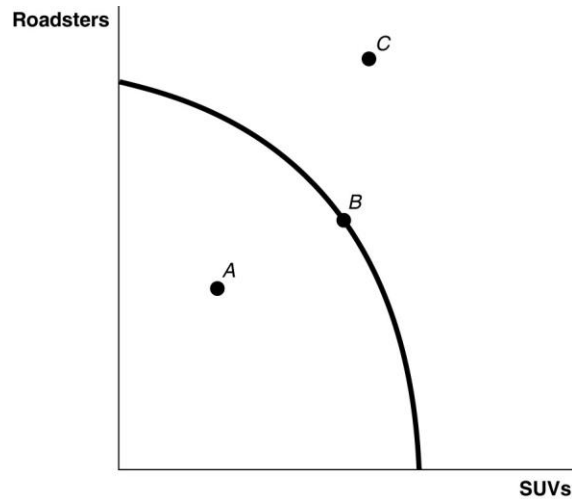
\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-1**



- 9) **Refer to Figure 2-1.** Point A is
- A) technically efficient.
  - B) unattainable with current resources.
  - C) inefficient in that not all resources are being used.
  - D) the equilibrium output combination.

Answer: C

Diff: 1 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

- 10) **Refer to Figure 2-1.** Point B is
- A) technically efficient.
  - B) unattainable with current resources.
  - C) inefficient in that not all resources are being used.
  - D) the equilibrium output combination.

Answer: A

Diff: 1 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

11) *Refer to Figure 2-1.* Point C is

- A) technically efficient.
- B) unattainable with current resources.
- C) inefficient in that not all resources are being used.
- D) is the equilibrium output combination.

Answer: B

Diff: 1 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

12) In a production possibilities frontier model, a point \_\_\_\_\_ the frontier is productively inefficient.

- A) along
- B) inside
- C) outside
- D) at either intercept of

Answer: B

Diff: 1 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

13) Bella can produce either a combination of 60 silk roses and 80 silk leaves or a combination of 70 silk roses and 55 silk leaves. If she now produces 60 silk roses and 80 silk leaves, what is the opportunity cost of producing an additional 10 silk roses?

- A) 2.5 silk leaves
- B) 10 silk leaves
- C) 25 silk leaves
- D) 55 silk leaves

Answer: C

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

14) If the production possibilities frontier is \_\_\_\_\_, then opportunity costs are constant as more of one good is produced.

- A) bowed out
- B) bowed in
- C) non-linear
- D) linear

Answer: D

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-2**

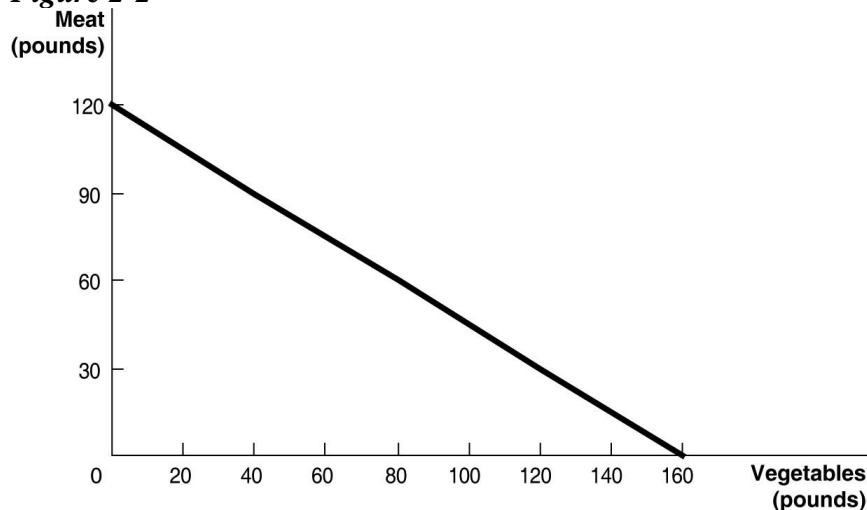


Figure 2-2 above shows the production possibilities frontier for Mendonca, an agrarian nation that produces two goods, meat and vegetables.

15) **Refer to Figure 2-2.** What is the opportunity cost of one pound of vegetables?

- A)  $\frac{3}{4}$  pound of meat
- B) 1.2 pounds of meat
- C)  $1\frac{1}{3}$  pounds of meat
- D) 12 pounds of meat

Answer: A

Diff: 2 Page Ref: 42-43/42-43

Topic: Opportunity Cost

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Rosie's Boston Bakery

16) **Refer to Figure 2-2.** What is the opportunity cost of one pound of meat?

- A)  $\frac{3}{4}$  pound of vegetables
- B)  $1\frac{1}{3}$  pounds of vegetables
- C) 1.6 pounds of vegetables
- D) 16 pounds of vegetables

Answer: B

Diff: 2 Page Ref: 42-43/42-43

Topic: Opportunity Cost

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Rosie's Boston Bakery

17) **Refer to Figure 2-2.** Suppose Mendonca is currently producing 60 pounds of vegetables per period. How much meat is it also producing, assuming that resources are fully utilized?

- A) 45 pounds of meat
- B) 75 pounds of meat
- C) 80 pounds of meat
- D) 100 pounds of meat

Answer: B

Diff: 2 Page Ref: 42-43/42-43

Topic: Opportunity Cost

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Rosie's Boston Bakery

18) **Refer to Figure 2-2.** The linear production possibilities frontier in the figure indicates that

- A) Mendonca has a comparative advantage in the production of vegetables.
- B) Mendonca has a comparative disadvantage in the production of meat.
- C) the tradeoff between meat and vegetables is constant.
- D) it is progressively more expensive to produce meat.

Answer: C

Diff: 2 Page Ref: 42-43/42-43

Topic: Opportunity Cost

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Rosie's Boston Bakery

19) A production possibilities frontier with a bowed outward shape indicates

- A) the possibility of inefficient production.
- B) constant opportunity costs as more and more of one good is produced.
- C) increasing opportunity costs as more and more of one good is produced.
- D) decreasing opportunity costs as more and more of one good is produced.

Answer: C

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

20) Increasing opportunity cost is represented by a \_\_\_\_\_ production possibilities frontier.

- A) linear
- B) bowed in
- C) bowed out
- D) vertical

Answer: C

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

21) The slope of a production possibilities frontier

- A) has no economic relevance or meaning.
- B) is always constant.
- C) is always varying.
- D) measures the opportunity cost of producing one more unit of a good.

Answer: D

Diff: 1 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None



22) \_\_\_\_\_ marginal opportunity cost implies that the more resources already devoted to any activity, the payoff from allocating yet more resources to that activity increases by progressively smaller amounts.

- A) Increasing
- B) Decreasing
- C) Constant
- D) Negative

Answer: A

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Reflective Thinking

Special Feature: None

23) If opportunity costs are constant, the production possibilities frontier would be graphed as

- A) a ray from the origin.
- B) a positively sloped straight line.
- C) a negatively sloped curve bowed in toward the origin.
- D) a negatively sloped straight line.

Answer: D

Diff: 1 Page Ref: 44/44

Topic: Opportunity Cost

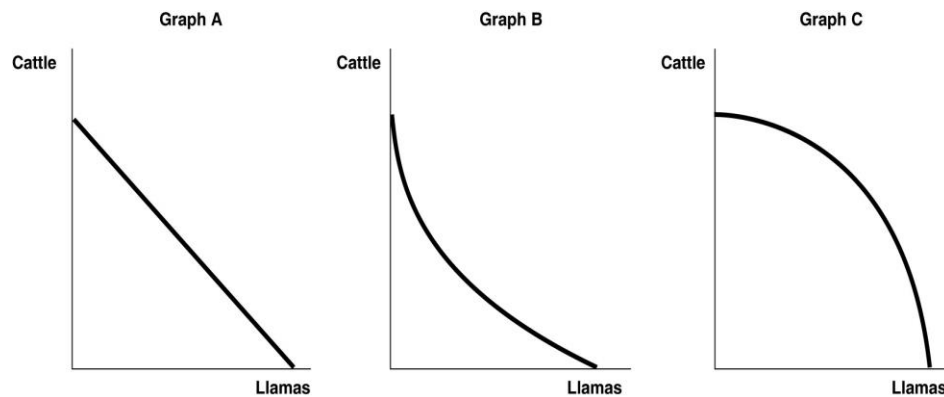
\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-3**



24) **Refer to Figure 2-3.** Sergio Vignetto raises cattle and llamas on his land. His land is equally suitable for raising either animal. Which of the graphs in Figure 2-3 represent his production possibilities frontier?

- A) Graph A
- B) Graph B
- C) Graph C
- D) either Graph A or Graph C
- E) either Graph B or Graph C

Answer: A

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

25) **Refer to Figure 2-3.** Sergio Vignetto raises cattle and llamas on his land. A portion of his land is more suitable for raising cattle, and the other portion is better suited for raising llamas. Which of the graphs in Figure 2-3 represent his production possibilities frontier?

