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SKU: 9780134486819-TEST-BANK

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Foundations of Microeconomics, 8e **(Bade)**
Chapter 2 The U.S. and Global Economies

2.1 What, How, and For Whom?

1) Items that are purchased by individuals for their own enjoyment are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exports of goods and services.
E) private goods.
Answer: A
Topic: Consumption goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

2) Items bought by individuals to provide personal enjoyment are termed
A) consumption goods.
B) personal goods.
C) consumption or investment goods.
D) standard goods.
E) pleasure goods.
Answer: A
Topic: Consumption goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

3) What would be an example of a consumption good?
A) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
B) The local driver's license office purchases a new digital camera and printer.
C) Rhianna gets a haircut.
D) Jake buys an iPhone.
E) Donald Trump purchases furniture for his office.
Answer: D
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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4) Which of the following is a consumption good or service?
A) a personal computer purchased in order to play games at home
B) a United Airline ticket counter
C) the Endeavor space shuttle
D) a United Parcel Service truck delivering Christmas gifts
E) a satellite dish installed by Cox Cable to download programs that are then distributed through its cable system
Answer: A
Topic: Consumption goods and services
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

5) What would be an example of a consumption service?
A) Rhianna gets a haircut.
B) Jake buys an iPhone.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) The local driver's license office purchases a new digital camera and printer.
E) Donald Trump purchases furniture for his office.
Answer: A
Topic: Consumption goods and services
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

6) The largest share of total production in the United States is
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exported goods and services.
E) imported goods and services.
Answer: A
Topic: Consumption goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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7) Items bought by businesses to help produce other goods and services are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) exports of goods and services.
E) productive goods.
Answer: B
Topic: Capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

8) Which of the following is NOT a consumption good?
A) Nike swimming trunks
B) marriage counseling services
C) a UPS truck
D) a Subway sandwich
E) a U.S. government bond
Answer: C
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

9) An item that is purchased to increase businesses' productive resources is
A) an export.
B) a government good.
C) a capital good.
D) a consumption good.
E) a productive good.
Answer: C
Topic: Capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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10) What would be an example of capital good?
A) Jeanette buys a new dress.
B) The local driver's license office purchases a new digital camera and printer.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) Apple sells computers to Japan.
E) Rhianna gets a haircut.
Answer: C
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

11) The difference between consumption and capital goods is that
A) only big corporations can afford capital goods.
B) capital goods are used to produce additional goods while consumption goods are not.
C) capital goods are provided by the government.
D) consumption goods can be enjoyed by many people at the same time.
E) it is illegal to export capital goods.
Answer: B
Topic: Consumption and capital goods
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

12) Which of the following is NOT an example of a capital good?
A) a miner's cap
B) a GPS tracking device
C) an airport kiosk
D) a U.S. government bond
E) a stethoscope
Answer: D
Topic: Capital goods
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

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13) Goods and services bought by the government account for about _____ percent of total production.
A) 2
B) 8
C) 17
D) 35
E) 67
Answer: C
Topic: Government goods and services
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

14) What would be an example of a government good?
A) Jake buys an iPhone.
B) The local driver's license office purchases a new digital camera and printer.
C) Antonio, the manager of the local Taco Hut, purchases a new deep fryer.
D) Donald Trump purchases furniture for his office.
E) Rhianna gets a haircut.
Answer: B
Topic: Government goods and services
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

15) Goods produced in the United States and sold in other countries are called
A) exports.
B) imports.
C) foreign goods.
D) capital goods.
E) capital account goods.
Answer: A
Topic: Exports
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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16) An export good is a good produced
A) in the United States and sold to foreigners living in the United States.
B) by foreigners in the United States and purchased by U.S. households.
C) in another country and purchased by U.S. residents.
D) in the United States and sold in other countries.
E) in another country and purchased by foreigners not residing in the United States.
Answer: D
Topic: Exports
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

17) Computers and insurance coverage produced in the United States and sold to people in other nations are categorized as
A) U.S. consumption goods and services.
B) foreign capital goods.
C) U.S. government goods and services.
D) U.S. exports of goods and services.
E) U.S. imports of goods and services.
Answer: D
Topic: Exports
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

18) The Colorado Ski Shop sold 60 ski jackets to a Belgian company's headquarters located in Paris, France. The ski jackets are a
A) U.S. export good.
B) capital good.
C) government good.
D) U.S. consumption service.
E) U.S. import.
Answer: A
Topic: Exports
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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19) Over the past 70 years, which of the following has occurred?
i. The service sector has grown so that now about 80 percent of workers are now employed in the service industry.
ii. The manufacturing sector has shrunk, so now about 20 percent of workers are now employed in the production of goods.
iii. The percentage of workers employed in the service industry has increased steadily.
A) i, ii and iii
B) i and iii
C) ii only
D) i only
E) ii and iii
Answer: A
Topic: Changes in what we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

20) Which of the following is NOT considered one of the factors of production?
A) land
B) labor
C) capital
D) technology
E) entrepreneurship
Answer: D
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

21) Which of the following correctly lists the categories of factors of production?
A) land, labor, capital, and entrepreneurship
B) land, buildings, capital, and entrepreneurship
C) labor, machines, buildings, capital, and entrepreneurship
D) forests, fish, buildings, capital, and entrepreneurship
E) labor, money, stocks, and bonds
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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22) Which of the following is NOT a factor of production?
A) money
B) capital
C) land
D) entrepreneurial ideas
E) labor
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

23) Goods and services are produced by using four factors of production:
A) land, labor, capital, and entrepreneurship.
B) land, labor, money, and equipment.
C) natural resources, human resources, financial assets, and entrepreneurial resources.
D) labor, human capital, physical capital, and financial capital.
E) land, labor, capital, and money.
Answer: A
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

24) Factors of production are the
A) goods that are bought by individuals and used to provide personal enjoyment.
B) goods that are bought by businesses to produce productive resources.
C) productive resources used to produce goods and services.
D) productive resources used by government to increase the productivity of consumption.
E) goods and services produced by the economy.
Answer: C
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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25) The productive resource that includes all the "gifts of nature" is called
A) land.
B) labor.
C) capital.
D) entrepreneurship.
E) land if undeveloped and capital if developed.
Answer: A
Topic: Land
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

26) Economists classify energy and water as part of which factor of production?
A) land
B) labor
C) capital
D) entrepreneurship
E) land if undeveloped and capital if developed
Answer: A
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

27) As a factor of production, oil reserves are counted as
A) land.
B) labor.
C) capital.
D) entrepreneurship.
E) financial capital.
Answer: A
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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28) Over time, the percentage of total employment in services has _____ and in agriculture, employment has _____.
A) increased; increased
B) decreased; increased
C) stayed about the same; decreased
D) stayed about the same; increased
E) increased; decreased
Answer: E
Topic: Labor
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

29) Which of the following has been the largest contributor to increases in the quantity of labor in the Unites States during the past 50 years?
A) The proportion of men taking paid jobs has increased.
B) The proportion of women taking paid jobs has increased.
C) The proportion of young adults entering college has decreased.
D) The proportion of seniors taking early retirement has decreased.
E) None of the above because the quantity of labor has actually decreased.
Answer: B
Topic: Labor
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

30) The concept of human capital describes
A) human skills, that is, the quality of labor.
B) human population, that is, the quantity of labor.
C) the number of machines per employed worker.
D) the number of workers per operating machine.
E) the number of machines (capital) that have been produced by people (humans).
Answer: A
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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31) Which factor of production does human capital enhance?
i. land
ii. labor
iii. capital
A) i only
B) ii only
C) iii only
D) i and ii
E) i, ii, and iii
Answer: B
Topic: Labor, human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

32) Human capital can be increased through
A) investment in new technology.
B) education, on-the-job training, and work experience.
C) investment in new machinery.
D) decreases in population.
E) increasing the nation's production of consumption goods.
Answer: B
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

33) The United States possesses a large amount of human capital. As a result of this fact, in the United States there is a
A) large amount of machinery and equipment.
B) large number of people and a great deal of land.
C) highly skilled and educated labor force.
D) large number of kind and generous humans.
E) large amount of machinery (capital) that is run by people (humans).
Answer: C
Topic: Labor, human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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34) Jan is attending college and studying to be an investment broker. To improve her chances of employment following college, she has interned at a top brokerage firm during the last two summers. Jan's internship has increased her
A) natural labor.
B) human capital.
C) consumption services.
D) natural resources.
E) entrepreneurship capital.
Answer: B
Topic: Labor, human capital
Skill: Level 4: Applying models
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

35) Which of the following is NOT directly related to human capital?
A) a college education
B) a summer internship
C) knowledge of computer programing
D) an MRI machine
E) an understanding of real estate markets
Answer: D
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

36) Human capital _____ as you work. As a result, the _____ of goods and services _____.
A) increases; quantity; increases.
B) declines; quality; increases.
C) improves; quality; does not change.
D) does not change; quality; does not change.
E) decreases; quantity; decreases.
Answer: A
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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37) Capital, as a factor of production, refers to
A) money, stocks, and bonds.
B) the production technology used by firms.
C) the tools and instruments used to produce other goods and services.
D) the production factors imported from abroad.
E) stocks and bonds, but not money.
Answer: C
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

38) The total value of capital in the United States is around
A) $50 trillion.
B) $10 trillion.
C) $79 trillion.
D) $100 trillion.
E) $145 trillion.
Answer: A
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

39) Capital is a factor of production. Which of the following is an example of capital?
i. $1,000 in money
ii. 100 shares of Microsoft stock
iii. $10,000 in bonds issued by General Motors
iv. a drill press in your local machine shop
A) i and ii
B) ii only
C) iii only
D) iv only
E) ii and iii
Answer: D
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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40) Capital is a factor of production. An example of capital as a factor of production is
A) money.
B) stocks.
C) bonds.
D) machines.
E) education.
Answer: D
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

41) One of the productive resources is capital. Capital includes
A) money borrowed from a bank.
B) a company's stocks and bonds.
C) tools, buildings, and machine tools.
D) toys, t-shirts, CD players, and pencils.
E) money in a savings account at a bank.
Answer: C
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

42) A newspaper printing press is an example of
A) a capital good.
B) a factor of production.
C) something that influences labor productivity.
D) a good that was once an output of the production process.
E) All of the above are correct.
Answer: E
Topic: Capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Application of knowledge

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43) Which of the following is NOT considered capital?
A) an assembly line at a General Motors plant
B) a computer used by your instructor for presentations in class
C) stocks and bonds that are sold by Pepsico
D) the furniture in the President's office
E) a nail gun used for building houses
Answer: C
Topic: How do we produce?
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

44) Entrepreneurship, as a factor of production, refers to
A) the technology used by firms.
B) the human capital accumulated by workers.
C) the value of the firm's stock.
D) the human resource that organizes labor, land, and capital.
E) the capital the firm uses.
Answer: D
Topic: Entrepreneurship
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

45) The productive resource that organizes labor, land, and capital is
A) human capital.
B) financial capital.
C) entrepreneurship.
D) government.
E) capital.
Answer: C
Topic: Entrepreneurship
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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46) Payments to the factors of production are
A) rent, mortgage, interest, and bonds.
B) rent, interest, bonds, and profit or loss.
C) rent, wages, interest, and profit or loss.
D) rent, wages, profit or loss, and bonus.
E) land, labor, capital, and entrepreneurship.
Answer: C
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

47) _____ paid for the use of land; _____ paid for the services of labor; and _____ paid for the use of capital.
A) Rent is; wages are; interest is
B) Rent is; interest is; wages are
C) Interest is; wages are; profit is
D) Mortgages are; interest is; wages are
E) Rent is; wages are; profit is
Answer: A
Topic: Resource payments
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

48) The income paid for the use of land is called
A) rent.
B) wages.
C) interest.
D) profit.
E) land capital.
Answer: A
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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49) The income paid to labor is called
A) rent.
B) wages.
C) interest.
D) profit.
E) human capital.
Answer: B
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

50) Which factor of production is paid "interest"?
A) land
B) labor
C) capital
D) entrepreneurship
E) human capital
Answer: C
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

51) The owners of the resource _____ are paid _____.
A) land; wages
B) labor; profit
C) capital; rent
D) capital; interest
E) entrepreneurship; wages
Answer: D
Topic: Resource payments
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
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52) Which factor of production is paid "profit"?
A) land
B) labor
C) capital
D) entrepreneurship
E) human capital
Answer: D
Topic: Resource payments
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

53) The functional distribution of income measures which of the following?
A) how federal tax revenues are related to the business function that employs taxpayers
B) the distribution of earnings by the factors of production
C) the proportion of income generated by the four types of expenditures on goods and services
D) the distribution of income among households
E) the distribution of income among nations
Answer: B
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

54) In the United States, the productive factor that, as a group, receives the largest fraction of the nation's total income is
A) labor.
B) capital.
C) consumption goods and services.
D) entrepreneurship.
E) land.
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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55) According to the functional distribution of income, in the United States,
A) capital earns most of the income.
B) labor earns most of the income.
C) land earns most of the income.
D) entrepreneurs earn most of the income.
E) the income earned by capital and labor are approximately equal.
Answer: B
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

56) The data show that more than 60 percent of the total income earned in the United States goes to
A) labor.
B) land.
C) capital.
D) entrepreneurship.
E) profit.
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

57) The majority of the income earned in the United States is paid in
A) rent.
B) wages.
C) interest.
D) profit.
E) dividends.
Answer: B
Topic: Functional distribution of income
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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58) The personal distribution of income measures which of the following?
A) how federal tax revenues are related to the type of businesses that employs the taxpayers
B) the distribution of earnings by the factors of production
C) proportion of income generated by the four types of expenditures on goods and services
D) the distribution of income among households
E) the distribution of income among nations
Answer: D
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

59) In the United States, the poorest 20 percent of households earn roughly _____ percent of total income.
A) 20
B) 10
C) 15
D) 3
E) 0.5
Answer: D
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

60) The personal distribution of income in the United States shows that
A) income is equally distributed.
B) the poorest 20 percent of individuals receive approximately 20 percent of total income.
C) the richest 20 percent of individuals receive approximately 50 percent of total income.
D) the poorest 60 percent of individuals receive approximately 50 percent of total income.
E) the richest 20 percent of individuals receive approximately 25 percent of total income.
Answer: C
Topic: Personal distribution of income
Skill: Level 3: Using models
Section: Checkpoint 2.1
Status: Old
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61) The richest 20 percent of individuals in the United States receive about _____ of the nation's total income.
A) 21 percent
B) 51 percent
C) 91 percent
D) 99 percent
E) 23 percent
Answer: B
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

62) When the total U.S. production of goods and services is divided into consumption goods and services, capital goods, government goods and services, and export goods and services, the largest component is
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) export goods and services.
E) capital goods and government goods and services tie for the largest component.
Answer: A
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

63) An example of a capital good is
A) a fiber optic cable TV system.
B) an insurance policy.
C) a haircut.
D) an iPod.
E) a slice of pizza.
Answer: A
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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64) Goods and services produced in the United States and sold in other countries are called
A) consumption goods and services.
B) capital goods.
C) government goods and services.
D) export goods and services.
E) import goods and services.
Answer: D
Topic: What we produce
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

65) Which of the following correctly lists the categories of factors of production?
A) machines, buildings, land, and money
B) hardware, software, land, and money
C) capital, money, and labor
D) owners, workers, and consumers
E) land, labor, capital, and entrepreneurship
Answer: E
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

66) In economics, the factor of production "land" includes all of the following EXCEPT
A) energy.
B) plastics.
C) wild plants.
D) animals, birds, and fish.
E) oil.
Answer: B
Topic: Land
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
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67) Human capital is
A) solely the innate ability we are born with.
B) the money humans have saved.
C) the knowledge humans accumulate through education and experience.
D) machinery that needs human supervision.
E) any type of machinery.
Answer: C
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

68) When Ethan continues his education beyond high school, he is increasing his
A) capital.
B) wage rate.
C) human capital.
D) quantity of labor.
E) rent.
Answer: C
Topic: Human capital
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

69) _____ is the human resource that organizes labor, land, and capital.
A) Human capital
B) Human skill
C) A gift of nature
D) Entrepreneurship
E) Profit
Answer: D
Topic: Entrepreneurship
Skill: Level 2: Using definitions
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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70) Wages are paid to _____ and interest is paid to _____.
A) entrepreneurs; capital
B) labor; capital
C) labor; land
D) entrepreneurs; land
E) labor; entrepreneurs
Answer: B
Topic: Payments for the factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

71) The income earned by entrepreneurs is
A) interest.
B) wages.
C) profit or loss.
D) rent, wages, and interest.
E) a mixture of rent, wages, interest, and profit.
Answer: C
Topic: Profit
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

72) Dividing the nation's income among the factors of production, the largest percentage is paid to
A) labor.
B) land.
C) capital.
D) entrepreneurship.
E) labor and capital, with each receiving about 41 percent of the total income.
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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73) _____ earned the highest amount of income among the factors of production in the United States.
A) Labor
B) Capital
C) Land
D) Entrepreneurship
E) Investment
Answer: A
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

74) In the United States, the richest 20 percent of households receive about _____ percent of total income.
A) 4
B) 15
C) 23
D) 50
E) 33
Answer: D
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

75) In the United States, the poorest 20 percent of households receive about _____ percent of total income.
A) 3
B) 15
C) 23
D) 49
E) 20
Answer: A
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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76) The personal distribution of income shows
A) that labor receives the largest percentage of total income.
B) how profit accounts for the largest fraction of total income.
C) that the richest 20 percent of households receive 23 percent of total income.
D) that interest accounts for most of the income of the richest 20 percent of households.
E) that the poorest 20 percent of households receive less than 4 percent of total income.
Answer: E
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

2.2 The Global Economy

1) Compared to the world, the rate of U.S. population growth is
A) slower than in the world as a whole.
B) about the same as in the world as a whole.
C) much faster than in the world as a whole.
D) incomparable because U.S. residents are born with a much greater chance of accumulating a lot of human capital.
E) incomparable because we do not have accurate world population statistics.
Answer: A
Topic: World population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

2) Approximately _____ people live in the United States and _____ people live in the world.
A) 410 million; 8 billion
B) 310 million; 7 billion
C) 210 million; 5 billion
D) 310 million; 3 billion
E) 210 million; 6 billion
Answer: B
Topic: The people
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
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3) The most people live in _____ economies and the fewest people live in _____ economies.
A) developing; emerging market
B) advanced; emerging market
C) advanced; developing
D) emerging market; developing
E) developing; advanced
Answer: A
Topic: The countries
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

4) When describing the IMF broad country classification, the most accurate statement is that
A) the category with the greatest number of countries is the advanced economies.
B) the emerging market economies are countries that were, until the early 1990s, part of the Soviet Union or its satellites.
C) most of the nations in Western Europe are considered emerging market economies.
D) most of the world's population lives in advanced economies.
E) about 50 percent of the world's population live in the advanced economies and the other 50 percent live in the emerging market and developing economies.
Answer: B
Topic: Classification of economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

5) Which of the following is NOT classified as an advanced economy?
A) South Korea
B) Australia
C) Russia
D) Hong Kong
E) the United Kingdom
Answer: C
Topic: Advanced economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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6) Canada is classified by the International Monetary Fund as
A) an advanced economy.
B) a developing economy.
C) a transition economy.
D) an emerging market economy.
E) a natural-resource based economy.
Answer: A
Topic: Advanced economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

7) _____ economies include _____.
A) Advanced; France, Australia and South Korea
B) Advanced; the United States, Taiwan and Russia
C) Advanced; Russia, Canada and Singapore
D) Emerging; Taiwan, Russia and Singapore
E) Emerging; Saudi Arabia, Poland and Taiwan
Answer: A
Topic: Advanced economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

8) Most countries in the world are classified as
A) advanced.
B) in transition.
C) developing.
D) industrialized.
E) emerging market.
Answer: C
Topic: Developing economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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9) Most of the world's population lives in
A) advanced economies.
B) developing economies.
C) transition economies.
D) emerging market economies.
E) island nations.
Answer: B
Topic: Developing economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

10) Which of the following is true?
i. The advanced economies account for more than half of global production.
ii. Almost four out of every five people in the world live in the developing economies.
iii. In the advanced economies, agriculture accounts for a larger part of total production than in the developing economies.
A) Only i and ii
B) Only ii and iii
C) Only i and iii
D) Only i
E) i, ii, and iii
Answer: A
Topic: Developing economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

11) Nigeria would be classified by the International Monetary Fund as
A) an advanced economy.
B) a developing economy.
C) a transition economy.
D) an emerging market economy.
E) a resource-based economy.
Answer: B
Topic: Developing economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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12) _____ economies include _____.
A) Developing; Saudi Arabia and South Africa
B) Developing; Poland and Russia
C) Developing; China and Poland
D) Emerging; Poland and Brazil
E) Emerging; China and Canada
Answer: A
Topic: Developing economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

13) Poland is classified as
A) an advanced economy.
B) a developing economy.
C) a transition economy.
D) an emerging market economy.
E) private economy.
Answer: D
Topic: Emerging market economies
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

14) The majority of the value of production in the world economy is produced in
A) all of the developing economies taken together.
B) all of Africa and the Middle East taken together.
C) China and other Asian developing economies.
D) all of the advanced economies taken together.
E) all of the emerging market economies taken together.
Answer: D
Topic: What in the global economy
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
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15) Which of the following correctly describes how the "global pie is baked"?
A) Advanced economies account for about 50 percent of the value of the world's production.
B) The United States' share of economic pie is increasing while China's share is decreasing.
C) The increase in manufacturing has taken place in mainly the advanced economies.
D) Asia accounts for about 40 percent of the global pie.
E) Emerging economies account for about 25 percent of the global pie.
Answer: A
Topic: What in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

16) Physical capital differences across countries can be seen in the fact that
A) more advanced economies typically have more sophisticated technology.
B) furniture factories in China use machines like those in North Carolina.
C) students in India study the same subjects as those in the United States.
D) advanced economies produce 53 percent of the world's income.
E) the iPhone's components are produced in 30 countries.
Answer: A
Topic: How in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

17) The charitable organization Creating Hope International trains women in Afghanistan to become tailors. This effort reduces
A) physical capital differences between advanced and developing economies.
B) entrepreneurship differences between advanced and developing economies.
C) agricultural differences between advanced and developing economies.
D) manufacturing differences between advanced and developing economies.
E) human capital differences between advanced and developing economies.
Answer: E
Topic: How in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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18) Which of the following is an example of an effort to decrease physical capital differences between an advanced and a developing economy?
A) American troops build roads in Afghanistan.
B) Through World Vision, women and children in Africa receive education.
C) Peace Corps volunteers teach English around the world.
D) Creating Hope International trains women in Afghanistan to become tailors.
E) Habitat for Humanity builds houses for low income families in the United States.
Answer: A
Topic: How in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

19) Of the following, the country with the highest average income per day in the world is
A) Japan.
B) the United States.
C) France.
D) Germany.
E) China.
Answer: B
Topic: Income in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

20) Income equality has
A) increased within countries but has narrowed across countries.
B) not changed in the advanced economies over the past 50 years.
C) narrowed within countries but increased across countries.
D) increased in developing economies as manufacturing has decreased.
E) decreased in the United States as manufacturing has increased.
Answer: A
Topic: Income in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
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21) The world population is approximately _____ people.
A) 6.8 million
B) 2 trillion
C) 6.8 billion
D) 6.8 trillion
E) 680 million
Answer: C
Topic: Population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

22) Which of the following statements is true?
A) Income inequality within most countries has increased during the past 20 years.
B) Income inequality across the entire world has decreased during the past 20 years.
C) Income inequality within most countries and across the entire world has not changed much during the past 20 years.
D) Both A and B are correct.
E) None of the above is correct.
Answer: D
Topic: Income in the global economy
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

23) The percentage of the world's population that lives in the advanced economies is
A) more than 71 percent.
B) between 51 percent and 70 percent.
C) between 31 percent and 50 percent.
D) between 20 percent and 30 percent.
E) less than 20 percent.
Answer: E
Topic: Population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
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24) Which of following groups of countries are *all* advanced economies?
A) Australia, Brazil, and the United States
B) Hong Kong, Japan, France, and the United Kingdom
C) Italy, the United States, China, and Russia
D) Singapore, Russia, France, and Chad
E) Mexico, Canada, Germany, and Egypt
Answer: B
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

25) The emerging market economies are
A) the largest grouping including the nations of China and India.
B) in transition from state-owned production to free markets.
C) most of the nations of Western Europe.
D) the nations that are currently agricultural in nature.
E) the nations with the highest standards of living.
Answer: B
Topic: Emerging market economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

26) As a percentage of total world production, production in the 29 advanced economies is about _____ percent of total world production and in the 118 developing economies is about _____ percent of total world production.
A) 53; 39
B) 23; 62
C) 53; 12
D) 30; 46
E) 19; 73
Answer: A
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
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27) Compared to the developing economies, the advanced economies have _____ human capital and _____ physical capital.
A) more; more
B) more; less
C) the same; the same
D) less; more
E) less; less
Answer: A
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

28) In the advanced economies, _____ of the factories use advanced capital equipment, and in the developing economies, _____ of the factories use advanced capital equipment.
A) virtually all; virtually all
B) some; some
C) virtually all; none
D) some; none of
E) virtually all; some
Answer: E
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

29) Among the United States, Canada, Russia, India, and the United Kingdom, the country with the highest average income per person is
A) the United States.
B) Russia.
C) India.
D) Canada.
E) the United Kingdom.
Answer: A
Topic: Advanced economies
Skill: Level 1: Definition
Section: Checkpoint 2.2
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2.3 The Circular Flows

1) _____ the owners of the factors of production, while _____ what amounts of those factors to hire.
A) Households are; firms determine
B) Households are; the government determines
C) The government is; firms determine
D) Firms are; households determine
E) Firms are; the government determines
Answer: A
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

2) What two groups of decision makers are represented in the basic circular flow model?
A) governments and financial institutions
B) lenders and borrowers
C) wholesalers and retailers
D) bankers and regulators
E) households and firms
Answer: E
Topic: Circular flow
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

3) Dan missed class the day the professor covered the circular flow model. Dan asked his friend Joan to explain markets to him. Joan correctly stated that a market
A) requires a physical location for buyers and sellers to get together.
B) is any arrangement that brings buyers and sellers together.
C) must include a written contract between buyers and sellers.
D) is only a place to purchase groceries.
E) must have many buyers and only one seller, who is willing to sell to all the buyers.
Answer: B
Topic: Markets
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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4) The decisions of firms and households are
A) coordinated by markets.
B) made independently of one another.
C) controlled by but not totally coordinated by the government.
D) unexplainable by the circular flow model.
E) coordinated by but not totally controlled by the government.
Answer: A
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

5) The circular flow model is used to show the
A) flow of renewable natural resources.
B) recycling process of production materials.
C) expansions and contractions of economic activity.
D) flow of expenditures and incomes in the economy.
E) flow of supply and the flow of demand.
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

6) The circular flow model shows the
A) distribution of income and consumption goods across income levels.
B) combinations of the factors of production needed to produce goods and services.
C) flow of expenditure and incomes that arise from the households', firms', and governments' decisions.
D) flow of natural resources from firms to the private market to government and back to firms.
E) distribution of income to the different factors of production.
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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7) The circular flow model shows the flow of
A) expenditure and income throughout the economy.
B) only money throughout the economy.
C) only funds in stock and bond markets.
D) only tax payments and government expenditures.
E) goods markets and factor markets as they move through the economy.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

8) In the circular flow model, there are two types of markets: the _____ market and the _____ market.
A) producers; consumers
B) households; firms
C) service; goods
D) goods; factor
E) supply; demand
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

9) In the circular flow model, consumption goods are bought and sold in the
A) goods market.
B) financial market.
C) factor markets.
D) government market.
E) monetary flows.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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10) In the circular flow model, which of the following is on the buying side in the goods market?
i. firms
ii. households
iii. federal, state, and local governments
A) i only
B) ii only
C) iii only
D) i and ii
E) ii and iii
Answer: E
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

11) In the circular flow model, which of the following is on the selling side in the goods market?
A) federal, state, and local governments
B) only households
C) exporters
D) only firms
E) both firms and households
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

12) The circular flow model shows that goods and services flow from
A) businesses to households.
B) households to business.
C) the factor market to businesses.
D) the goods market to businesses.
E) the factor markets to the goods markets.
Answer: A
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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13) As the circular flow model points out, a choice that households make is how
A) many resources a firm will hire.
B) many goods and services are produced.
C) many goods and services are purchased.
D) much labor is hired.
E) much the government will collect in taxes and how much the government will spend on transfer payments.
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

14) In the circular flow model, which of the following owns the factors of production?
A) only federal, state, and local governments
B) only households
C) only firms
D) both firms and households
E) firms, households, and all levels of government
Answer: B
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

15) In the circular flow model, the factor markets are the markets in which
A) consumption goods and services are bought and sold.
B) government goods and services are provided.
C) land, labor, capital, and entrepreneurship are bought and sold.
D) investment goods and services are bought and sold.
E) governments impose all their taxes.
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
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16) A money flow in the circular flow diagram is
i. the government's collection of taxes.
ii. Chevrolet's production of SUVs.
iii. Nike's payment of wages to its workers.
A) i and iii
B) i, ii and iii
C) i only
D) ii only
E) ii and iii
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

17) A real flow in the circular flow diagram is
i. a firm's payments of wages to its workers.
ii. a household's purchase of a new car.
iii. a farmer's use of land to grow corn.
A) ii and iii
B) i only
C) i and iii
D) ii only
E) i, ii and iii
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

18) An example of a real flow in the circular flow diagram is
A) a household's supply of work effort at its new business.
B) the government's payment of wages to a soldier.
C) Nike's payment of wages to workers in China.
D) your county's collection of property taxes.
E) a teacher's salary at the local high school.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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19) An example of a money flow in the circular flow diagram is
A) a student's payment of tuition to her university.
B) the government's operation of the court system.
C) the government's financing of the national debt.
D) a firm's production of goods to sell to a foreign country.
E) a farmer's use of land to grow wheat.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