- A) Graph A
- B) Graph B
- C) Graph C
- D) either Graph A or Graph C
- E) either Graph B or Graph C

Answer: C

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

**Table 2-1**

**Production choices for Tomaso's Trattoria**

<b>Choice</b>	<b>Quantity of Pizzas Produced</b>	<b>Quantity of Calzones Produced</b>
A	48	0
B	36	15
C	24	30
D	12	45
E	0	60

26) **Refer to Table 2-1.** Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 24 pizzas and 30 calzones would appear

- A) along Tomaso's production possibilities frontier.
- B) inside Tomaso's production possibilities frontier.
- C) outside Tomaso's production possibilities frontier.
- D) at the horizontal intercept of Tomaso's production possibilities frontier.

Answer: A

Diff: 2 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

27) **Refer to Table 2-1.** Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 36 pizzas and 30 calzones would appear

- A) along Tomaso's production possibilities frontier.
- B) inside Tomaso's production possibilities frontier.
- C) outside Tomaso's production possibilities frontier.
- D) at the horizontal intercept of Tomaso's production possibilities frontier.

Answer: C

Diff: 2 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

28) **Refer to Table 2-1.** Assume Tomaso's Trattoria only produces pizzas and calzones. A combination of 24 pizzas and 15 calzones would appear

- A) along Tomaso's production possibilities frontier.
- B) inside Tomaso's production possibilities frontier.
- C) outside Tomaso's production possibilities frontier.
- D) at the horizontal intercept of Tomaso's production possibilities frontier.

Answer: B

Diff: 2 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

29) **Refer to Table 2-1.** Assume Tomaso's Trattoria only produces pizzas and calzones. Tomaso faces \_\_\_\_\_ opportunity costs in the production of pizzas and calzones.

- A) increasing
- B) decreasing
- C) constant
- D) negative

Answer: C

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

30) An inward shift of a nation's production possibilities frontier can occur due to

- A) a reduction in unemployment.
- B) a natural disaster like a hurricane or bad earthquake.
- C) a change in the amounts of one good desired.
- D) an increase in the labor force.

Answer: B

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

- 31) An outward shift of a nation's production possibilities frontier represents
- A) economic growth.
  - B) rising prices of the two goods on the production possibilities frontier model.
  - C) an impossible situation.
  - D) a situation in which a country produces more of one good and less of another.

Answer: A

Diff: 1 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

- 32) Economic decline (negative growth) is represented on a production possibilities frontier model by the production possibility frontier

- A) shifting outward.
- B) shifting inward.
- C) becoming steeper.
- D) becoming flatter.

Answer: B

Diff: 1 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

- 33) Without an increase in the supplies of factors of production, how can a nation achieve economic growth?

- A) by producing more high-value goods and less of low-value goods
- B) through technological advancement which enables more output with the same quantity of resources
- C) by lowering the prices of factors of production
- D) by increasing the prices of factors of production

Answer: B

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 17: Explain the effects of the factors of production, factor demand, and factor supply and labor in factor markets

AACSB: Reflective Thinking

Special Feature: None

34) Which of the following would shift a nation's production possibilities frontier outward?

- A) discovering a cheap way to convert sunshine into electricity
- B) an increase in demand for the nation's products
- C) a decrease in the unemployment rate
- D) a law requiring workers to retire at age 50

Answer: A

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

**Figure 2-4**

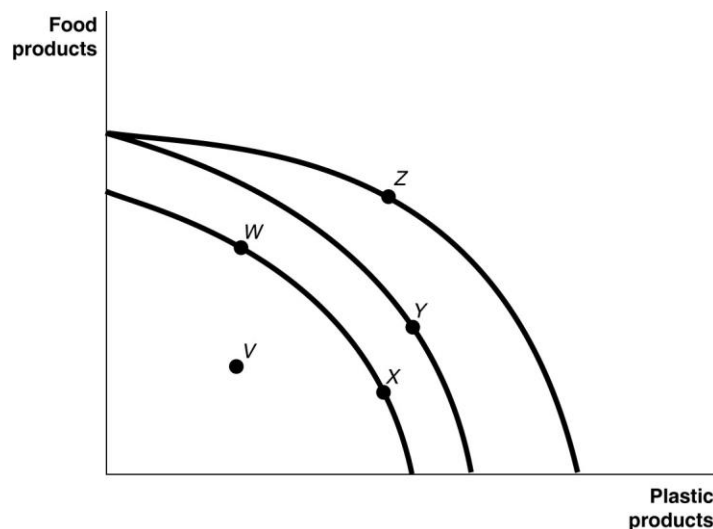


Figure 2-4 shows various points on three different production possibilities frontiers for a nation.

35) **Refer to Figure 2-4.** A movement from X to Y

- A) could be due to a change in consumers' tastes and preferences.
- B) could occur because of an influx of immigrant labor.
- C) is the result of advancements in food production technology only, with no change in the technology for plastic production.
- D) is the result of advancements in plastic production technology only, with no change in food production technology.

Answer: B

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

- 36) **Refer to Figure 2-4.** A movement from *Y* to *Z*
- A) represents an increase in the demand for plastic products.
  - B) could occur because of general technological advancements.
  - C) is the result of advancements in food production technology.
  - D) is the result of advancements in plastic production technology.

Answer: D

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

- 37) **Refer to Figure 2-4.** Consider the following events:
- a. an increase in the unemployment rate
  - b. a decrease in a nation's money supply
  - c. a war that kills a significant portion of a nation's population

Which of the events listed above could cause a movement from *Y* to *W*?

- A) a, b and c
- B) a and b only
- C) a and c only
- D) a only
- E) c only

Answer: E

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

38) **Refer to Figure 2-4.** Consider the following movements:

- a. from point *V* to point *W*
- b. from point *W* to point *Y*
- c. from point *Y* to point *Z*

Which of the movements listed above represents economic growth?

- A) a, b, and c
- B) b and c only
- C) a only
- D) b only

Answer: B

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

39) **Refer to Figure 2-4.** Consider the following events:

- a. a decrease in the unemployment rate
- b. general technological advancement
- c. an increase in consumer wealth

Which of the events listed above could cause a movement from *V* to *W* ?

- A) a only
- B) a and b only
- C) b and c only
- D) a, b, and c

Answer: A

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None



40) **Refer to Figure 2-4.** Consider the following events:

- a. a reduction in the patent protection period to no more than 2 years
- b. a war that destroys a substantial portion of a nation's capital stock
- c. the lack of secure and enforceable property rights system

Which of the events listed above could cause a movement from *W* to *V*?

- A) a only
- B) a and b only
- C) a and c only
- D) b and c only
- E) a, b, and c

Answer: C

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

41) The Great Depression of the 1930s with a large number of workers and factories unemployed would be represented in a production possibilities frontier graph by

- A) a point inside the frontier.
- B) a point outside the frontier.
- C) a point on the frontier.
- D) an intercept on either the vertical or the horizontal axis.

Answer: A

Diff: 2 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

42) Suppose there is no unemployment in the economy and society decides that it wants more of one good. Which of the following statements is true?

- A) It can only achieve this with an advance in technology.
- B) It can increase output without giving up another good.
- C) It can only achieve this with an increase in resource supplies.
- D) It will have to give up production and consumption of some other good.

Answer: D

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

43) If society decides it wants more of one good and all resources are fully utilized, then

- A) it is unable to do this unless technology advances.
- B) additional resource supplies will have to be found.
- C) it has to give up some of another good and incur some opportunity costs.
- D) more unemployment will occur.

Answer: C

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Reflective Thinking

Special Feature: None

44) According to the production possibility model, if more resources are allocated to the production of physical and human capital, then which of the following is likely to happen?

- A) fewer goods will be produced for consumption today.
- B) the production possibilities frontier will be shift inward in the future
- C) future economic growth will decline.
- D) the country's total production will fall.

Answer: A

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

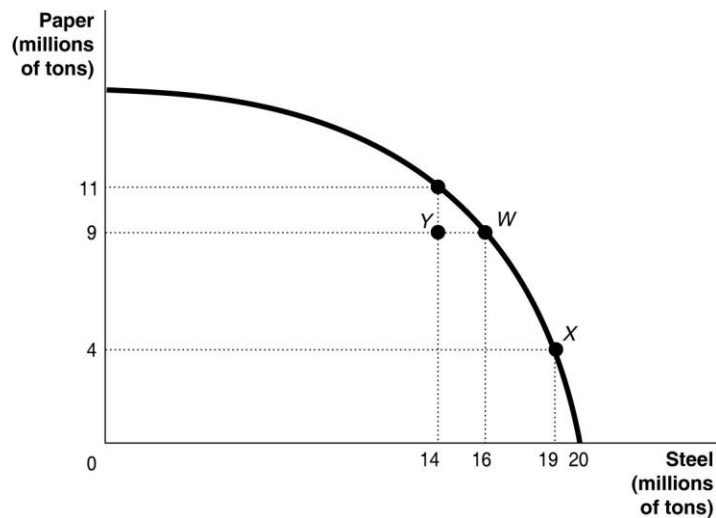
\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

**Figure 2-5**



45) **Refer to Figure 2-5.** If the economy is currently producing at point Y, what is the opportunity cost of moving to point W?