20) As the circular flow model shows, the factors of production flow from
A) firms to households through the factor market.
B) households to firms through the factor market.
C) firms to households through the goods market.
D) households to firms through the goods market.
E) the goods market through firms to the factor markets.
Answer: B
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

21) In the circular flow model, the factors of production flow in the
A) same direction as do the rents, wages, interest, and profits.
B) opposite direction as do the rents, wages, interest, and profits.
C) opposite direction as does the government.
D) same direction as does the goods market.
E) opposite direction as does the goods market.
Answer: B
Topic: Circular flow model
Skill: Level 4: Applying models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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22) In the goods market, firms _____ and households _____.
A) purchase goods and services; supply goods and services
B) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
C) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
D) supply goods and services; purchase goods and services
E) hire land, labor, capital, and entrepreneurship services; supply goods and services
Answer: D
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

23) In the factor market, firms _____ and households _____.
A) hire land, labor, capital, and entrepreneurship services; purchase goods and services
B) supply land, labor, capital, and entrepreneurship services; hire land, labor, capital, and entrepreneurship services
C) pay rent, wages, interest, and profit; earn rent, wages, interest, and profit
D) purchase goods and services; supply goods and services
E) supply goods and services; purchase goods and services
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

24) Which of the following transactions takes place in factor markets?
A) Henry receives a commission from his employer for selling a new automobile.
B) Jake purchases 1,000 shares of stock in the Wal-Mart Corporation through his online trading account.
C) Sam enters the winning bid on a grand piano at a local auction.
D) Justin receives $30 in exchange for mowing his neighbor's lawn.
E) Lucille receives a $500 check from the U.S. Social Security Administration.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Application of knowledge

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25) Which markets are depicted in the basic circular flow model?
A) the goods market and the stock market
B) the factor market and the bond market
C) the goods market and the factor market
D) the money market and the foreign exchange market
E) the stock market and the bond market
Answer: C
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

26) In the circular flow model, which of the following flows in the opposite direction from the flow of factors of production?
A) finished goods and services
B) wages, rent, interest, and profit
C) interests payments of Federal, state, and local governments
D) firm's profit incentives
E) the goods market
Answer: B
Topic: Circular flow model
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

27) Terri is enrolled in her first economics course. She is required to give a presentation about the circular flow. Which of the following statements should she include in her presentation?
A) Households choose the amount of the factors of production to provide the firms.
B) Firms choose the amount of the factors of production to provide households.
C) Households receive wages for the amount of entrepreneurship they provide firms.
D) Firms pay wages for the amount of entrepreneurship they provide households.
E) The flows of goods and services and payments for the goods and services flow in the same direction.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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28) Aaron locked himself out of his house and had to pay $40 to Brianna, who works for Lucky Locksmith, to open his door. Based on this transaction in the economy and using concepts from the circular flow model, which of the following is true?
A) Brianna earned income from supplying her labor services.
B) Aaron earned income from supplying his labor services.
C) Brianna purchased goods and services.
D) Aaron acted as a firm in this transaction.
E) Aaron supplied goods and services.
Answer: A
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

29) In the circular flow model,
A) the government is represented as a separate market.
B) the government buys goods and services from firms.
C) goods and services are sold by households and purchased by firms.
D) factor markets are where goods rather than services are bought and sold.
E) the government has no direct interaction with either households or firms.
Answer: B
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

30) In the circular flow model with the government sector, transfers
A) flow in the same direction as do taxes.
B) flow in the opposite direction as do taxes.
C) to households flow in the same direction as do expenditures on goods and services.
D) to firms flow in the same direction as do rent, wages, interest, and profits.
E) flow only through the goods market.
Answer: B
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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31) In the circular flow model with the government sector, taxes
A) flow in the opposite direction as do transfers.
B) flow in the same direction as do transfers.
C) on households flow in the same direction as do the goods and services.
D) on firms flow in the same direction as do factors of production.
E) flow from the goods market to the factor markets.
Answer: A
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

32) Which of the following is NOT shown explicitly in the circular flow model?
A) the government's purchases in the goods market
B) the taxes the government collects from households
C) the government's interaction with firms
D) the legal system
E) the transfers the government makes to households
Answer: D
Topic: Circular flow and the government
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

33) Which of the following is a function of the U.S. federal government?
A) providing the legal and social framework for economic activity
B) distributing private goods and services
C) deciding for whom firms should produce goods and services
D) deciding how much to produce of private goods and services
E) determining what wages firms will pay their workers
Answer: A
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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34) Which of the following is NOT a function of the federal government?
A) collecting property taxes
B) making social security and welfare payments
C) making transfers to state and local governments
D) providing public goods and services
E) imposing a personal income tax
Answer: A
Topic: Functions of the federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

35) Of the following, the largest single component of U.S. federal government expenditures is spent on
A) interest paid on the national debt.
B) Medicare and Medicaid.
C) national defense.
D) purchases of goods and services for purposes other than national defense.
E) transfers to state and local governments.
Answer: B
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

36) The largest component of federal government spending is for
A) national defense.
B) Medicare and Medicaid.
C) education.
D) prisons.
E) interest on the national debt.
Answer: B
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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37) Of the following, the federal government obtains most revenue from
A) excise taxes.
B) sales taxes.
C) corporate income taxes.
D) Social Security taxes.
E) property taxes.
Answer: D
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

38) The two biggest items of the U.S. federal government revenue that together account for over approximately 80 percent of total federal government revenue are
A) personal income taxes and Social Security taxes.
B) personal income taxes and corporate income taxes.
C) corporate income taxes and Social Security taxes.
D) corporate income taxes and property taxes.
E) personal income taxes and sales taxes.
Answer: A
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

39) Of the following, the federal government's largest source of revenue is the
A) sales tax.
B) property tax.
C) corporate income tax.
D) social security tax.
E) transfers from state and local governments.
Answer: D
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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40) Tax revenues are transferred from
A) state governments to the federal government.
B) local governments to state and federal governments.
C) one state government to other state governments.
D) the federal government to state and local governments.
E) the state and local governments to the federal government.
Answer: D
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

41) Of the following, the largest source of revenue for the federal government is the
A) personal income tax.
B) transfers from state and local governments.
C) corporation income tax.
D) lottery.
E) revenue from the sale of public lands.
Answer: A
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

42) Income taxes paid by corporations are
A) the major source of revenue for the federal government.
B) the major source of revenue for state governments.
C) the major source of revenue for local governments.
D) about 9 percent of the federal government's revenue.
E) the major source of expenditure by the federal government.
Answer: D
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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43) The national debt is the total amount the _____ government has borrowed to make expenditures that _____ tax revenue.
A) state and local; are less than
B) federal; are less than
C) federal; exceed
D) state and local; exceed
E) federal; are equal to
Answer: C
Topic: National debt
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

44) The national debt is the total amount the _____ government has _____ to make expenditures that exceed tax revenue.
A) state and local; borrowed
B) federal; taxed U.S. citizens
C) state and local; taxed U.S. citizens
D) federal; borrowed
E) federal; loaned
Answer: D
Topic: National debt
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

45) The total amount the federal government has borrowed to make expenditures that exceed tax revenue is called
A) personal income taxes.
B) federal expenditures.
C) total government spending.
D) the net government revenue.
E) the national debt.
Answer: E
Topic: National debt
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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46) If there is a national debt, we can conclude that the federal government has
A) borrowed in the past.
B) purchased more goods and services than were needed.
C) spent money foolishly.
D) loaned funds to U.S. taxpayers in the past.
E) loaned funds to other nations in the past.
Answer: A
Topic: National debt
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

47) State and local governments finance expenditures mainly from
A) tax revenue.
B) funds provided by the federal government.
C) government bonds issued at the state level.
D) private bank loans.
E) lottery funds.
Answer: A
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

48) Of the following, the largest source of tax revenue collected by state and local governments comes from
A) individual income taxes.
B) corporate income taxes.
C) death taxes.
D) sales taxes.
E) lottery revenues.
Answer: D
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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49) Which of the following are sources of revenue for state and local governments?
i. property taxes
ii. sales taxes
iii. transfers from the federal government
A) i and ii
B) ii and iii
C) i and iii
D) i, ii and iii
E) i only
Answer: D
Topic: State and local governments
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

50) Property taxes are a major source of revenue for
A) state and local governments.
B) the federal governments.
C) the federal, state, and local governments.
D) firms wanting to relocate their operations.
E) consumers.
Answer: A
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

51) The largest category of state and local government expenditures is
A) public welfare.
B) highways.
C) education.
D) interest on their debt.
E) social security.
Answer: C
Topic: State and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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52) State and local governments spend about _____ of their expenditures on education.
A) 14 percent
B) 19 percent
C) 34 percent
D) 59 percent
E) 74 percent
Answer: C
Topic: State and local governments
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

53) Households and firms in the U.S. economy interact with those in the rest of the world in the _____ market and in the _____ market.
A) goods; factor
B) goods; financial
C) government; goods
D) financial; factor
E) firm; government
Answer: B
Topic: Circular flow model, international flows
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

54) An example of a U.S. export is
A) a TV made in China sold to a buyer in Azerbaijan.
B) matchbooks made in Mexico sold to a buyer in New Jersey.
C) pasta made in Italy sold to buyers in Spain.
D) diamonds mined in Africa sold to buyers in South America.
E) a washing machine made in Indiana sold to a buyer in France.
Answer: E
Topic: Circular flow model, international flows
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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55) Within the circular flow model, economists define households as
A) families with at least 2 children.
B) families living in their own houses.
C) individuals or groups living together.
D) married or engaged couples.
E) individuals or groups within the same legally defined family.
Answer: C
Topic: Households
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

56) A market is defined as
A) the physical place where goods (but not services) are sold.
B) the physical place where goods *and* services are sold.
C) any arrangement that brings buyers and sellers together.
D) a place where money is exchanged for goods.
E) another name for a store.
Answer: C
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

57) In the circular flow model,
A) only firms sell in markets.
B) only households buy from markets.
C) some firms only sell and some firms only buy.
D) the money used to buy goods and the goods themselves travel in the same direction.
E) both firms and households buy or sell in different markets.
Answer: E
Topic: Markets
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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58) _____ choose(s) the quantities of goods and services to produce, while _____ choose(s) the quantities of goods and services to buy
A) Households; firms
B) Firms; households and the government
C) The government; firms
D) Firms; only households
E) Households; the government
Answer: B
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

59) _____ choose the quantities of factors of production to hire and _____ choose the quantities of goods and services to produce.
A) Entrepreneurs; firms
B) Firms; firms
C) Markets; markets
D) Factor markets; goods markets
E) Firms; households
Answer: B
Topic: Households vs. firms
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

60) In the circular flow model, rent, wages, interest, and profit paid flow from _____ through _____ to _____.
A) households; goods markets; firms as payment for goods
B) firms; factor markets; households
C) firms; goods markets; households
D) households; factor markets; firms
E) firms; goods markets; firms
Answer: B
Topic: Households vs. firms
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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61) A circular flow model shows the interrelationship between the _____ markets and the _____ markets.
A) household; goods
B) household; factor
C) business; household
D) expenditure; income
E) goods; factor
Answer: E
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

62) In the circular flow model, the expenditures on goods and services flow in the
A) same direction as goods and services in all cases.
B) same direction as goods and services ONLY IF they both flow through the goods market.
C) same direction as goods and services ONLY IF they both flow through the factor market.
D) opposite direction as goods and services.
E) same direction as factor markets.
Answer: D
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

63) Households receive transfers from _____, and firms receive transfers from _____.
A) government; government
B) firms; households
C) government; government and households
D) firms and government; government
E) government; no one
Answer: A
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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64) Of the following, the largest source of revenue for the federal government is
A) personal income taxes.
B) sales taxes.
C) corporate income taxes.
D) property taxes.
E) lottery revenue.
Answer: A
Topic: Federal government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

65) _____ are the largest components of state and local government revenue.
A) Transfers from federal government and corporate income taxes
B) Transfers from federal government and sales taxes
C) Individual income taxes and corporate income taxes
D) Individual income taxes and sales taxes
E) Corporate income taxes and lottery income
Answer: B
Topic: State and local governments
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

66) U.S. exports of goods and services flow to households and firms in _____, and U.S. financial inflows of capital flow to households and firms in _____.
A) the United States; the United States
B) the United States; the rest of the world
C) the rest of the world; the United States
D) the rest of the world; the rest of the world
E) the United States; the rest of the world and the United States
Answer: C
Topic: Circular flow model, international flows
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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2.4 Integrative Questions

1) If a product becomes more popular and consumers want more produced, which of the following best describes what happens to move more factors of production into that industry?
A) An agency of the Federal government directs the movement of factors.
B) The chief executive officers or presidents of corporations require that factors leave one industry and move to the other industry.
C) Factor owners voluntarily move their factors because they want to satisfy the interests of consumers.
D) Wages, rent, interest, and profit increase in that industry, thereby giving factors the incentive to move to that industry.
E) Consumers increase their demand for the products and, as a result, the taxes the producers must pay decrease enabling the producers to hire more factors of production.
Answer: D
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

2) What determines the income flows that households receive?
A) an agency of the Federal government
B) what they choose to produce, how much is sold, and the price received when sold
C) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
D) financial institutions such as banks
E) what they choose to consume
Answer: C
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Reflective thinking

3) What determines the revenue flows received by businesses?
A) an agency of the Federal government
B) what they choose to produce, how much is sold, and the price received when sold
C) their ownership of factors of production, how much they sell in the factor markets, and the prices received when sold
D) financial institutions such as banks
E) what they pay the factors of production they employ
Answer: B
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Reflective thinking

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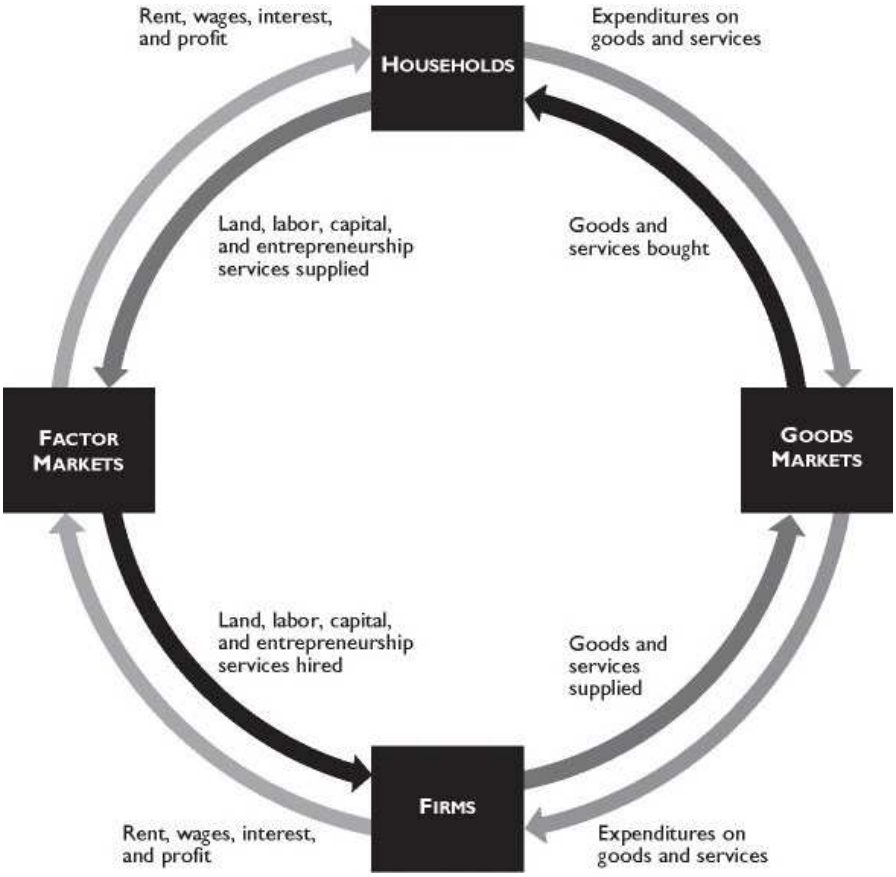
2.5 Chapter Figures



The figure above shows the circular flow model.