- A) 2 million tons of steel
- B) zero
- C) 9 million tons of paper
- D) 16 million tons of paper

Answer: B

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

46) **Refer to Figure 2-5.** If the economy is currently producing at point W, what is the opportunity cost of moving to point X?

- A) 3 million tons of steel
- B) 19 million tons of steel
- C) 5 million tons of paper
- D) 9 million tons of paper

Answer: C

Diff: 1 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

Special Feature: None

47) In a report made to the U.S. Congress in 2001, the National Academy of Sciences cautioned that if fuel economy encourages the production of smaller and lighter cars, "Some additional traffic fatalities would be expected." This statement suggests that

A) U.S. auto manufacturers are more concerned about producing fuel efficient cars to compete with their Japanese and South Korean rivals than about consumer safety.

B) there is a tradeoff between safety and fuel economy.

C) society should value safety more highly than fuel economy.

D) society should value fuel economy more highly than consumer safety because of the long term environment benefits generated by less gasoline use.

Answer: B

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

48) Suppose your expenses for this term are as follows: tuition: \$12,000, room and board: \$6,500, books and other educational supplies: \$1,500. Further, during the term, you can only work part-time and earn \$3,500 instead of your full-time salary of \$14,000. What is the opportunity cost of going to college this term, assuming that your room and board expenses would be the same even if you did not go to college?

A) \$13,500

B) \$20,000

C) \$24,000

D) \$30,500

Answer: C

Diff: 3 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

- 49) The opportunity cost of taking a semester-long economics class is
- A) the cost of tuition and fees only.
  - B) the value of the time spent in the classroom.
  - C) zero because there is no admission charged if you are enrolled in the course.
  - D) equal to the highest value of an alternative use of the time and money spent on the class.
  - E) the knowledge and enjoyment you receive from attending the class.

Answer: D

Diff: 2 Page Ref: 41/41

Topic: Opportunity Cost

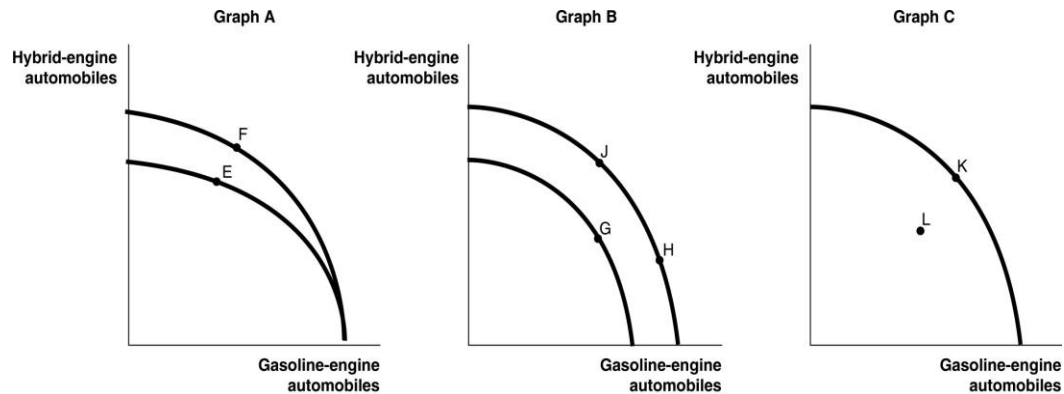
\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-6**



General Motors recently approved for production the Cadillac Converj, an electric car based on its Chevy Volt. The Converj will feature a "Generation 1.5 Voltec" powertrain, with a hybrid engine that runs on a combination of electricity and gasoline. Assume GM chooses to produce both hybrid-engine vehicles and gasoline-engine vehicles for its Cadillac brand. Figure 2-6 shows changes to its production possibilities frontier in response to new developments and different strategic production decisions.

50) **Refer to Figure 2-6.** Assume a technological advancement greatly reduces the cost to produce hybrid-engine vehicles. This is best represented by the

- A) movement from *E* to *F* in Graph A.
- B) movement from *G* to *H* in Graph B.
- C) movement from *K* to *L* in Graph C.
- D) movement from *H* to *J* in Graph B.

Answer: A

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: An Inside LOOK: Managers at General Motors Approve Production of a Plug-in Cadillac

51) **Refer to Figure 2-6.** In response to changing consumer demands, GM has cut back on the production of hybrids and increased its production of gasoline-powered vehicles. This strategy is best represented by the

- A) movement from *F* to *E* in Graph A.
- B) movement from *G* to *J* in Graph B.
- C) movement from *L* to *K* in Graph C.
- D) movement from *J* to *H* in Graph B.

Answer: D

Diff: 2 Page Ref: 45/45

Topic: Opportunity Cost

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: An Inside LOOK: Managers at General Motors Approve Production of a Plug-in Cadillac

52) **Refer to Figure 2-6.** Assume that in 2011, GM was able to reopen one of its factories after an extensive remodelling which now allows for the production of both types of vehicles. This is best represented by the

- A) movement from *E* to *F* in Graph A.
- B) movement from *H* to *J* in Graph B.
- C) movement from *L* to *K* in Graph C.
- D) movement from *J* to *G* in Graph B.

Answer: C

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: An Inside LOOK: Managers at General Motors Approve Production of a Plug-in Cadillac

53) The U.S. government provides health care to about 30 percent of the population through programs such as Medicare and Medicaid. The Congressional Budget Office estimates that as the U.S. population ages and medical costs continue to rise, federal government spending on Medicare will

- A) cause the federal government to go bankrupt within the next 5 years.
- B) leave no funds for Medicaid, which will virtually eliminate this program.
- C) more than double over the next 10 years.
- D) start to decrease, since Medicare will be funded by social security contributions beginning in 2012.

Answer: C

Diff: 1 Page Ref: 43-44/43-44

Topic: Economic Growth

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: Making the Connection: Facing Trade-Offs in Health Care Spending

54) A decrease in the unemployment rate may be represented as a movement from a point on the production possibilities frontier to a point outside the frontier.

Answer: FALSE

Diff: 2 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

55) If a country is producing efficiently and is on the production possibilities frontier, the only way to produce more of one good is to produce less of the other.

Answer: TRUE

Diff: 1 Page Ref: 41/41

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

56) Consider a country that produces only two goods: kayaks and coconuts. Suppose it is possible for this country to increase its production of kayaks without producing fewer coconuts. In this case, its current output combination is efficient.

Answer: FALSE

Diff: 2 Page Ref: 40/40

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

57) Any output combination outside a production possibility frontier is associated with unused or underutilized resources.

Answer: FALSE

Diff: 1 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None



58) An increase in the labor force shifts the production possibility frontier inwards over time.

Answer: FALSE

Diff: 1 Page Ref: 45/45

Topic: Economic Growth

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

59) If additional units of a good could be produced at a constant opportunity cost, the production possibility frontier would be bowed outward (concave).

Answer: FALSE

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

60) On a diagram of a production possibility frontier, opportunity cost is represented by the production possibility frontier shifting outward.

Answer: FALSE

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

61) To increase gas mileage, automobile manufacturers make cars small and light. Large cars absorb more of the impact of an accident than small cars but yield lower gas mileage. These facts suggest that a negative relationship exists between safety and gas mileage.

Answer: TRUE

Diff: 2 Page Ref: 40/40

Topic: Production Possibilities Frontiers

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Economics in Your Life: The Trade-offs When You Buy a Car

62) What is a production possibilities frontier? What do points along the frontier represent? What do points inside and outside the frontier represent?

Answer: A production possibilities frontier is a curve showing the maximum attainable combinations of two products that may be produced with available resources and current technology. Points along a production possibilities frontier are attainable with the resources available and are efficient. Points inside the frontier are attainable but inefficient. Points outside the frontier are unattainable.

Diff: 2 Page Ref: 40-41/40-41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

63) What shape does a production possibilities frontier take if it displays increasing opportunity costs? What shape does a production possibilities frontier take if it displays constant opportunity costs? Which shape is most common in production situations?

Answer: A production possibilities frontier which displays increasing opportunity costs is bowed out. A production possibilities frontier which displays constant opportunity costs is linear. A bowed out production possibilities frontier is most common in production situations.