1) In the figure above, which of the following represents a real flow of a factor of production?
A) labor
B) wages
C) goods bought
D) services sold
E) firms' expenditures on factors of production
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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2) In the figure above, which of the following represents a money flow?
A) goods purchased
B) interest
C) capital
D) services sold
E) goods supplied
Answer: B
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

3) In the figure above, which of the following represents a real flow?
A) expenditures on real estate services
B) profit
C) capital
D) wages
E) both B and D
Answer: C
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

4) In the figure above, which of the following transactions take place in the factor markets?
i. Michael, a student, orders a computer from Dell online.
ii. Peter gets a job at a Wal-Mart store.
iii. Apple Computer opens a new store in Georgia.
A) ii and iii
B) only i
C) only ii
D) only iii
E) i and ii
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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5) Margo orders a MacBook Pro computer from The Apple Store online to use it in her graphic design business. How will this be reflected in the figure above?
A) as a flow of a factor of production
B) as a flow of goods and services bought
C) as expenditures on goods and services
D) as goods and services supplied
E) It won't be shown in the figure because this transaction takes place neither in goods markets nor in factor markets.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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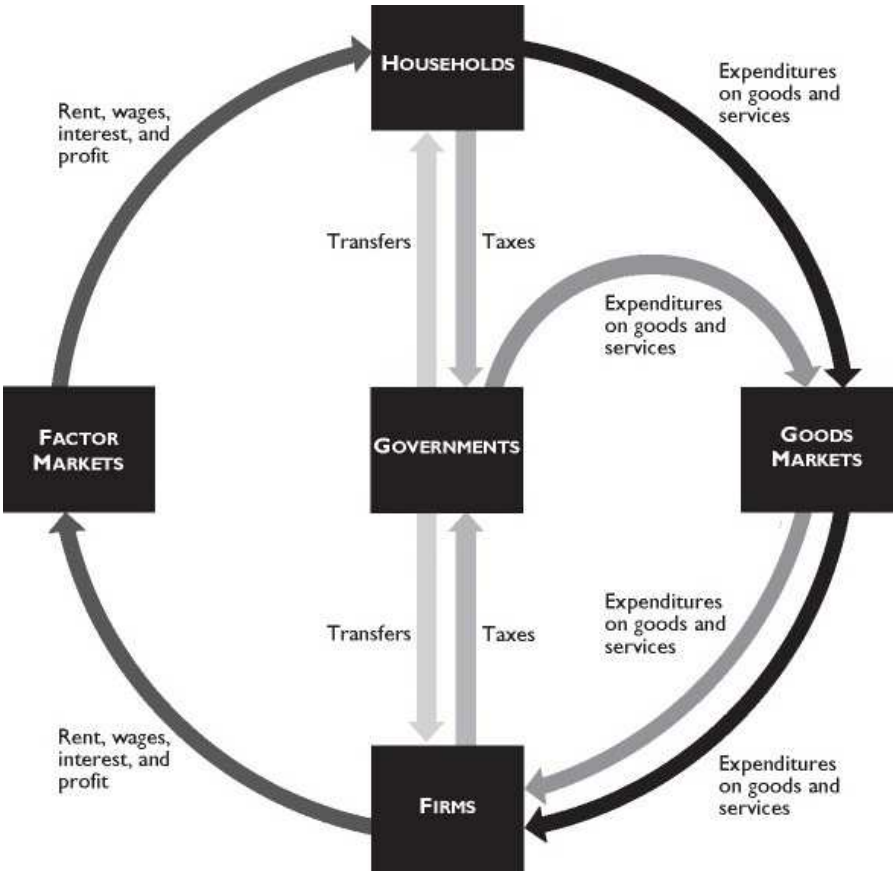

The figure above shows governments in the circular flow.

6) In the figure above, households
A) receive transfers directly from governments.
B) buy goods and services from governments in goods markets.
C) receive transfers from governments through factor markets.
D) sell factors of production to governments.
E) pay taxes to governments through factor markets.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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7) In the figure above, firms
A) pay taxes directly to governments.
B) sell goods and services to governments in goods markets.
C) receive transfers from governments through factor markets.
D) own factors of production.
E) do all of the above.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

8) In the figure above, governments
A) collect taxes.
B) coordinate economic activities of households and firms.
C) hire factors of production.
D) own factors of production.
E) sell goods and services to household.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

9) In the figure above, which of the following is true?
i. Governments coordinate economic activities of households and firms.
ii. Governments buy goods and services in goods markets.
iii. Households pay taxes directly to firms.
A) only ii
B) only i
C) only iii
D) i and ii
E) ii and iii
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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10) Social Security tax is deducted from your paycheck. In the figure above, this will be shown as
A) taxes flowing from households to governments.
B) taxes flowing from firms to governments.
C) taxes flowing from households to firms.
D) wages flowing from firms to households.
E) wages flowing from firms to governments.
Answer: A
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

2.6 Essay: What, How, and For Whom?

1) It is conventional to divide the nation's total production into four categories. Name and explain the four categories. In the United States, which category accounts for the largest share and the smallest share of the nation's total production?
Answer: The four categories of production are consumption goods and services, capital goods, government goods and services, and export goods and services. The division is based upon who purchases the goods and services. For instance, consumption goods and services are purchased by individuals for their own enjoyment whereas export goods and services are purchased by foreigners. In the United States, the largest of these four components is consumption goods and services. In 2011, consumption goods and services accounted for 61 percent of the total production. The smallest components were capital goods and export goods and services, which each accounted for 11 percent of the total production.
Topic: What we produce
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Written and oral communication

2) Explain the difference between consumption and capital goods.
Answer: A difference lies in the identity of the purchaser. Consumption goods (and services) are purchased by households and investment goods are purchased by firms. Households buy consumption goods to use for personal enjoyment. They contribute to the person's standard of living. Firms buy capital goods to use as a factor of production. Capital goods are used along with the other factors of production, to help produce additional goods and services.
Topic: Consumption and capital goods
Skill: Level 3: Using models
Section: Checkpoint 2.1
Status: Old
AACSB: Written and oral communication

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3) Identify the four factors of production, and tell what type of income is earned by each factor.
Answer: The factors of production are land, which represents all the gifts of nature; labor, the work effort people put into producing goods and service; capital, goods that have been produced and are used as a productive resource to help produce other goods and services; and entrepreneurship, the human resource that organizes all the other factors of production. Land earns rent, labor earns wages, capital earns interest, and entrepreneurship earns profit or losses.
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

4) What are the payments each factor of production receives?
Answer: Rent is paid for the use of land. Wages are paid for the services of labor. Interest is paid for the use of productive capital. Entrepreneurs earn a profit.
Topic: Factors of production
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

5) What is meant by the term "human capital"?
Answer: Human capital refers to the skills people possess. These skills help increase the quality of labor. Human capital can be increased through education, on the job training, and experience. The knowledge and skill gained from these improvements are called human capital.
Topic: Human capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

6) What effect, if any, will a good college education have on your human capital? Explain your answer.
Answer: Human capital refers to the skills people possess. These skills can be gained through education, on the job training, and experience. Thus your college education is increasing your human capital.
Topic: Human capital
Skill: Level 3: Using models
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

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7) Explain the differences between "human capital," "financial capital," and "capital."
Answer: Human capital is the knowledge and skills people obtain from education, on-the-job training, and work experience. Financial capital is money, stocks, and bonds. Capital is tools, instruments, machines, buildings, and anything that had to be produced prior to production of the desired goods and services.
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

8) What is the difference between "capital" and "financial capital"? Which is a factor of production?
Answer: "Capital" is the actual physical good, such as a factory, an assembly line, or a computer server. "Financial capital" is stocks, bonds, or money. Financial capital is used to fund the purchase of the (physical) capital. Financial capital is NOT a factor of production because it is not used to help produce goods and services. Capital, however, is a factor of production because capital is used to help produce goods and services.
Topic: Capital
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

9) What is the difference between the functional and the personal distribution of income?
Answer: The functional distribution of income shows how total income is divided among the factors of production. The personal distribution of income shows how total income is divided among households.
Topic: Distributions of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

10) In the United States, which factor of production earns the largest share of the nation's total income?
Answer: The largest fraction of the nation's total income is earned by labor. In the United States, wages paid to labor account for about 69 percent of the nation's total income.
Topic: Functional distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
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11) In the United States, how does the income received by the richest 20 percent of individuals compare with the income received by the other 80 percent?
Answer: In the United States, the richest 20 percent of individuals receive about 51 percent of the nation's total income. Thus the other 80 percent of individuals receive the remainder, about 49 percent of the nation's income. So the richest 20 percent of the individuals receive almost the same amount as the other 80 percent of people.
Topic: Personal distribution of income
Skill: Level 1: Definition
Section: Checkpoint 2.1
Status: Old
AACSB: Reflective thinking

2.7 Essay: The Global Economy

1) Compare and contrast the world population with that of the United States. Is the United States becoming a larger or a smaller part of the world's population?
Answer: The U.S. population was approximately 311 million in 2011. It is growing at a rate of about one person in every 12 seconds. The world population in 2011 was about 7 billion and is growing at a rate of 30 people in the same 12 seconds. Hence the United States is becoming a smaller fraction of the world's population.
Topic: Population
Skill: Level 2: Using definitions
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

2) How many and what fraction of the world's people live in advanced economies? In emerging market and developing economies?
Answer: There are approximately 7 billion people in the world. Of the 7 billion people, almost 1 billion or 15 percent, live in advanced economies. About 85 percent, or nearly 5.8 billion people live in emerging market and developing economies.
Topic: Population
Skill: Level 1: Definition
Section: Checkpoint 2.2
Status: Old
AACSB: Reflective thinking

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3) The International Monetary Fund divides nations into three groups. What are the three groups and what are the characteristics of each group?
Answer: The International Monetary Fund divides nations into "advanced economies," "developing economies," and "emerging market economies." Advanced economies are the countries or regions that have the highest living standards. Industrialized nations such as the United States, Canada, and Japan are included, as are the newly industrialized Asian economies. Developing economies are the countries that have yet to achieve a high standard of living. Nations in Africa, Central America, and South America fall into this category. The emerging market economies are nations that are changing how they organize their economies. In the past, their economic system relied upon state-ownership of capital and direct government management of the economy. They now are moving to more reliance upon a system of free enterprise, that is, a system similar to what exists in the United States. Emerging market economies are Russia and the other nations in Eastern and Central Europe that used to be Russian satellites.
Topic: Classification of countries
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Written and oral communication

4) Discuss the distribution of income around the world. Which countries have the highest average incomes? Which countries have the lowest average incomes? How has the distribution of income changed in recent years?
Answer: Income is distributed unequally, with residents in the advanced economies having the highest average incomes. The highest living standard is in the United States, where the average income is $129 per day. Canada, Japan, the United Kingdom, and the Euro zone are close behind. In the poorest regions of the world, India and Africa, incomes are much lower. The average income is only $3 per day in India. The distribution of world income has become more equal in recent years because income in some very poor nations, especially China, has grown rapidly.
Topic: Distributions of income
Skill: Level 3: Using models
Section: Checkpoint 2.2
Status: Old
AACSB: Written and oral communication

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5) Discuss the differences between developing and emerging market economies.
Answer: Although the average income in emerging market economies is less than that in advanced economies, developing countries generally have lower levels of income than emerging market economies. Emerging market economies are in some ways as developed as the advanced economies because they often have a well-trained labor force and a reasonable capital stock, both of which are typically missing in developing economies. But emerging market economies are struggling to raise their living standards. The main difference between emerging market economies and other economies is their economic system. Emerging market economies operated under state-owned production for many years and are now moving towards a free market system. Developing economies generally do not have the same history of a very long period of time operating under a system of state-owned production.
Topic: Developing and emerging market economies
Skill: Level 5: Critical thinking
Section: Checkpoint 2.2
Status: Old
AACSB: Written and oral communication

2.8 Essay: The Circular Flows

1) What is a market? Must a market have a single physical location?
Answer: A market is any arrangement that allows buyers and sellers to get together and transact their business. Although some markets have a physical location, such as a farmers' market where buyers and sellers of fresh corn can meet face-to-face, markets do not require an actual location. Indeed, many markets, such as the local market for apartments, do not have a single physical location. Nonetheless, buyers and sellers (tenants and landlords) arrange purchases and sales (the rental of apartments and houses) through means other than meeting in one central location.
Topic: Markets
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

2) Explain the structure of the circular flow model.
Answer: Households own the factors of production and sell the services from them to firms in the factor market. Income earned by households in the factor market is used to purchase goods and services from firms in the goods market. And the revenue the firms gain by selling the goods and services in the goods market is used to pay for the services of the factors of production they hire in the factor markets.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

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3) How are the roles of the household different in the goods market and in the factor markets?
Answer: In the goods market, households are buyers. They purchase the goods and services produced by the firms. In exchange for the goods and services, households pay firms. In the factor market, households are sellers. They provide the services from land, labor, capital, and entrepreneurship to the firms. In the factor markets, households receive payments from firms.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

4) Describe the circular flow of the economy by discussing the two markets where households and firms meet.
Answer: Firms and households meet in two markets: the goods market and the factors market. In the goods markets, households buy the goods and services that firms sell. In this market, households give firms money in exchange for the goods and services. In the factors market, households sell the services of the factors of production to firms, which buy the services of these factors. In the factors market, firms pay households money in exchange for the productive resources. Hence households earn their incomes in the factors market and spend their incomes in the goods market. And firms earn their revenue in the goods market and pay their costs in the factors market.
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

5) Explain how public goods provided by the federal government differ from public goods provided by the state and local governments.
Answer: The federal government provides goods and services such as national defense and the legal system. These are goods and services that benefit the entire nation or else substantial parts of it. The state and local governments provide mainly education and highways, which benefit primarily residents within the state or locality.
Topic: Functions of state and local governments
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Written and oral communication

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6) Describe the government's flows in the circular flow model of the economy.
Answer: The government has several flows in the circular flow model. First, the government taxes households and firms. Hence, funds flow from households and firms to the government. Second, the government transfers income back to households, via payments such as social security. In this case, funds flow from the government to households. The government also purchases goods and services from firms in the goods market. In this case, goods and services flow to the government and payments flow to firms.
Topic: Circular flow and the government
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
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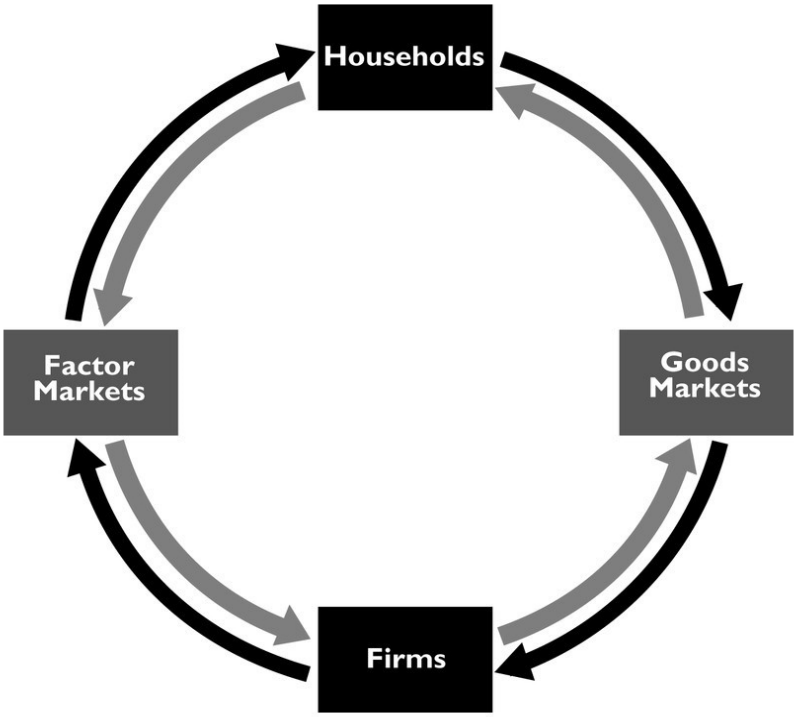
7) Label the flows in the simplified circular flow diagram that ignores the government.



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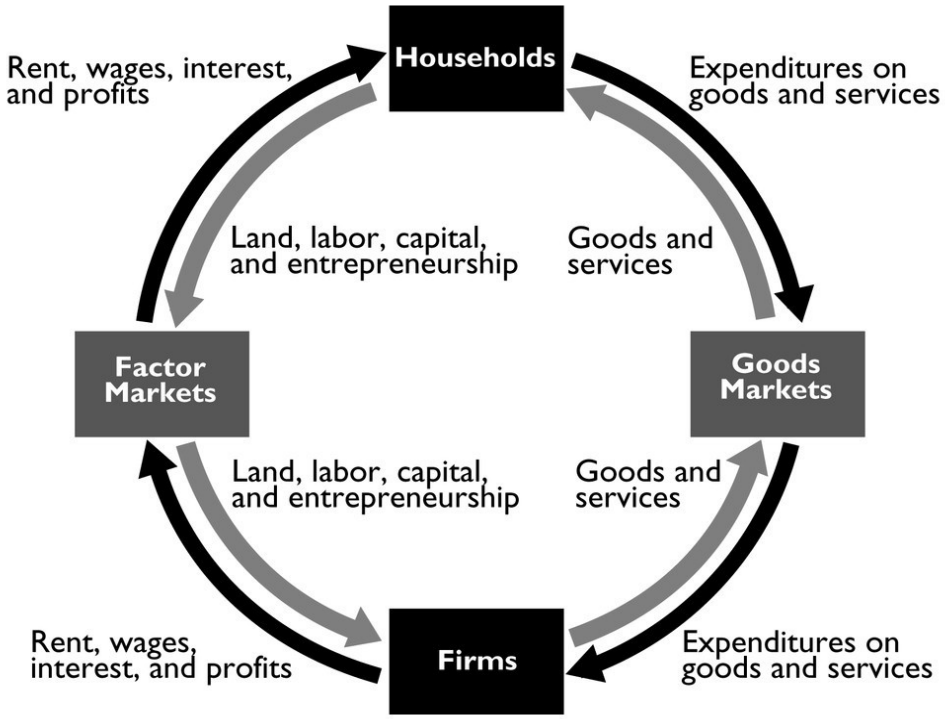
Answer:



The figure above shows the labeled flows.
Topic: Circular flow model
Skill: Level 2: Using definitions
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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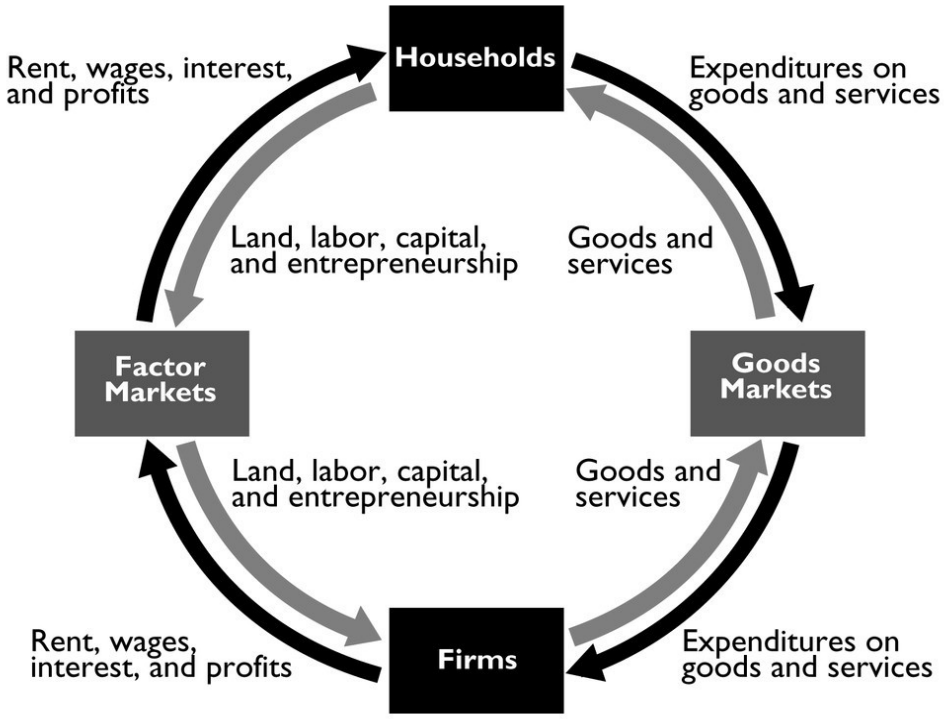
8) Draw a circular flow diagram with households and firms and without government. Label the markets and the flows in the circular flow diagram.
Answer:



A circular flow diagram with the markets and flows labeled is in the figure above.
Topic: Circular flow model
Skill: Level 3: Using models
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

9) Explain how the largest sources of state tax revenues differs from the largest sources of federal tax revenues.
Answer: The two largest sources of federal tax revenues are from the personal income tax and Social Security taxes. Most state tax revenues are from sales and property taxes. There are no federal property or sales taxes. There is no state social security tax. And, although there are state income taxes, they do not take in as much revenue as do other state taxes.
Topic: Tax receipts
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

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10) What are the two largest sources of tax revenues for the U.S. federal government?
Answer: The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The second largest source of revenue is social security taxes. Personal income taxes account for about 41 percent of the federal government's revenue and social security taxes account for about 40 percent, so together these two sources of revenue are 81 percent of the federal government's total tax revenues.
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
AACSB: Reflective thinking

11) What is the largest source of tax revenue for the U.S. federal government and what is the largest expenditure item of the U.S. federal government?
Answer: The largest source of tax revenue for the U.S. federal government is personal income taxes, that is, the income taxes that individuals pay. The largest expenditure of the U.S. federal government is spending on Medicare and Medicaid.
Topic: Federal government
Skill: Level 1: Definition
Section: Checkpoint 2.3
Status: Old
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Foundations of Macroeconomics, 8e **(Bade)**
Chapter 3 The Economic Problem

3.1 Production Possibilities

1) The United States produced approximately _____ worth of goods and services in 2011.
A) $15 trillion
B) $15 billion
C) $150 trillion
D) $150 billion
E) $1,500 trillion
Answer: A
Topic: Production possibilities
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

2) Which of the following is an assumption used when drawing a production possibilities frontier?
i. Human wants and desires are limited to what is available.
ii. Only two goods are considered.
iii. The level of technology is fixed and unchanging.
A) i only
B) ii only
C) i and iii
D) ii and iii
E) i, ii, and iii
Answer: D
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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3) In the production possibilities model, the vertical axis measures _____ and the horizontal axis measures _____.
A) the quantity of a good or service; the quantity of another good or service
B) the price of a good or service; the quantity of the good or service
C) the price of a good or service; the price of another good or service
D) the quantity of a good or service; time
E) people's wants; the quantity of a good or service
Answer: A
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

4) The production possibilities frontier illustrates the
A) maximum combinations of goods and services that can be produced.
B) resources the economy possess, but not its level of technology.
C) goods and services that people want.
D) limits to people's wants.
E) amount of each good that people want to buy.
Answer: A
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

5) When drawing a production possibilities frontier, which of the following is held constant?
A) the amount of money in the economy
B) the available factors of production and the state of technology
C) the prices of goods and services
D) the quantity of the goods and services that are produced
E) None of the above because nothing is held constant when drawing the production possibilities frontier.
Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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6) A production possibilities frontier shows
A) the various combinations of output a nation can produce a certain time, given its available resources and technology.
B) the limits to future growth of a nation.
C) how money can be allocated among two kinds of goods.
D) that if price of one good decreases, the price of the other has to increase.
E) that it is impossible to produce inefficiently.
Answer: A
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

7) The production possibilities frontier is the
A) maximum output that can be produced at an opportunity cost of zero.
B) minimum output that can be produced when resources are used inefficiently.
C) boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced, given the available factors of production and the state of technology.
D) boundary between the combinations of goods and services that can be produced and the combinations that cannot be produced when technology is changing.
E) maximum opportunity cost combinations of goods and services.
Answer: C
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

8) The production possibilities frontier is the boundary between the
A) goods and services that the economy can produce.
B) attainable and unattainable combinations of goods and services.
C) wanted and unwanted combinations of goods and services.
D) rational and irrational choices facing a society.
E) affordable and unaffordable combinations of production.
Answer: B
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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9) Consider a production possibility frontier with jeans on the vertical axis and shoes on the horizontal axis. As the country moves along the frontier closer to the horizontal axis,
A) more jeans are produced.
B) the country eventually chooses an unattainable point.
C) free lunches occur.
D) more tradeoffs occur.
E) more shoes are produced.
Answer: E
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

10) While *moving along* a production possibilities frontier, the amount of labor _____, the amount of capital _____, and the level of technology _____.
A) is fixed; is fixed; varies
B) varies; is fixed; varies
C) varies; is fixed; is fixed
D) is fixed; is fixed; is fixed
E) varies; varies; varies
Answer: D
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

Possibility	Airplanes (number)	Cruise ships (number)
A	100	0
B	80	20
C	50	40
D	0	60

11) The table above gives four production possibilities for airplanes and cruise ships. In possibility A, how many resources are devoted to the production of airplanes?
A) 0
B) few
C) most
D) all
E) It is impossible to tell without more information about the prices of airplanes and cruise ships.
Answer: D
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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12) The table above gives four production possibilities for airplanes and cruise ships. In possibility A, how many resources are devoted to the production of cruise ships?
A) 0
B) few
C) most
D) all
E) It is impossible to tell without more information about the prices of airplanes and cruise ships.
Answer: A
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

13) Moving from one point to another on a production possibilities frontier implies
A) increasing the production of both goods.
B) decreasing the production of both goods.
C) increasing the production of one good and decreasing the production of another.
D) holding the production levels of both goods constant.
E) changing the amount of factors of production that are employed.
Answer: C
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

14) Assume that an association of young workers has lobbied Congress to require that all workers retire once they reach the age of fifty. What impact would this law have on the nation's production possibilities frontier?
A) no impact at all
B) The level of unemployment would decrease so the production possibilities frontier would shift outward.
C) The nation would move to a new position on its production possibilities frontier but the frontier itself would not shift.
D) The production possibilities frontier would shift inward.
E) The number of young workers would increase so the production possibilities frontier would shift outward.
Answer: D
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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15) A major earthquake occurs in the central part of the United States. What impact would this have on the nation's production possibilities frontier and why?
A) It would shift outward because unemployment would be reduced.
B) Nothing would happen because the nation would still have the same capabilities.
C) A tradeoff would occur to replace the resources and goods destroyed.
D) It would shift inward because some of the nation's resources, such as capital and labor, would be destroyed.
E) It would not shift because people would get to work to replace any capital that was destroyed.
Answer: D
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

16) When all of the available factors of production are being efficiently employed, the
A) economy is producing at a point within its *PPF*.
B) economy is producing at a point on its *PPF*.
C) economy is producing at a point beyond its *PPF*.
D) *PPF* disappears.
E) opportunity cost of changing production is infinite.
Answer: B
Topic: Attainable points
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

17) In a production possibilities frontier diagram, the attainable production points are shown as
A) only the points on the production possibilities frontier.
B) only the points beyond the production possibilities frontier.
C) only the points inside the production possibilities frontier.
D) the points inside and the points on the production possibilities frontier.
E) <u>ANY</u> of the production points.
Answer: D
Topic: Attainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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18) In the production possibilities frontier model, an unattainable point lies
A) only on the production possibilities frontier itself.
B) only inside the production possibilities frontier.
C) only outside the production possibilities frontier.
D) both on and outside the production possibilities frontier.
E) There are no unattainable points in the production possibilities model.
Answer: C
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

19) Production efficiency is represented by _____ a production possibilities frontier.
A) all points on
B) all points inside
C) all points outside
D) a movement along
E) only one point on
Answer: A
Topic: Production efficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

20) If an economy cannot produce more of one good without producing less of another good, this implies that which of the following has been achieved?
A) allocative efficiency
B) minimum marginal cost
C) *PPF* efficiency
D) production efficiency
E) maximum marginal benefit
Answer: D
Topic: Production efficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
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21) Production efficiency occurs
A) anywhere inside or on the production possibilities frontier.
B) when the total cost of production is minimized.
C) at all points on the production possibilities frontier.
D) at only one point on the production possibilities frontier.
E) at all points inside the production possibilities frontier.
Answer: C
Topic: Production efficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

22) When production efficiency does NOT occur,
i. an economy is producing at a point within its *PPF*.
ii. there are unemployed resources.
iii. allocative efficiency cannot occur.
A) i only
B) i and ii
C) iii only
D) i and iii
E) i, ii, and iii
Answer: E
Topic: Production efficiency
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