Diff: 2 Page Ref: 44/44

Topic: Opportunity Cost

\*: Recurring

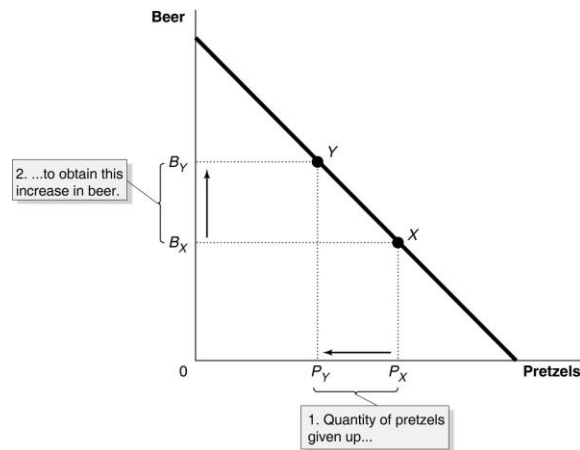
Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

- 64) a. Draw a production possibilities frontier for a country that produces two goods, beer and pretzels. Assume that resources are equally suited to both tasks.  
 b. Define opportunity costs.  
 c. Use your production possibilities frontier graph to demonstrate the principle of opportunity costs.

Answer: a. The PPF is linear to reflect the fact that resources are equally suited to both tasks.



- b. Opportunity cost is defined as the highest valued alternative that must be forgone by taking an action.  
 c. In the PPF graph in part (a), suppose the country is currently producing at point X and wishes to move to point Y so that it can produce more beer. The only way it can obtain more beer is to give up some amount of pretzels.

Diff: 2 Page Ref: 41/41

Topic: Production Possibilities Frontiers

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Analytic Skills

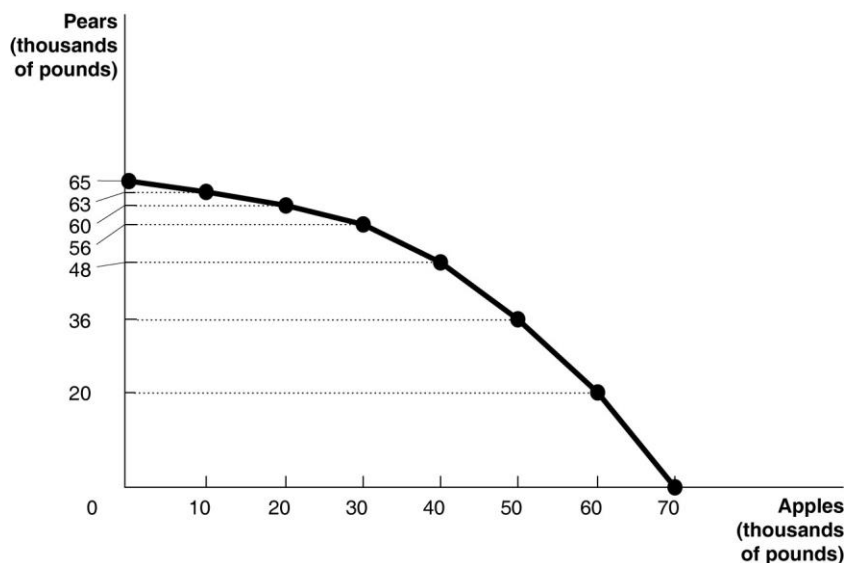
Special Feature: None

**Table 2-2**

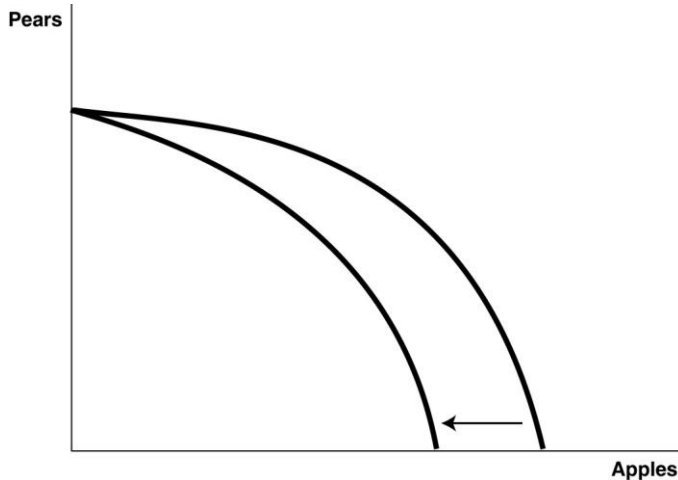
Possible Output Combinations	Apples (thousands of pounds)	Pears (thousands of pounds)
A	70	0
B	60	20
C	50	36
D	40	48
E	30	56
F	20	60
G	10	63
H	0	65

65) **Refer to Table 2-2.** The Fruit Farm produces only apples and pears. The table above shows the maximum possible output combinations of the two fruits using all resources and currently available technology.

- Graph The Fruit Farm's production possibilities frontier. Put apples on the horizontal axis and pears on the vertical axis. Be sure to identify the output combination points on your diagram.
  - Suppose The Fruit Farm is currently producing at point *D*. What is the opportunity cost of producing an additional 8,000 pounds of pears?
  - Suppose The Fruit Farm is currently producing at point *D*. What happens to the opportunity cost of producing more and more pears? Does it increase, decrease or remain constant? Explain your answer.
  - Suppose The Fruit Farm is currently producing at point *G*. What happens to the opportunity cost of producing more and more apples? Does it increase, decrease or remain constant? Explain your answer.
  - Suppose The Fruit Farm is plagued by the apple maggot infestation which destroys apple trees but not pears. Show in a graph what happens to its PPF.
- Answer: a.



- b. 10,000 pounds of apples
- c. It increases. For example to move to *E*, The Fruit Farm has to give up 10,000 pounds of apples to produce an additional 8,000 pounds of pears. For each additional 10,000 pounds of apples foregone, the payoff in terms of pears gets progressively smaller.
- d. It increases. Each time it wants to produce an additional 10,000 pounds of apples, more and more pears must be given up.
- e.



Diff: 3 Page Ref: 42-43/42-43

Topic: Production Possibilities Frontiers

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Solved Problem: Drawing a Production Possibilities Frontier for Rosie's Boston Bakery

## 2.2 Comparative Advantage and Trade

- 1) You have an absolute advantage whenever you
  - A) are better educated than someone else.
  - B) can produce more of something than others with the same resources.
  - C) prefer to do one particular activity.
  - D) can produce something at a lower opportunity cost than others.

Answer: B

Diff: 1 Page Ref: 48/48

Topic: Absolute Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Table 2-3**

	<b>Serena</b>	<b>Haley</b>
Bracelets	8	9
Necklaces	16	12

Table 2-3 shows the output per week of two jewelers, Serena and Haley. They can either devote their time to making bracelets or making necklaces.

2) **Refer to Table 2-3.** Which of the following statements is true?

- A) Haley has an absolute advantage in making both products.
- B) Serena has an absolute advantage in making both products.
- C) Haley has an absolute advantage in making bracelets and Serena in making necklaces.
- D) Haley has an absolute advantage in making necklaces and Serena in making bracelets.

Answer: C

Diff: 1 Page Ref: 48/48

Topic: Absolute Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

3) **Refer to Table 2-3.** What is Haley's opportunity cost of making a bracelet?

- A) 3/4 of a bracelet
- B) 3 bracelets
- C) 1 1/3 necklaces
- D) 2 necklaces

Answer: C

Diff: 2 Page Ref: 49/49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

4) **Refer to Table 2-3.** What is Haley's opportunity cost of making a necklace?

- A) 3/4 of a bracelet
- B) 3 bracelets
- C) 1 1/3 necklaces
- D) 2 necklaces

Answer: A

Diff: 2 Page Ref: 49/49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

5) **Refer to Table 2-3.** What is Serena's opportunity cost of making a bracelet?

- A) 2 necklaces
- B) 1/2 of a bracelet
- C) 1/2 of a necklace
- D) 3/4 of a bracelet

Answer: A

Diff: 2 Page Ref: 49/49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

6) **Refer to Table 2-3.** What is Serena's opportunity cost of making a necklace?

- A) 2 necklaces
- B) 1/2 of a bracelet
- C) 1/2 of a necklace
- D) 3/4 of a bracelet

Answer: B

Diff: 2 Page Ref: 49/49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

7) **Refer to Table 2-3.** Which of the following statements is true?

- A) Haley has a comparative advantage in making both products.
- B) Serena has a comparative advantage in making both products.
- C) Haley has a comparative advantage in making bracelets and Serena in making necklaces.
- D) Haley has a comparative advantage in making necklaces and Serena in making bracelets.

Answer: C

Diff: 3 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

8) Comparative advantage means the ability to produce a good or service

- A) at a lower selling price than any other producer.
- B) at a lower opportunity cost than any other producer.
- C) of a higher quality than any other producer.
- D) at a higher profit level than any other producer.