23) If there is unemployment in an economy, then the
A) production possibilities frontier will shift inwards.
B) economy is operating at an unattainable point.
C) production possibilities frontier will shift outwards.
D) economy is producing at a point inside the production possibilities frontier.
E) production possibilities frontier must be bowed inward.
Answer: D
Topic: Attainable points, unemployment
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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24) If a society moves from a period of time with significant unemployment to a time with full employment, its production possibilities frontier will
A) shift leftward.
B) shift rightward.
C) not shift because the society moves from one point on the frontier to a point inside the frontier.
D) not shift because the society moves from a point inside the frontier to a point on the frontier.
E) not shift because the society moves from one point on the frontier to a point outside the frontier.
Answer: D
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

25) Suppose that an economy is currently producing at a point that lies inside of its production possibilities set. Which of the following would best explain this circumstance?
A) The economy does not have enough resources to produce at a point closer to the frontier of the production possibilities set.
B) The prevailing level of technology prevents the economy from producing at a point closer to the frontier of the production possibilities set.
C) The economy is experiencing a high level of unemployment.
D) Any of the above statements could explain this situation.
E) None of the above statements could explain this situation.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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26) Which of the following statements is correct?
A) An increase in productivity moves the economy from inside the production possibilities frontier to the frontier itself.
B) An increase in productivity shifts the economy from producing at a point on the production possibilities frontier to a point outside the production possibilities frontier.
C) An increase in unemployment shifts the economy further inside its production possibilities frontier.
D) An increase in unemployment shifts the economy from a point outside the production possibilities frontier back to the production possibilities frontier.
E) A reduction in unemployment shifts the entire production possibilities frontier outward.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

27) A point on the production possibilities frontier reflects an
A) attainable point with full employment of all resources.
B) attainable point without full employment of all resources.
C) unattainable point with full employment of all resources.
D) unattainable point without full employment of all resources.
E) None of the above answers is correct.
Answer: A
Topic: Attainable points, full employment
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

28) Suppose a country operates on its production possibility frontier when it produces 1,000 books and 1,000 tables. The combination of _____ reflects _____.
A) 500 books and 1,000 tables; an inefficient but attainable point
B) 1,000 books and 500 tables; an efficient point
C) 1,000 books and 1,000 tables; a free lunch
D) 500 books and 500 tables; an attainable and efficient point
E) 1,000 books and 1,500 tables; a free lunch
Answer: A
Topic: Attainable points, inefficiency
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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29) Consider a production possibility frontier with books and tables. A combination of 1,000 books and 500 tables is on the frontier. Which of the following are true?
i. Production of 700 books and 400 tables is attainable but inefficient.
ii. Production of 1,000 books and 600 tables is unattainable.
iii. Production of 500 books and 1,000 tables is inside the frontier.
A) i and ii
B) i, ii and iii
C) i and iii
D) ii and iii
E) i only
Answer: A
Topic: Attainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

30) The table above shows a production possibilities frontier for an economy. Which of the following combinations is unattainable?
A) 0 loaves of bread and 800 books
B) 100 loaves of bread and 800 books
C) 200 loaves of bread and 800 books
D) 300 loaves of bread and 200 books
E) 0 loaves of bread and 0 books
Answer: C
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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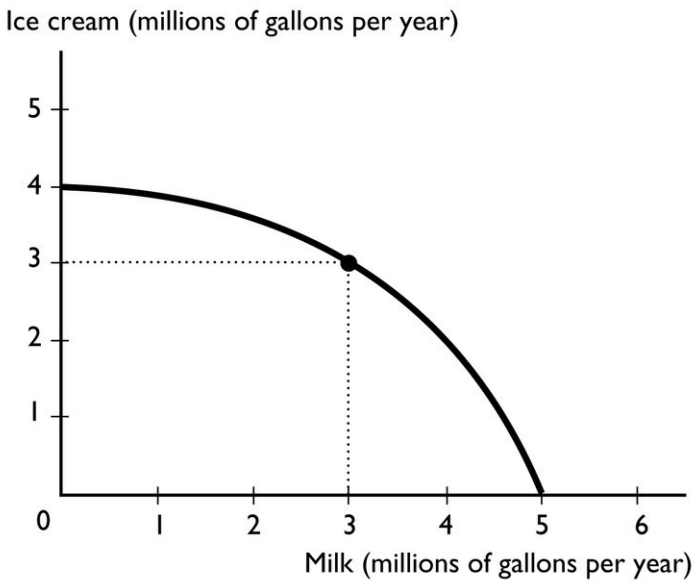
31) The table above shows a production possibilities frontier for an economy. If the economy tried to produce a combination of 250 loaves of bread and 800 books,
A) there is some unemployment.
B) there is full employment.
C) the tradeoff between bread and books is inefficient.
D) it cannot produce this combination because it lacks enough resources or technology.
E) it is enjoying a free lunch.
Answer: D
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills



32) The figure above shows the production possibilities frontier for a country. A combination of 4 million gallons of milk and 4 million gallons of ice cream is
A) unattainable.
B) attainable and production efficient.
C) attainable and production inefficient.
D) unattainable and production efficient.
E) More information is needed to determine if the point is attainable or not.
Answer: A
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
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33) The figure above shows the production possibilities frontier for a country. A combination of 3 million gallons of milk and 3 million gallons of ice cream is
A) unattainable.
B) attainable and production efficient.
C) attainable and production inefficient.
D) unattainable and production efficient.
E) More information is needed to determine if the point is attainable or not.
Answer: B
Topic: Attainable points, full employment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

34) The figure above shows the production possibilities frontier for a country. A combination of 2 million gallons of milk and 2 million gallons of ice cream is
A) unattainable.
B) attainable and production efficient.
C) attainable and production inefficient.
D) attainable but more than production efficient.
E) More information is needed to determine if the point is attainable or not.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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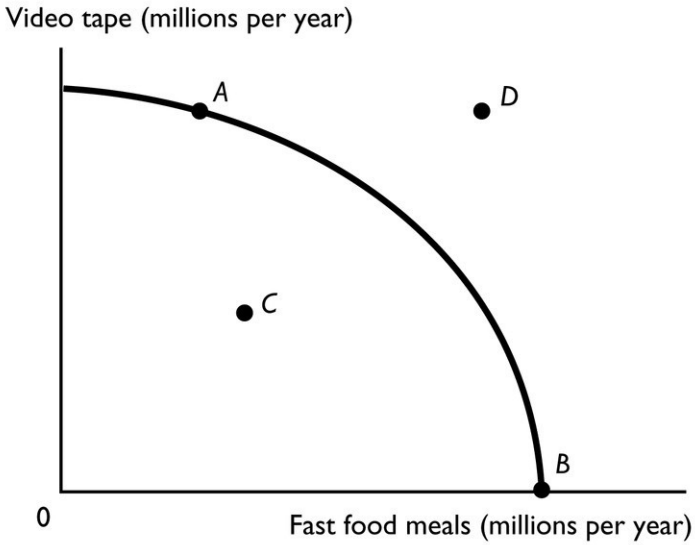

35) Point *D* in the above *PPF* figure is
A) an attainable production combination with unemployed resources.
B) a tradeoff.
C) an unattainable production combination.
D) a production combination that can be attained once resources are fully employed.
E) More information is needed to determine which of the above answers is correct.
Answer: C
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

36) Which point in the figure above is an attainable combination that would have unemployed resources?
A) point *A*
B) point *B*
C) point *C*
D) point *D*
E) point *A* and point *B*
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
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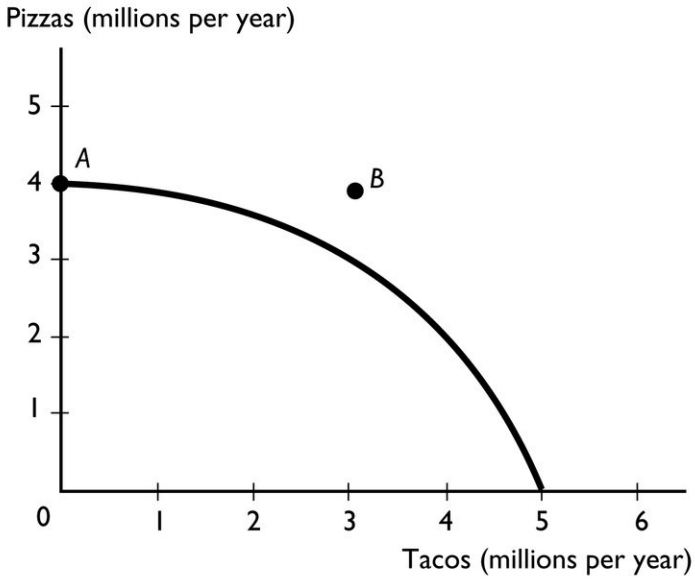

37) The figure above shows a nation's production possibilities frontier. In the figure, point *A* shows
A) the maximum quantity of pizza that can be produced.
B) the minimum quantity of pizza that the society must produce.
C) an unattainable point.
D) an attainable point with unemployed resources.
E) More information is needed to determine which of the above answers is correct.
Answer: A
Topic: Attainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

38) The figure above shows a nation's production possibilities frontier. In the figure, point *B* shows
A) an unattainable point.
B) an attainable point.
C) a point with a free lunch.
D) a point with no tradeoff.
E) a point at which there are unemployed resources.
Answer: A
Topic: Unattainable points
Skill: Level 3: Using models
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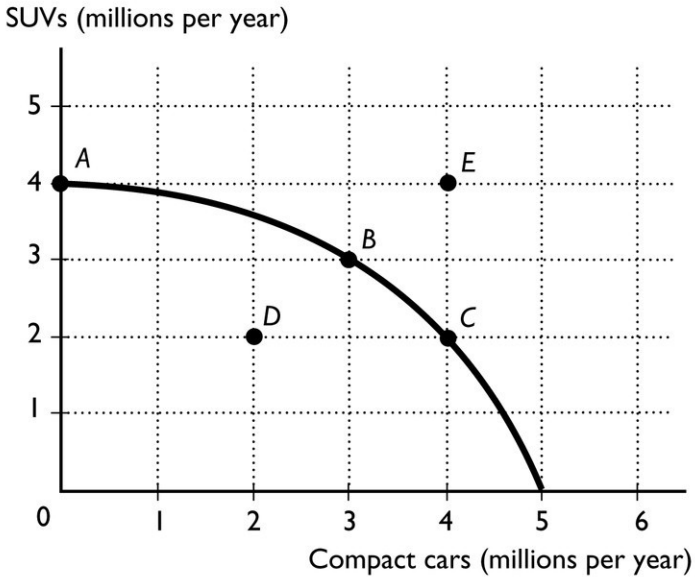

39) The figure above shows the production possibilities frontier for a country. In order for it to produce at point *E,* the
A) country would need to acquire more resources and/or more advanced technology.
B) production of compact cars would need to decrease.
C) production of SUVs would need to decrease.
D) country would need to use its resources more efficiently.
E) country would need to determine that compact cars and SUVs are equally important to it.
Answer: A
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

40) The figure above shows the production possibilities frontier for a country. If the country is producing at point *D*, then the
A) resources are being used efficiently.
B) technology associated with producing SUVs and compact cars is advancing.
C) resources are not being used efficiently and/or are unemployed.
D) production of SUVs and compact cars is maximized.
E) None of the above answers is correct because it is not possible to produce at point *D*.
Answer: C
Topic: Attainable points, unemployment
Skill: Level 3: Using models
Section: Checkpoint 3.1
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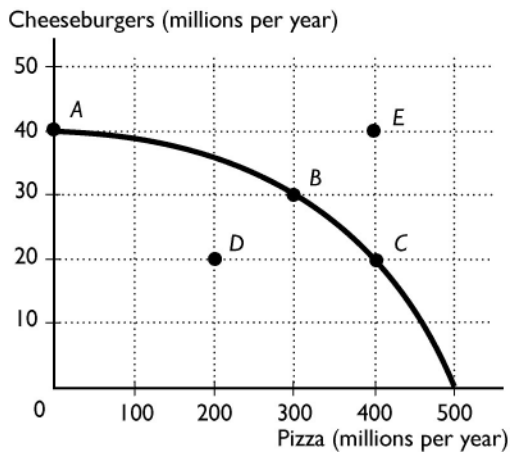

41) The above figure shows the production possibility frontier for an economy. The point or points that are attainable and production efficient are
A) points *B* and *C*.
B) points *A, B*, and *C*.
C) point *E*.
D) points *A*, *B, C*, and *D*.
E) points *A* and *D*.
Answer: B
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

42) The above figure shows the production possibility frontier for an economy. The point or points that are attainable are
A) points *B* and *C*.
B) points *A, B*, and *C*.
C) point *E*.
D) points *A*, *B, C*, and *D*.
E) points *A* and *D*.
Answer: D
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
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43) The above figure shows the production possibility frontier for an economy. The point or points that are NOT attainable are
A) points *B* and *C*.
B) points *A, B*, and *C*.
C) point *E*.
D) points *A*, *B, C*, and *D*.
E) points *A* and *D*.
Answer: C
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

44) In order for Ireland to grow more potatoes, wool production must decrease. This situation is an example of
A) producing at a point that lies beyond the *PPF*.
B) zero opportunity cost.
C) opportunity benefit.
D) a free lunch.
E) a tradeoff.
Answer: E
Topic: Tradeoffs
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

45) As we move along the production possibilities frontier,
A) the production of one good increases as the production of the other good decreases.
B) the possibilities of tradeoffs diminish.
C) a tradeoff is not possible because nations need all goods.
D) more of both goods can be produced.
E) less of both goods can be produced.
Answer: A
Topic: Tradeoffs
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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46) Which of the following statements is correct?
A) If capital is idle, the economy is producing at its full potential.
B) The production possibilities frontier shows that there are no limits to production.
C) A tradeoff is a limit that forces an exchange or a substitution of one thing for something else.
D) Any point on or within the *PPF* is production efficient.
E) None of the above answers is correct.
Answer: C
Topic: Tradeoffs
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

47) When a nation is producing on its production possibilities frontier, if more resources are used to produce one good, then the production of other goods
A) MUST increase.
B) MUST decrease.
C) MUST remain the same.
D) MUST change, but they might increase or decrease.
E) MIGHT increase if the nation can produce more efficiently.
Answer: B
Topic: Tradeoffs
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

48) The negative slope of the production possibilities frontier represents the idea
A) that free lunches are possible.
B) of tradeoffs, that in order to produce more of one good, the nation must produce less of another.
C) of unemployment.
D) of inefficient production.
E) that prices rise as less is produced.
Answer: B
Topic: Tradeoffs
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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49) A movement from one point on a production possibilities frontier to another represents
A) a tradeoff.
B) a free lunch.
C) full employment of labor but not capital.
D) unemployment.
E) an advance in technology.
Answer: A
Topic: Tradeoffs
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

50) The saying "There's no such thing as a free lunch," applies
A) when there is some unemployment.
B) on the production possibilities frontier.
C) to unattainable combinations of goods and services.
D) when more of one good can be produced without decreasing production of another.
E) at all points inside the *PPF*.
Answer: B
Topic: Tradeoffs
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