Answer: B

Diff: 1 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

9) Specializing in the production of a good or service in which one has a comparative advantage enables a country to do all of the following *except*

- A) engage in mutually beneficial trade with other nations.
- B) increase the variety of products that it can consume with no increase in resources.
- C) consume a combination of goods that lies outside its own production possibilities frontier.
- D) produce a combination of goods that lies outside its own production possibilities frontier.

Answer: D

Diff: 3 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None



10) For each bottle of wine that Italy produces, it gives up the opportunity to make 10 pounds of cheese. France can produce 1 bottle of wine for every 25 pounds of cheese it produces. Which of the following is true about the comparative advantage between the two countries?

- A) Italy has the comparative advantage in cheese.
- B) Italy has the comparative advantage in wine.
- C) France has the comparative advantage in wine and cheese.
- D) France has the comparative advantage in wine.

Answer: B

Diff: 2 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

**Figure 2-7**

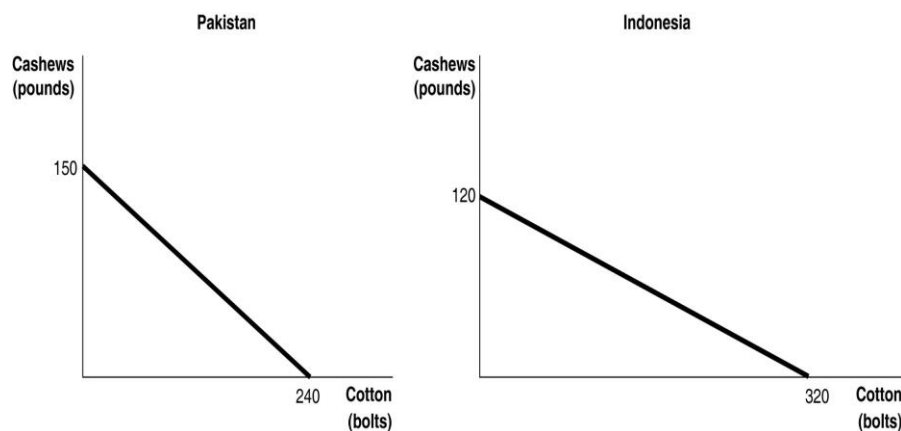


Figure 2-7 shows the production possibilities frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

11) **Refer to Figure 2-7.** What is the opportunity cost of producing 1 bolt of cotton in Pakistan?

- A)  $\frac{3}{8}$  of a pound of cashews
- B)  $\frac{5}{8}$  of a pound of cashews
- C)  $1\frac{3}{5}$  pounds of cashews
- D) 150 pounds of cashews

Answer: B

Diff: 2 Page Ref: 48-49/48-49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

12) **Refer to Figure 2-7.** What is the opportunity cost of producing 1 bolt of cotton in Indonesia?

- A)  $\frac{3}{8}$  of a pound of cashews
- B)  $\frac{5}{8}$  of a pound of cashews
- C)  $2\frac{2}{3}$  pounds of cashews
- D) 120 pounds of cashews

Answer: A

Diff: 2 Page Ref: 48-49/48-49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

13) **Refer to Figure 2-7.** What is the opportunity cost of producing 1 pound of cashews in Pakistan?

- A)  $\frac{3}{8}$  of a bolt of cotton
- B)  $\frac{5}{8}$  of a bolt of cotton
- C)  $1\frac{3}{5}$  bolts of cotton
- D) 240 bolts of cotton

Answer: C

Diff: 2 Page Ref: 48-49/48-49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

14) **Refer to Figure 2-7.** What is the opportunity cost of producing 1 pound of cashews in Indonesia?

- A)  $\frac{3}{8}$  of a bolt of cotton
- B)  $\frac{5}{8}$  of a bolt of cotton
- C)  $2\frac{2}{3}$  bolts of cotton
- D) 320 bolts of cotton

Answer: C

Diff: 2 Page Ref: 48-49/48-49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

15) **Refer to Figure 2-7.** Which country has a comparative advantage in the production of cotton?

- A) Indonesia
- B) They have equal productive abilities.
- C) Pakistan
- D) neither country

Answer: A

Diff: 2 Page Ref: 48-49/48-49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

16) **Refer to Figure 2-7.** Which country has a comparative advantage in the production of cashews?

- A) Indonesia
- B) They have equal productive abilities.
- C) Pakistan
- D) neither country

Answer: C

Diff: 2 Page Ref: 48-49/48-49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

17) **Refer to Figure 2-7.** If the two countries have the same amount of resources and the same technological knowledge, which country has an absolute advantage in the production of cotton?

- A) Indonesia
- B) They have the same advantage.
- C) Pakistan
- D) cannot be determined

Answer: A

Diff: 2 Page Ref: 48-49/48-49

Topic: Absolute Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: None

18) Which of the following statements is true?

- A) Individuals who have never been the best at doing anything cannot have a comparative advantage in producing any product.
- B) Individuals who have never been the best at doing anything can still have a comparative advantage in producing some product.
- C) Individuals who have never been the best at doing anything perform all tasks at a higher opportunity cost than others.
- D) Individuals who have never been the best at doing anything must have an absolute advantage in at least one task.

Answer: B

Diff: 2 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Table 2-4**

	<b>One Digital Camera</b>	<b>Wheat (per pound)</b>
China	100 hours	4 hours
South Korea	60 hours	3 hours

Table 2-4 shows the number of labor hours required to produce a digital camera and a pound of wheat in China and South Korea.

19) **Refer to Table 2-4.** Does either China or South Korea have an absolute advantage and if so, in what product?

- A) South Korea has an absolute advantage in wheat.
- B) China has an absolute advantage in wheat.
- C) South Korea has an absolute advantage in both products.
- D) China has an absolute advantage in digital cameras.

Answer: C

Diff: 1 Page Ref: 48/48

Topic: Absolute Advantage

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

20) **Refer to Table 2-4.** What is China's opportunity cost of producing one digital camera?

- A) 0.04 pounds of wheat
- B) 4 pounds of wheat
- C) 25 pounds of wheat
- D) 40 pounds of wheat

Answer: C

Diff: 2 Page Ref: 50-51/50-51

Topic: Opportunity Cost

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

21) **Refer to Table 2-4.** What is South Korea's opportunity cost of producing one digital camera?

- A) 0.05 pounds of wheat
- B) 20 pounds of wheat
- C) 25 pounds of wheat
- D) 60 pounds of wheat

Answer: B

Diff: 2 Page Ref: 50-51/50-51

Topic: Opportunity Cost

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

22) **Refer to Table 2-4.** What is China's opportunity cost of producing one pound of wheat?

- A) 0.04 units of a digital camera
- B) 4 digital cameras
- C) 25 digital cameras
- D) 40 digital cameras

Answer: A

Diff: 2 Page Ref: 50-51/50-51

Topic: Opportunity Cost

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

23) **Refer to Table 2-4.** What is South Korea's opportunity cost of producing one pound of wheat?

- A) 60 digital cameras
- B) 20 digital cameras
- C) 5 digital cameras
- D) 0.05 units of a digital camera

Answer: D

Diff: 2 Page Ref: 50-51/50-51

Topic: Opportunity Cost

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

24) **Refer to Table 2-4.** China has a comparative advantage in the production of

- A) wheat.
- B) digital cameras.
- C) both products.
- D) neither product.

Answer: B

Diff: 2 Page Ref: 50-51/50-51

Topic: Comparative Advantage

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

25) **Refer to Table 2-4.** South Korea has a comparative advantage in the production of

- A) wheat.
- B) digital cameras.
- C) both products.
- D) neither product.

Answer: C

Diff: 2 Page Ref: 50-51/50-51

Topic: Comparative Advantage

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

26) **Refer to Table 2-4.** If the two countries specialize and trade, who should export wheat?

- A) There is no basis for trade between the two countries.
- B) China
- C) South Korea
- D) They should both be exporting wheat.

Answer: B

Diff: 1 Page Ref: 50-51/50-51

Topic: Specialization

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

27) **Refer to Table 2-4.** If the two countries specialize and trade, who should export digital cameras?

- A) There is no basis for trade between the two countries.
- B) China
- C) South Korea
- D) They should both be importing digital cameras.

Answer: C

Diff: 1 Page Ref: 50-51/50-51

Topic: Specialization

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

28) If the best surgeon in town is also the best at cleaning swimming pools, then according to economic reasoning, this person should

- A) should pursue the activity he enjoys more.
- B) specialize in cleaning swimming pools because it is more labor-intensive.
- C) split his time evenly between being a surgeon and cleaning swimming pools.
- D) specialize in being a surgeon because its opportunity cost is lower.

Answer: D

Diff: 1 Page Ref: 46/46

Topic: Specialization

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Reflective Thinking

Special Feature: None

29) Rayburn Reed is a highly talented photographer. He has chosen to specialize in photography because of all of the following *except*

- A) he obviously has a comparative advantage in photography.
- B) his opportunity cost of pursuing another career is very low.
- C) for him, this is the most lucrative way to purchase the products that he wants to consume.
- D) his photographs are highly esteemed by art lovers who are willing to pay very high prices.

Answer: B

Diff: 3 Page Ref: 46/46

Topic: Specialization

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Reflective Thinking

Special Feature: None

30) If Sanjaya can shuck more oysters in one hour than Tatiana, then Sanjaya has a comparative advantage in shucking oysters.

Answer: FALSE

Diff: 2 Page Ref: 48/48

Topic: Absolute Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

31) The basis for trade is comparative advantage, not absolute advantage.

Answer: TRUE

Diff: 1 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

32) If a country produces only two goods, it is possible to have a comparative advantage in the production of both those goods.

Answer: FALSE

Diff: 1 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None



33) In a two-good, two country world, if one country has an absolute advantage in the production of both goods, it cannot benefit by trading with the other country.

Answer: FALSE

Diff: 2 Page Ref: 48/48

Topic: Absolute Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

34) For a person to have a comparative advantage in producing a product, she must be able to produce that product at a lower opportunity cost than her competitors.

Answer: TRUE

Diff: 1 Page Ref: 49/49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

35) It is possible to have a comparative advantage in producing a good or service without having an absolute advantage.

Answer: TRUE

Diff: 1 Page Ref: 49/49

Topic: Comparative Advantage

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: Don't Let This Happen to YOU!: Don't Confuse Absolute Advantage and Comparative Advantage

36) What is comparative advantage? What is absolute advantage?

Answer: Comparative advantage is the ability of an individual, firm, or country to produce a good or service at a lower opportunity cost than competitors. Absolute advantage is the ability of an individual, firm, or country to produce more of a good or service than competitors, using the same amount of resources.

Diff: 1 Page Ref: 48-49/48-49

Topic: Comparative Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

37) Is it possible for a firm to have an absolute advantage in producing something without having a comparative advantage? Why or why not?

Answer: Yes, a firm can have an absolute advantage without having a comparative advantage. A firm may be able to produce more of a good or service than its competitors, but that does not necessarily mean it can produce the good or service at a lower opportunity cost than its competitors.

Diff: 2 Page Ref: 48-49/48-49

Topic: Absolute Advantage

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Table 2-5**

	<b>Digital Camera</b>	<b>Wheat (bushels)</b>
China	100 hours	5 hours
South Korea	90 hours	3 hours

38) **Refer to Table 2-5.** This table shows the number of labor hours required to produce a digital cameras and a bushel of wheat in China and South Korea.

- Which country has an absolute advantage in the production of digital cameras?
- Which country has an absolute advantage in the production of wheat?
- What is China's opportunity cost of producing one digital camera?
- What is South Korea's opportunity cost of producing one digital camera?
- What is China's opportunity cost of producing one pound of wheat?
- What is South Korea's opportunity cost of producing one pound of what?
- If each country specializes in the production of the product in which it has a comparative advantage, who should produce digital cameras?
- If each country specializes in the production of the product in which it has a comparative advantage, who should produce wheat?

Answer:

- South Korea has an absolute advantage in the production of digital cameras.
- South Korea has an absolute advantage in wheat production.
- China's the opportunity cost of producing one digital camera is 20 bushels of wheat.
- South Korea's opportunity cost of producing one digital camera is 30 bushels of wheat
- China's opportunity cost of one bushel of wheat is 0.05 units of a digital camera.
- South Korea's opportunity cost of one bushel of wheat is 0.03 units of a digital camera.
- China should specialize in producing digital cameras.
- South Korea should specialize in producing wheat.

Diff: 3 Page Ref: 48-49/48-49

Topic: Specialization

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

39) **Refer to Table 2-5.** This table shows the number of labor hours required to produce a digital camera and a bushel of wheat in China and South Korea.

- a. If each country has a total of 9,000 labor hours to devote to the production of the two goods, draw the production possibilities frontier for each country. Put "Digital Camera" on the horizontal axis and "Wheat" on the vertical axis. Be sure to identify the intercept values on your graphs.
- b. Suppose each country allocates 60% its labor hours to wheat production and 40% to the production of digital cameras. Complete Table 2-6 below to show each country's output of the two products.

**Table 2-6: Production and Consumption with no Trade**

	Digital Camera Output	Wheat Output (bushels)
China		
South Korea		
<b>Total</b>		

- c. If the two countries do not trade and consume whatever they produce, identify the current production and consumption point for each country on their respective production possibilities frontiers. Label China's consumption point "C" and South Korea's consumption point, "K."
- d. Suppose the two countries specialize and trade. Who should produce digital cameras and who should produce wheat? Explain your answer.
- e. Complete Table 2-7 below to show each country's output with specialization.

**Table 2-7: Output with Specialization**

	Digital Camera Output	Wheat Output (bushels)
China		
South Korea		
<b>Total</b>		

- f. Did specialization increase the combined output for the two countries without any increase in resources? If so, by how much?
- g. Suppose China and South Korea agree to trade so that in exchange for 1,200 bushels of wheat, the exporter of wheat receives 48 digital cameras. Complete Table 2-8 below to show each country's consumption bundle after trade.

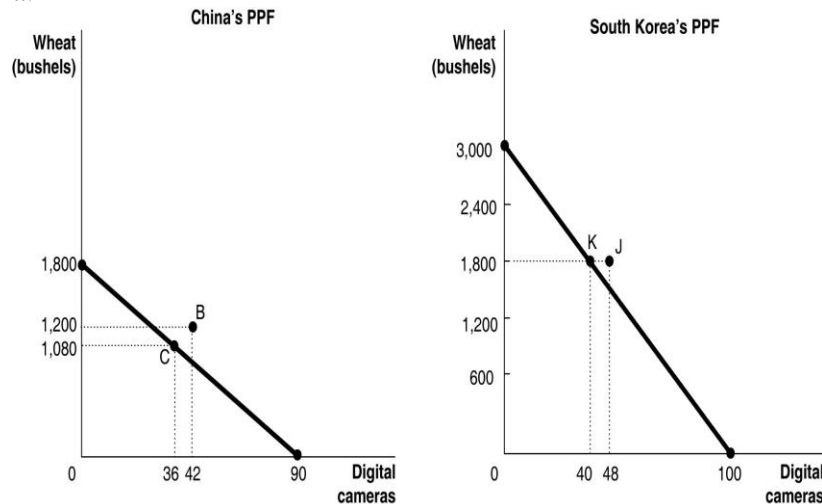
**Table 2-8: Consumption with Trade**

	Digital Camera	Wheat (bushels)
China		
South Korea		

- h. Show the consumption points after trade on each country's production possibilities frontier. Label these points "B" for China and "J" for South Korea.
- i. Has trade made the two countries better off? Explain your answer.

Answer:

a.



b.

**Table 2-6: Production and Consumption with no Trade**

	Digital Camera Output	Wheat Output (bushels)
China	36	1,080
South Korea	40	1,800
<b>Total</b>	<b>76</b>	<b>2,880</b>

c. See graph in part (a)

d. China should specialize in producing digital cameras because it has a lower opportunity cost: 20 bushels of wheat as opposed to South Korea's 30 bushels of wheat. South Korea should specialize in producing wheat because it has a lower opportunity cost: 0.03 units of a digital camera as opposed to China's 0.05 units of a digital camera.

e.

**Table 2-7: Output with Specialization**

	<b>Digital Camera Output</b>	<b>Wheat Output (bushels)</b>
China	90	0
South Korea	0	3,000
<b>Total</b>	90	3,000

f. Yes, digital camera output increased by 14 units (from 76 units to 90 units) and wheat output increased by 120 bushels (from 2,880 bushels to 3,000 bushels).

g.

**Table 2-8: Consumption with Trade**

	<b>Digital Camera</b>	<b>Wheat (bushels)</b>
China	42	1,200
South Korea	48	1,800

h. See graph in part (a)

i. Yes, trade has enabled the two countries to consume outside their PPFs.

Diff: 3 Page Ref: 50-51/50-51

Topic: Specialization

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: Solved Problem: Comparative Advantage and the Gains from Trade

40) Suppose in Belize, the opportunity cost of producing a sailboat is 5 hang gliders. In Honduras, the opportunity cost of producing a sailboat is 8 hang gliders.

a. What is the opportunity cost of producing a hang glider for Belize?

b. What is the opportunity cost of producing a hang glider for Honduras?

c. Which country has a comparative advantage in the production of hang gliders?

d. Which country has a comparative advantage in the production of sailboats?

Answer:

a. For Belize, the opportunity cost of producing a hang glider is 1/5 of a sailboat.

b. For Honduras, the opportunity cost of producing a hang glider is 1/8 of a sailboat.

c. Honduras has a comparative advantage in the production of hang gliders.

d. Belize has a comparative advantage in the production of sailboats.