51) A free lunch (the absence of a tradeoff) when the production of a good is increased is possible for the entire economy only if
A) less of some product is produced.
B) prices are decreased.
C) prices are increased.
D) resources are used inefficiently.
E) there is a movement along the *PPF*.
Answer: D
Topic: Free lunches
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
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52) A movement from a point inside the production possibilities frontier to a point on the production possibilities frontier represents
A) a tradeoff.
B) a free lunch.
C) full employment of labor but not capital.
D) unemployment of labor but not capital.
E) an infinite opportunity cost.
Answer: B
Topic: Free lunches
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

53) A reason the production possibilities frontier exists is
A) unlimited resources and technology.
B) scarcity of resources.
C) scarcity of resources and unlimited technology.
D) unemployment.
E) that people's wants are unlimited.
Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

54) The production possibilities frontier is a graph showing the
A) exact point of greatest efficiency for producing goods and services.
B) tradeoff between free lunches.
C) maximum combinations of goods and services that can be produced.
D) minimum combinations of goods and services that can be produced.
E) resources available for the economy's production use.
Answer: C
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
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55) The production possibilities frontier is a boundary that separates
A) the combinations of goods that can be produced from the combinations of services.
B) attainable combinations of goods and services that can be produced from unattainable ones.
C) equitable combinations of goods and services that can be produced from inequitable ones.
D) fair combinations of goods and services that can be consumed from unfair ones.
E) affordable production points from unaffordable points.
Answer: B
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

56) Points inside the *PPF* are all
A) unattainable and have fully employed resources.
B) attainable and have fully employed resources.
C) unattainable and have some unemployed resources.
D) attainable and have some unemployed resources.
E) unaffordable.
Answer: D
Topic: Attainable points, inefficiency
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

57) During a time of high unemployment, a country can increase the production of one good or service
A) without decreasing the production of something else.
B) but must decrease the production of something else.
C) and must increase the production of something else.
D) by using resources in the production process twice.
E) but the opportunity cost is infinite.
Answer: A
Topic: Free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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58) Moving along the production possibilities frontier itself illustrates
A) the existence of tradeoffs.
B) the existence of unemployment of some factors of production.
C) the benefits of free lunches.
D) how free lunches can be exploited through trade.
E) how tradeoffs need not occur if the economy is efficient.
Answer: A
Topic: Tradeoffs
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

59) The production possibilities frontier illustrates which of the following economic ideas?
A) efficiency
B) tradeoffs
C) opportunity cost
D) all of the above
E) none of the above
Answer: D
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

60) Points on the *PPF* are all
A) unattainable and have fully employed resources.
B) free lunches.
C) inefficient.
D) attainable and have some unemployed resources.
E) production efficient.
Answer: E
Topic: Production efficiency
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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3.2 Opportunity Cost

1) In a production possibilities frontier graph, the cost of producing more units of a good is measured by the
A) dollar value of the resources used to produce the good.
B) amount of the other good or service that must be forgone.
C) dollar value of the additional output.
D) area in the arc between the *PPF* and a straight line drawn between the starting point and the ending point.
E) None of the above answers is correct.
Answer: B
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

2) The opportunity cost of producing one more unit of a good is calculated by dividing the
A) increase in the quantity of that good by the decrease in the quantity of other good.
B) total quantity of that good by the total quantity of other good.
C) decrease in the quantity of the other good by the increase in the quantity of the good whose opportunity cost we're calculating.
D) total quantity of the other good by the total quantity of the good whose opportunity cost we're calculating.
E) price of the good whose opportunity cost we are calculating by the number of units of the other good that are forgone.
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

3) To find the opportunity cost of producing one more unit of any product while on the production possibilities frontier requires
A) setting the amounts of the two products equal to each other.
B) setting the change in one product equal to the change in the other product.
C) dividing the amount of the product forgone by the amount of the product gained.
D) subtracting the change in the product whose production increased from the change in the product whose production decreased.
E) None of these describes how to find opportunity cost.
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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4) To calculate the opportunity cost per unit, you divide the decrease in the quantity of the forgone item by the
A) decrease in the quantity of the other item.
B) increase in the quantity of the other item obtained.
C) price of the item obtained.
D) price of the item forgone.
E) price of the item obtained and then multiply by the price of the item forgone.
Answer: B
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

5) On a production possibilities frontier, 500 pounds of apples and 1,200 pounds of bananas can be produced while at another point on the same frontier, 300 pounds of apples and 1,300 pounds of bananas can be produced. Between these points, what is the opportunity cost of producing a pound of bananas?
A) 2 pounds of bananas
B) 200 pounds of apples
C) 2 pounds of apples
D) 0.5 a pound of apples
E) 12/5 = 2.4 pounds of apples
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

6) On a production possibilities frontier, 500 pounds of apples and 1,200 pounds of bananas can be produced while at another point on the same frontier, 300 pounds of apples and 1,300 pounds of bananas can be produced. Between these points, what is the opportunity cost of producing a pound of apples?
A) 2 pounds of bananas
B) 100 pounds of bananas
C) 2 pounds of apples
D) 0.5 of a pound of bananas
E) 5/12 of a pound of bananas
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
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7) A country produces only apples and bananas. Moving from point *A* to point *B* along its production possibilities frontier, 5 apples are forgone and 4 bananas are gained. What is the opportunity cost of a banana?
A) 4 apples
B) 5/4 of an apple
C) 4/5 of an apple
D) 1 banana
E) None of the above answers is correct.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

8) A country produces only apples and bananas. Moving from point *A* to point *B* along its production possibilities frontier, 5 apples are gained and 4 bananas are forgone. What is the opportunity cost of an apple?
A) 4 bananas
B) 5/4 of a bananas
C) 4/5 of a banana
D) 1 apple
E) None of the above answers is correct.
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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Possibility	Fish (pounds)	Fruit (pounds)
A	37	56
B	31	78
C	20	90
D	9	99

9) Robinson Crusoe divides his time between catching fish and gathering fruit. Part of his production possibilities frontier is given in the above table. If Mr. Crusoe is on his *PPF* and he increases the amount of fruit he gathers from 56 to 90 pounds, the opportunity cost is
A) 37 pounds of fish.
B) 31 pounds of fish.
C) 17 pounds of fish.
D) 34 pounds of fruit.
E) 90 pounds of fruit.
Answer: C
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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10) Robinson Crusoe divides his time between catching fish and gathering fruit. Part of his production possibilities frontier is given in the above table. Mr. Crusoe, while lonesome, is efficient and always stays on his *PPF*. Mr. Crusoe is consuming 20 pounds of fish. Then he decides to slowly become a vegetarian and decrease his consumption of fish to 9 pounds. This decision means that Mr. Crusoe will
A) incur an opportunity cost of 9 pounds of fruit.
B) incur an opportunity cost of 20 pounds of fish.
C) be able to enjoy a gain of 9 pounds of fruit.
D) incur an opportunity cost of 99 pounds of fruit.
E) incur an opportunity cost of 9 pounds of fish.
Answer: C
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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Possibility	Robots	Pizza
A	0	40
B	1	39
C	2	37
D	3	34
E	4	30
F	5	20
G	6	0

11) The table above shows a nation's production possibilities frontier. If the nation wants to produce 4 robots and 34 pizzas,
A) it will shift the production possibilities frontier.
B) the opportunity cost is 9 pizzas.
C) the nation will be producing inefficiently.
D) it will be unable to do so because the production point is unattainable.
E) the nation will then be producing at a production efficient point.
Answer: D
Topic: Unattainable points
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

12) The table above shows a nation's production possibilities frontier. If the nation chooses to increase the production of robots from 2 to 3 and it is on its *PPF*, it will have to forgo _____ pizzas.
A) 37
B) 34
C) 3
D) 35.5
E) None of the above answers is correct.
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
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13) The table above shows a nation's production possibilities frontier. The opportunity cost of a robot between combination *D* and *E* is
A) 4 pizzas.
B) 34 pizzas.
C) 30 pizzas.
D) 1/4 of a pizza.
E) undefined because neither point is production efficient.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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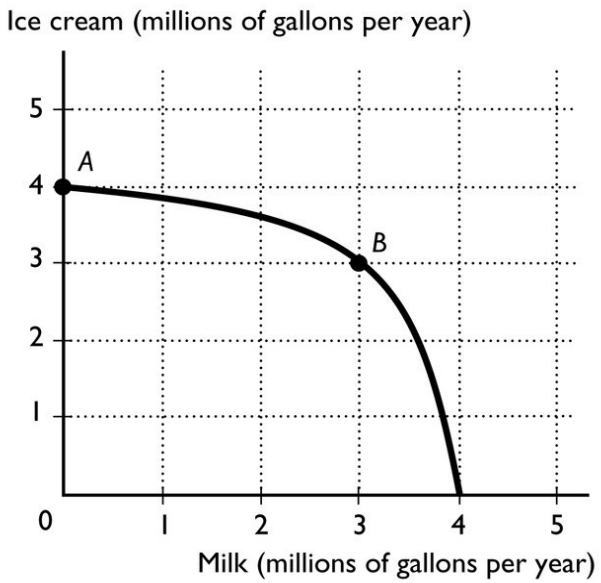

14) The figure above shows the production possibilities frontier for a country. The opportunity cost of a gallon of milk between combination point *A* and *B* is
A) 4 gallons of ice cream for a gallon of milk.
B) 3 gallons of ice cream for a gallon of milk.
C) 1 gallon of ice cream for a gallon of milk.
D) 1/3 of a gallon of ice cream for a gallon of milk.
E) zero because at point *A,* zero milk is being produced.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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15) The figure above shows the production possibilities frontier for a country. If the economy is operating at point *B*, then the opportunity cost of another million gallons of milk is
A) 4 gallons of ice cream for a gallon of milk.
B) 3 gallons of ice cream for a gallon of milk.
C) 1 gallon of ice cream for a gallon of milk.
D) 1/3 of a gallon of ice cream for a gallon of milk.
E) zero because after producing another million gallons of milk, then zero gallons of ice cream are produced.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
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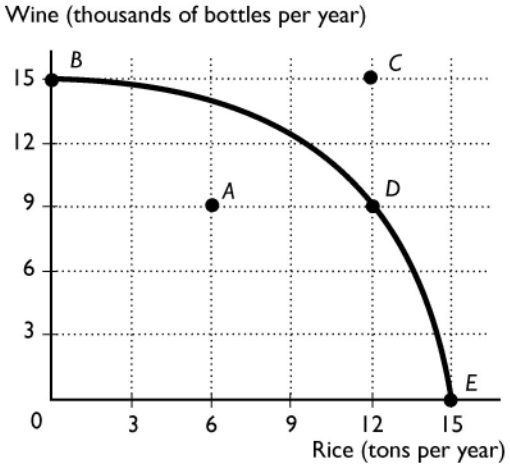

16) The above figure shows the production possibility frontier for a country. Suppose the country is producing at point *A*. What is the opportunity cost of increasing the production of rice to 12 tons?
A) 15 thousand bottles of wine
B) 6 thousand bottles of wine
C) 9 thousand bottles of wine
D) 12 tons of rice
E) Nothing, it is a free lunch.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
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17) The above figure shows the production possibility frontier for a country. Suppose the country is producing at point *D*. What is the opportunity cost of increasing the production of rice to 15 tons?
A) 9 thousand bottles of wine
B) 6 thousand bottles of wine
C) 15 thousand bottles of wine
D) 12 tons of rice
E) Nothing, it is a free lunch.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

18) The above figure shows the production possibility frontier for a country. Suppose the country is producing at point *E*. What would be the opportunity cost to increase the production of wine to 9 thousand bottles?
A) 12 tons of rice
B) 15 thousand bottles of wine
C) 9 thousand bottles of wine
D) 3 tons of rice
E) Nothing, it is a free lunch.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

19) The above figure shows the production possibility frontier for a country. Suppose the country is producing at point *D*. What would be the opportunity cost to move to point *C*?
A) 6 thousand bottles of wine
B) 15 thousand bottles of wine
C) 12 tons of rice
D) Nothing, it is a free lunch.
E) This movement is not possible without economic growth.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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20) The above figure shows the production possibility frontier for a country. Suppose the country is producing at point *A*. What would be the opportunity cost to increase the production of rice to 12 tons?
A) 6 thousand bottles of wine
B) 15 thousand bottles of wine
C) 9 thousand bottles of wine
D) 6 tons of rice
E) Nothing, it is a free lunch.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

21) The above figure shows the production possibility frontier for a country. What is the opportunity cost per ton of rice to move from point *B* to point *D*?
A) 1,000 bottles of wine
B) 500 bottles of wine
C) 2 bottles of wine
D) 1/2 of a bottle of wine
E) None of the above answers is correct.
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

22) The above figure shows the production possibility frontier for a country. What is the opportunity cost per ton of rice to move from point *D* to *E*?
A) 3,000 bottles of wine
B) 333 bottles of wine
C) 3 bottles of wine
D) 1/3 of a bottle of wine
E) None of the above answers is correct.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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23) The above figure shows the production possibility frontier for a country. What is the opportunity cost to move from point *D* to point *E*?
A) 6 thousand bottles of wine
B) 15 thousand bottles of wine
C) 6 tons of rice
D) 9 thousand bottles of wine
E) Nothing, it is a free lunch.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

24) The above figure shows the production possibility frontier for a country. What is the opportunity cost to move from point *D* to point *B*?
A) 12 tons of rice
B) 15 thousand bottles of wine
C) 6 thousand bottles of wine
D) 9 thousand bottles of wine
E) Nothing, it is a free lunch.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

25) Moving from a point inside the production possibilities frontier to a point on the production possibilities frontier, the opportunity cost of producing more of the good on the horizontal axis
A) increases.
B) decreases.
C) is constant.
D) is 0.
E) is infinite.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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26) Consider a production possibility frontier with jeans on the vertical axis and shoes on the horizontal axis. As a country moves along the frontier closer to the vertical axis,
A) the opportunity cost of producing jeans increases.
B) the opportunity cost of producing shoes increases.
C) there are fewer tradeoffs.
D) inefficient production occurs.
E) the opportunity cost of producing jeans decreases.
Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

27) Suppose that in a *PPF* graph, wheat is on the vertical axis and jets are on the horizontal axis. Moving down along the *PPF*, the
A) number of jets increases and the opportunity cost of jets increases.
B) amount of wheat increases and the opportunity cost of wheat increases.
C) number of jets increases and the opportunity cost of jets decreases.
D) amount of wheat increases and opportunity cost of wheat decreases.
E) opportunity cost of jets <u>AND</u> wheat both increase.
Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

28) Why is a production possibilities frontier bowed out (concave)?
A) The bowed shape reflects constant opportunity cost.
B) The bowed shape reflects decreasing opportunity cost.
C) The bowed shape indicates that opportunity cost at first decreases at a decreasing rate, and then begins to decrease at an increasing rate.
D) The bowed shape indicates that opportunity cost at first increases at a decreasing rate, and then begins to increase at an increasing rate.
E) The bowed shape reflects increasing opportunity cost.
Answer: E
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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29) The bowed out (concave) shape of the production possibilities curve implies that as production of one good
A) increases, society must forgo increasing amounts of another good.
B) increases, society must forgo decreasing amounts of another good.
C) decreases, production of other goods decreases as well.
D) increases, production of other goods increases as well.
E) increases, society can obtain a free lunch.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