Diff: 3 Page Ref: 48-49/48-49

Topic: Opportunity Cost

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Analytic Skills

Special Feature: None

## 2.3 The Market System

1) Which of the following is *not* a factor of production?

- A) an acre of farmland
- B) a drill press in a machine shop
- C) the manager of the local tire shop
- D) \$1,000 in cash

Answer: D

Diff: 2 Page Ref: 51/51

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

2) An example of a factor of production is

- A) stock issued by Dell.
- B) the computers exported by Dell.
- C) a computer produced by an Dell.
- D) a worker hired by Dell.

Answer: D

Diff: 2 Page Ref: 51/51

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

3) If a commercial dairy farm wants to raise funds to purchase feeding troughs, it does so in the

- A) output market.
- B) product market.
- C) factor market.
- D) dairy products market.

Answer: C

Diff: 1 Page Ref: 51/51

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

4) The natural resources used in production are made available in the

- A) goods and services market.
- B) product market.
- C) government market.
- D) factor market.

Answer: D

Diff: 1 Page Ref: 51/51

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

5) When you purchase a new pair of jeans you do so in the

- A) factor market.
- B) input market.
- C) product market.
- D) resource market.

Answer: C

Diff: 1 Page Ref: 51/51

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

6) The resource income earned by those who supply \_\_\_\_\_ is called wages.

- A) labor
- B) capital
- C) natural resources
- D) entrepreneurship

Answer: A

Diff: 1 Page Ref: 51/51

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None



7) Which of the following statements about an entrepreneur is *false*?

- A) organizes the other factors of production into a working unit
- B) develops the vision for the firm and funds the producing unit
- C) sells his entrepreneurial services in the output market
- D) risks the personal funds provided

Answer: C

Diff: 2 Page Ref: 51/51

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

8) The \_\_\_\_\_ demonstrates the roles played by households and firms in the market system.

- A) production possibilities frontier
- B) circular flow model
- C) theory of comparative advantage
- D) business cycle

Answer: B

Diff: 2 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

9) Households

- A) have no influence on the circular flow in a market economy.
- B) purchase resources in the factor market.
- C) sell goods in the product market.
- D) sell resources in the factor market.

Answer: D

Diff: 1 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

10) Households \_\_\_\_\_ final goods and services in the \_\_\_\_\_ market.

- A) purchase; factor
- B) purchase; product
- C) sell; factor
- D) sell; product

Answer: B

Diff: 1 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

11) In the circular flow model, producers

- A) sell goods and services in the input market.
- B) and households spend earnings from resource sales on goods and services in the factor market.
- C) hire resources sold by households in the factor market.
- D) spend earnings from resource sales on goods and services in the product market.

Answer: C

Diff: 1 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 20: Apply the concepts of opportunity cost, marginal analysis, and present value to make decisions

AACSB: Reflective Thinking

Special Feature: None

12) Which of the following is a flow in the circular flow model?

- A) the flow of goods and services from households to firms
- B) the flow of profit and the flow of revenue
- C) the flow of income earned by firms and the flow of expenditures earned by households
- D) the flow of revenue received by firms and the flow of payments to resource owners

Answer: D

Diff: 2 Page Ref: 52/52

Topic: The Circular Flow of Income

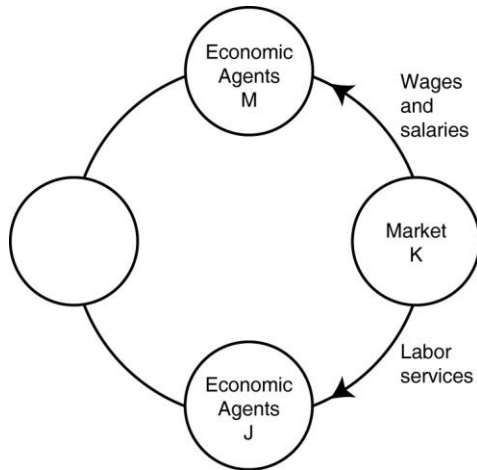
\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-8**



13) **Refer to Figure 2-8.** One segment of the circular flow diagram in the figure shows the flow of labor services from market *K* to economic agents *J*. What is market *K* and who are economic agents *J*?

- A) *K* = factor markets; *J* = households
- B) *K* = product markets; *J* = households
- C) *K* = factor markets; *J* = firms
- D) *K* = product markets; *J* = firms

Answer: C

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

14) **Refer to Figure 2-8.** One segment of the circular flow diagram in the figure shows the flow of wages and salaries from market *K* to economic agents *M*. What is market *K* and who are economic agents *M*?

- A) *K* = factor markets; *M* = households
- B) *K* = product markets; *M* = households
- C) *K* = factor markets; *M* = firms
- D) *K* = product markets; *M* = firms

Answer: A

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

15) Which of the following are separate flows in the circular flow model?

- A) the flow of goods and the flow of services
- B) the flow of costs and the flow of revenue
- C) the flow of income earned from the sale of resources and the flow of expenditures on goods and services.
- D) the flow of income received by households and the flow of tax revenues paid by households

Answer: C

Diff: 2 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

16) Which of the following statements about a simple circular flow model is *false*?

- A) Producers are buyers in the factor market and sellers in the product market.
- B) Households are neither buyers nor sellers in the input market.
- C) Producers are buyers in the factor market.
- D) Households are sellers in the product market.

Answer: B

Diff: 2 Page Ref: 52/52

Topic: The Circular Flow of Income

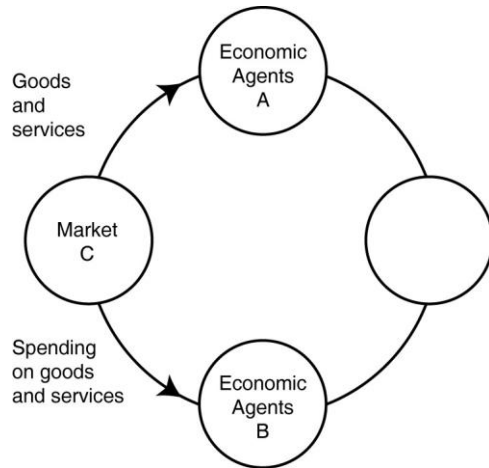
\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-9**



17) **Refer to Figure 2-9.** One segment of the circular flow diagram in the figure shows the flow of goods and services from market *C* to economic agents *A*. What is market *C* and who are economic agents *A*?

- A) *C* = factor markets; *A* = households
- B) *C* = product markets; *A* = households
- C) *C* = factor markets; *A* = firms
- D) *C* = product markets; *A* = firms

Answer: B

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

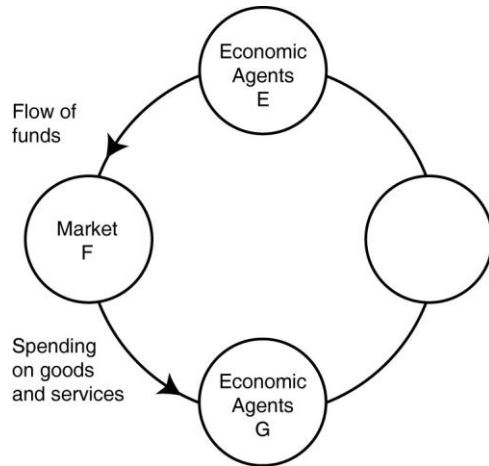
\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-10**



18) **Refer to Figure 2-10.** One segment of the circular flow diagram in the figure shows the flow of funds from economic agents *E* to market *F*. Who are economic agents *E* and what is market *F*?

- A) *E* = households; *F* = product markets
- B) *E* = firms; *F* = product markets
- C) *E* = households ; *F* = factor markets
- D) *E* = firms; *F* = factor markets

Answer: A

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

19) All of the following are examples of spending on factors of production in the circular flow model *except*

- A) Bima hires two students to work at his ice-cream store.
- B) "Get Fit Together" purchases 3 new treadmills for its gym.
- C) Iris buys a dozen roses for her mother's birthday.
- D) The Banyan Tree rents a much larger property so that it can add a restaurant to its facilities.

Answer: C

Diff: 2 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

20) Which of the following is an example of spending on goods and services in the circular flow model?

- A) Belinda purchases a new computer for her tax-preparation business.
- B) Javier buys 800 square feet of wood flooring for his vacation home.
- C) Celeste buys fresh herbs at the farmers' market to use in her restaurant.
- D) Timmy purchases a new examination table for use in his veterinary clinic.

Answer: B

Diff: 2 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

21) "An Inquiry into the Nature and Causes of the Wealth of Nations" published in 1776 was written by

- A) John Maynard Keynes.
- B) Karl Marx.
- C) Alfred Marshall.
- D) Adam Smith.

Answer: D

Diff: 1 Page Ref: 53/53

Topic: Markets

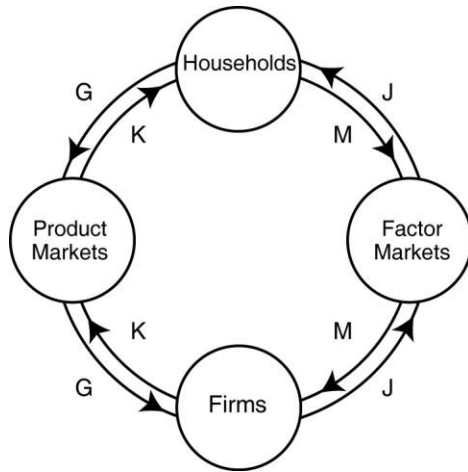
\*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

**Figure 2-11**



22) **Refer to Figure 2-11.** Which two arrows in the diagram depict the following transaction:  
LaDonna sells 20 pairs of sunglasses at the Oakley store.

- A) *J* and *M*
- B) *J* and *G*
- C) *K* and *M*
- D) *K* and *G*

Answer: D

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

23) **Refer to Figure 2-11.** Which two arrows in the diagram depict the following transaction:  
Dorian Gray hires "Wild Oscar", a professional portrait artist, to paint his picture.

- A) *J* and *M*
- B) *K* and *G*
- C) *K* and *M*
- D) *J* and *G*

Answer: B

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None



24) **Refer to Figure 2-11.** Which two arrows in the diagram depict the following transaction: Barney earns \$250 for selling scissors and razors to Floyd's Barber Shop.

- A) *J* and *M*
- B) *K* and *G*
- C) *K* and *M*
- D) *J* and *G*

Answer: A

Diff: 2 Page Ref: 52-53/52-53

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 2: Interpret and analyze information presented in different types of graphs

AACSB: Reflective Thinking

Special Feature: None

25) Adam Smith's behavioral assumption about humans was that people

- A) typically act irrationally.
- B) usually act in a rational, self-interested way.
- C) are consistently greedy.
- D) typically act randomly.

Answer: B

Diff: 1 Page Ref: 54/54

Topic: Markets

\*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

26) All of the following countries come close to the free market benchmark *except*

- A) Canada.
- B) North Korea.
- C) Germany.
- D) Singapore.

Answer: B

Diff: 1 Page Ref: 54/54

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

27) Adam Smith's invisible hand refers to

- A) the government's unobtrusive role in ensuring that the economy functions efficiently.
- B) property ownership laws and the rule of the court system.
- C) the process by which individuals acting in their own self-interest bring about a market outcome that benefits society as a whole.
- D) the laws of nature that influence economics decisions.

Answer: C

Diff: 2 Page Ref: 54/54

Topic: Markets

\*: Recurring

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Reflective Thinking

Special Feature: None

28) All of the following are critical functions of the government in facilitating the operation of a market economy *except*

- A) protecting private property.
- B) enforcing property rights.
- C) ensuring an equal distribution of income to all citizens.
- D) enforcing contracts.

Answer: C

Diff: 2 Page Ref: 57/57

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

29) The term "property rights" refers to

- A) the physical possession of a house or any other property which the owner legally purchased.
- B) the ability to exercise control over one's own resources within the confines of the law.
- C) the government's right to appropriate land from wealthy land owners to redistribute to peasants.
- D) the right of a business not to have its assets confiscated by the government in the event that the business is accused of committing fraud.

Answer: B

Diff: 1 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

30) The primary purpose of \_\_\_\_\_ is to encourage the expenditure of funds on research and development to create new products.

- A) centrally planned economies
- B) government-run health care
- C) nationalizing oil companies
- D) patents and copyrights

Answer: D

Diff: 1 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

31) A major factor contributing to the slow growth rate of less developed economies is

- A) the lack of well-defined and enforceable property rights.
- B) the lack of natural resources.
- C) the lack of workers.
- D) the high rate of illiteracy.

Answer: A

Diff: 2 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

32) A successful market economy requires

- A) a government-controlled banking system and government price controls.
- B) well-defined property rights and an independent court system to adjudicate disputes based on the law.
- C) generous unemployment benefits and paid medical leave for everyone in the labor force.
- D) an equitable distribution of income and limits on immigration.

Answer: B

Diff: 2 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

33) Consider the following items:

- a. the novel "The DaVinci Code" by Dan Brown
- b. the "The Spirited Shipper", an innovative wine shipping box
- c. a Swiss chef's award-winning recipe
- d. an original fabric design, for example, the fabric used for "Coach" bags and luggage

Which of the items listed is an example of intellectual property?

- A) a and b only
- B) a, b, and c
- C) a and d only
- D) all of the items listed

Answer: D

Diff: 2 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

34) An organization of producers that limits the amount of a good produced is known as a

- A) free market organization.
- B) guild.
- C) collective.
- D) co-op.

Answer: B

Diff: 1 Page Ref: 53/53

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

35) In 18th century Europe, governments gave guilds legal authority to limit production of goods. Did this authority obstruct or improve the market mechanism and how?

A) It improved the market mechanism by making it more efficient because the guilds were able to quickly identify and rectify any market shortages and surpluses.

B) It improved the market mechanism because the government's actions provided the correct set of signals to the market so that producers can adjust their output to better meet the needs of consumers.

C) It obstructed the market mechanism because the guild's actions prevented the forces of demand and supply from coordinating the self-interested decisions of producers and consumers.

D) It obstructed the market mechanism because with one more party having to coordinate activities (the guilds) there were delays in getting the products to consumers.

Answer: C

Diff: 2 Page Ref: 53/53

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

36) Stricter laws and regulations to protect intellectual property rights

A) will help to create a more successful market system.

B) will only benefit those companies whose intellectual property rights have in the past been ignored.

C) will tend to have little impact on an economy since intellectual property is not tangible.

D) will create a stronger and more successful black market for intellectual property.

Answer: A

Diff: 1 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 5: List ways in which governments intervene in markets and explain the consequences of such intervention

AACSB: Reflective Thinking

Special Feature: None

37) If a nation changes its laws to more actively enforce intellectual property rights, all of the following will most likely take place *except*

- A) more software companies will choose to export their products to that country.
- B) more film makers will choose to do business in that country.
- C) the black market for intellectual property will become more prosperous in in that country.
- D) foreign investment in that country will increase.

Answer: C

Diff: 2 Page Ref: 57/57

Topic: Property Rights

\*: Recurring

Learning Outcome: Micro 5: List ways in which governments intervene in markets and explain the consequences of such intervention

AACSB: Reflective Thinking

Special Feature: None

38) The payment received by suppliers of entrepreneurial skills is called interest.

Answer: FALSE

Diff: 1 Page Ref: 51/51

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

39) In the circular flow model, households supply resources such as labor services in the product market.

Answer: TRUE

Diff: 1 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

40) Entrepreneurs bring together the factors of production to produce goods and services.

Answer: TRUE

Diff: 1 Page Ref: 52/52

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

41) In a free market there are virtually no restrictions, or at best few restrictions on how factors of production can be employed.

Answer: TRUE

Diff: 1 Page Ref: 52/52

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

42) Crude oil is not an example of a factor of production, but when crude oil is processed into gasoline, it is a factor of production.

Answer: FALSE

Diff: 2 Page Ref: 51/51

Topic: Factors of Production

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

43) Each person goes about her daily business seeking to maximize her own self interests. In doing so, she contributes to the welfare of society at large. This is the idea underlying Adam Smith's "invisible hand."

Answer: TRUE

Diff: 2 Page Ref: 54/54

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

44) What is the difference between product markets and factor markets?

Answer: Product markets are markets for goods and services. Factor markets are markets for the factors of production, which are the inputs used to make goods and services.

Diff: 1 Page Ref: 51/51

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

45) How do firms and households interact in markets?

Answer: Firms supply goods and services to households, and buy factors of production from households. Households supply factors of production to firms, and buy goods and services from firms.

Diff: 1 Page Ref: 52/52

Topic: The Circular Flow of Income

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

46) What is meant by the term "free market"?

Answer: A free market is a market with few government restrictions on how a good or service can be produced or sold or on how factors of production can be employed.

Diff: 1 Page Ref: 52/52

Topic: Markets

\*: Recurring

Learning Outcome: Micro 3: Discuss different types of market system and the gains that can be made from trade

AACSB: Reflective Thinking

Special Feature: None

47) How does Adam Smith's idea of the "invisible hand" apply to the various parts, made by many different manufacturers in many different countries, that are used by Apple to produce an iPad?

Answer: Smith used the "invisible hand" reference to explain why markets provide consumers with desired products and services. In the case of the iPad, the invisible hand of the market has led these parts manufacturers to contribute their knowledge and resources to the process that ultimately results in a product available for sale in the United States and around the world.

Diff: 3 Page Ref: 55/55

Topic: Markets

Learning Outcome: Micro 1: Identify the basic principles of economics and explain how to think like an economist

AACSB: Analytic Skills

Special Feature: Making the Connection: A Story of the Market System in Action: How Do You Make an iPad?