30) The idea of increasing opportunity cost is reflected in the
A) bowed out shape of the production possibilities frontier.
B) bowed in shape of the production possibilities frontier.
C) linear shape of the production possibilities frontier.
D) positive slope of the production possibilities frontier.
E) fact that the *PPF* shows there are unattainable production points.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

31) A bowed out production possibilities frontier shows
A) that resources are equally productive in all uses.
B) increasing opportunity cost.
C) that resources are not equally productive in all uses.
D) Both answers B and C are correct.
E) Both answers A and B are correct.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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32) The opportunity cost of a good increases as more of it is produced because
A) there is no such thing as a free lunch.
B) resources are not equally productive in all activities.
C) producing more of a good requires additional resources.
D) the number of forgone alternatives also increases.
E) people want the good less as more is produced.
Answer: B
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

33) As an economy increasingly specializes in producing one good, the opportunity cost of that good increases. The opportunity cost increases because
A) resources are not equally productive in all activities.
B) what must be paid to resources increases.
C) human wants are virtually unlimited.
D) not all goods are equally valuable.
E) as more of a good is produced, the profit from its production must rise.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

34) As an economy produces more of one of the goods on a bowed out production possibilities frontier, what happens to the opportunity cost of producing the good?
A) It remains constant.
B) It decreases.
C) It increases.
D) It might increase, decrease, or remain constant depending on how much people value the additional units of the good.
E) None of these depicts what happens to opportunity cost.
Answer: C
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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35) When a production possibilities frontier is bowed outward, as more of one good is produced, its opportunity cost
A) increases.
B) decreases.
C) remains constant.
D) might increase, decrease, or remain constant depending on how much people value the additional units of the good.
E) cannot be predicted.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

36) A bowed out *PPF* reflects which of the following ideas?
i. Increasing opportunity cost
ii. Resources are not equally productive in all activities.
iii. Prices of goods increase over time.
A) i only
B) i and ii
C) i and iii
D) ii and iii
E) i, ii, and iii
Answer: B
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

37) If there is increasing opportunity cost, then when moving downward on a production possibilities frontier, the opportunity cost of the good on the horizontal axis _____ as more of the good is produced.
A) increases and the *PPF* gets steeper
B) increases and the *PPF* gets flatter
C) decreases and the *PPF* gets steeper
D) decreases and the *PPF* gets flatter
E) does not change and the *PPF* gets steeper
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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38) A bowed out production possibility frontier shows that the
A) opportunity cost of a good is constant as more of the good is produced.
B) opportunity cost of a good decreases as more of the good is produced.
C) opportunity cost of a good increases as more of the good is produced.
D) opportunity cost relationship is linear.
E) opportunity cost of producing another good is negative.
Answer: C
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

39) Why does a nation experience increasing opportunity cost?
A) As the nation moves from a production point within the *PPF* to one on the *PPF*, opportunity costs increase.
B) As the nation moves from a production point within the *PPF* to another point also within the *PPF*, opportunity costs increase.
C) When the amount of resources increases, the opportunity cost of all goods and services increases.
D) Resources are not equally productive in producing different kinds of goods and services.
E) Because the nation cannot produce at the unattainable production points that lie beyond the *PPF*.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

40) The fact of increasing opportunity cost when moving on the *PPF* means that
A) to increase the production of one product requires larger and larger sacrifices of the other good.
B) to decrease the production of one product requires smaller and smaller sacrifices of the other good.
C) to increase the production of one product requires smaller and smaller sacrifices of the other good.
D) when the government forces a movement from one point on the *PPF* to another point, no production is lost.
E) the *PPF* will be a negatively sloped straight line.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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41) Production possibilities frontiers usually curve out and away from the origin. The implication of this curvature is that
A) as resources are used to produce one good, fewer resources are available to produce another good.
B) the opportunity cost of producing a good goes down as more of that good is produced.
C) technological change is present.
D) the opportunity cost of producing a good stays the same regardless of how much of that good is produced.
E) some resources are better at producing one good while other resources are better at producing alternative goods.
Answer: E
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

42) If the production possibilities frontier between two goods were a straight line, then the opportunity cost of one good in terms of another would be
A) constant.
B) increasing.
C) decreasing.
D) zero.
E) either constant, increasing, or decreasing but more information is needed to determine which.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

43) If the production possibilities frontier between two goods is a straight line, then the
A) opportunity cost is not a ratio.
B) resources are equally productive in both goods.
C) line does not qualify as a production possibilities frontier because the unattainable production points are too close to the inefficient production points.
D) Both answers A and C are correct.
E) Both answers A and B are correct.
Answer: B
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
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44) As an economy moves down along a straight line production possibilities frontier, what happens to the opportunity cost of producing the good on the horizontal axis?
A) It remains constant.
B) It decreases.
C) It increases.
D) Above the midpoint it decreases until it equals 1 at the midpoint, and then it increases.
E) None of these depict what happens to opportunity cost.
Answer: A
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

45) If the production possibilities frontier between bottled water and water in a jug is a straight line, which of the following statements would be correct?
A) A large amount of unemployment must exist.
B) Resources are equally productive at producing either product.
C) There is no tradeoff between the two goods.
D) There is no decrease in the production of one good when the production of the other is increased.
E) Producing more of one good gives the economy a free lunch.
Answer: B
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
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Possibility	Bread (number)	Books (number)
A	0	1,000
B	100	900
C	200	700
D	300	400
E	400	0

46) The table above shows the production possibilities for an economy. Drawing a *PPF* with books on the vertical axis and bread on the horizontal axis, a movement from possibility B to possibility C to possibility D shows the opportunity cost of _____ moving down along the *PPF*.
A) books is decreasing
B) bread is decreasing
C) bread is increasing
D) books is constant
E) books and bread are both increasing
Answer: C
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

47) The table above shows the production possibilities for an economy. The opportunity cost of a loaf of bread is _____ when moving from possibility B to possibility C.
A) 1/2 of a book
B) 2 books
C) 200 books
D) 100 loaves of bread
E) 1 loaf of bread
Answer: B
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
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Possibility	Capital goods	Consumption goods
A	0	60
B	2	55
C	4	45
D	6	25
E	8	0

48) The table above presents the production possibilities frontier for a nation. Using the information in the table, moving from possibility *C* to *B* means that
A) 4 units of capital goods are given up to get 55 units of consumption goods.
B) 2 units of capital goods are given up to get 55 additional units of consumption goods.
C) 4 units of capital goods are given up to get 10 additional units of consumption goods.
D) 4 units of capital goods are given up to get 45 units of consumption goods.
E) 2 units of capital goods are given up to get 10 additional units of consumption goods.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

49) The table above presents the production possibilities frontier for a nation. Using the information in the table, when moving from possibility C to D, the cost of 1 unit of a capital good in terms of the consumption goods forgone is _____ consumption goods per capital good.
A) 25
B) 15
C) 20
D) 10
E) an undefined amount of
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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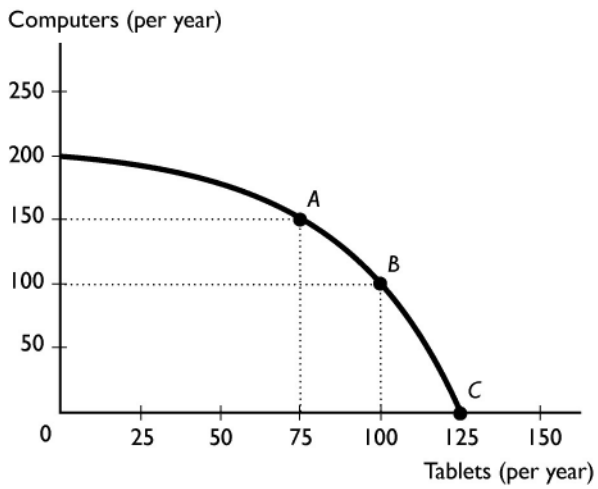
50) The table above presents the production possibilities frontier for a nation. Using the information in the table, when moving from possibility *A* to *B* to *C* to ultimately *E*, the cost of a unit of capital goods in terms of consumption goods
A) increases.
B) decreases.
C) remains the same.
D) decreases from possibility *A* to *C*, and then increases from possibility *C* to *D*.
E) cannot be calculated.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills



51) The figure above illustrates a small country's production possibilities frontier. Based on the figure, we can tell that the nation's resources are
A) equally productive in all tasks because the slope is negative.
B) equally productive in all tasks because the production possibilities frontier is bowed out.
C) not equally productive in all tasks because the slope is negative.
D) not equally productive in all tasks because the production possibilities frontier is bowed out.
E) unlimited because the slope is negative and the *PPF* is bowed out.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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52) The figure above illustrates a small country's production possibilities frontier. Moving from point *A* to point *B*, the per unit opportunity cost of a tablet is _____ per tablet.
A) 2 computers
B) 4/3 of a computer
C) 100 computers
D) 1/2 of a computer
E) 1 tablet
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

53) The figure above illustrates a small country's production possibilities frontier. Moving from point *C* to point *B*, the per unit opportunity cost of computers is _____ per computer.
A) 4 tablets
B) 5/4 of a tablet
C) 4/5 of a tablet
D) 1/4 of a tablet
E) 1 computer
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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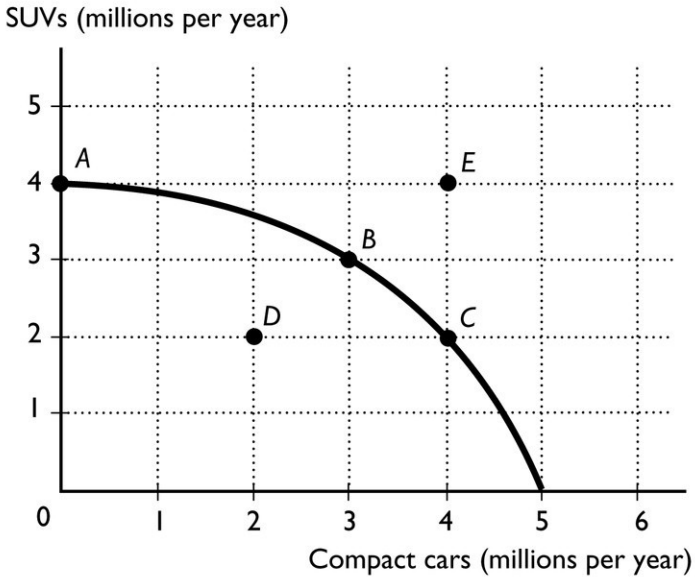

54) The figure above shows the production possibilities frontier for a country. In order for it to move from producing at point *A* to producing at point *B,* the country would need to
A) decrease SUV production by 1 million.
B) decrease SUV production by 3 million.
C) decrease SUV production by 4 million.
D) decrease compact car production by 3 million.
E) acquire more resources and/or more advanced technology.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

55) The figure above shows the production possibilities frontier for a country. In order for it to move from producing at point *A* to producing at point *B,* the country would need to incur an opportunity cost of
A) 1 million SUVs.
B) 3 million SUVs.
C) 4 million SUVs.
D) 3 million compact cars.
E) 0 because the gain in compact cars exceeds the loss in SUVs.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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56) The figure above shows the production possibilities frontier for a country. How does the opportunity cost of compact cars forgone per SUV gained moving from point *C* to point *B* compare with the movement from point *B* to point *A*?
A) The opportunity cost of moving from point *C* to point *B* is greater than the movement from point *B* to point *A*.
B) The opportunity cost of moving from point *C* to point *B* is the same as the movement from point *B* to point *A*.
C) The opportunity cost of moving from point *C* to point *B* is less than the movement from point *B* to point *A*.
D) The opportunity costs cannot be compared because the units of moving from point *C* to point *B* differ from the units of moving from point *B* to point *A*.
E) More information is needed to determine how the two opportunity costs compare.
Answer: C
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

57) Once you find the opportunity cost of producing one unit of a good, to find the opportunity cost of producing the other good, you must
A) take the inverse.
B) multiply by the total amount produced of the second good.
C) divide by the total amount produced of the second good.
D) do nothing because the opportunity cost for the first good is the same as the opportunity cost for the second good.
E) None of the answers is correct.
Answer: A
Topic: Opportunity cost is a ratio
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

58) While moving on the production possibilities frontier, if the opportunity cost of producing one good is 1/2, the opportunity cost of producing the other good (in the same range) is
A) 1/2.
B) 1/4.
C) 2.
D) 4.
E) an amount that cannot be calculated without more information.
Answer: C
Topic: Opportunity cost is a ratio
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
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59) The opportunity cost of producing more of one good on a production possibilities frontier is
A) a dollar amount.
B) a ratio of quantities.
C) a ratio of prices.
D) equal to the area inside the production possibilities frontier.
E) a theoretical concept which cannot be measured.
Answer: B
Topic: Opportunity cost is a ratio
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

60) The opportunity cost of one more slice of pizza in terms of sodas is the
A) number of pizza slices we have to give up in order to get one extra soda.
B) number of sodas we have to give up in order to get one extra pizza slice.
C) total number of sodas that we have divided by the total number of pizza slices that we have.
D) total number of pizza slices that we have divided by the total number of sodas that we have.
E) price of a pizza slice minus the price of a soda.
Answer: B
Topic: Opportunity cost
Skill: Level 1: Definition
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

61) Moving between two points on a *PPF*, a country gains 6 automobiles and forgoes 3 trucks. The opportunity cost of 1 automobile is
A) 3 trucks.
B) 6 automobiles - 3 trucks.
C) 2 trucks.
D) 1/2 of a truck.
E) 1 automobile.
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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62) Moving between two points on a *PPF*, a country gains 8 desktop computers and forgoes 4 laptop computers. The opportunity cost of 1 desktop computer is
A) 4 laptops.
B) 8 desktops.
C) 1 desktop.
D) 2 laptops.
E) 1/2 of a laptop.
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

63) A country produces only cans of soup and ink pens. If the country produces on its bowed outward *PPF* and increases the production of cans of soup, the opportunity cost of additional
A) cans of soup is increasing.
B) cans of soup is decreasing.
C) cans of soup remains unchanged.
D) ink pens is increasing.
E) More information is needed to determine what happens to the opportunity cost.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

64) Moving along a country's *PPF*, a reason opportunity costs increase is that
A) unemployment decreases as a country produces more and more of one good.
B) unemployment increases as a country produces more and more of one good.
C) technology declines as a country produces more and more of one good.
D) some resources are better suited for producing one good rather than the other.
E) technology must advance in order to produce more and more of one good.
Answer: D
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

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65) Increasing opportunity cost exists
A) in the real world.
B) as long as there is high unemployment.
C) only in theory but not in real life.
D) for a country but not for an individual.
E) inside the *PPF* but not on the *PPF*.
Answer: A
Topic: Increasing opportunity costs
Skill: Level 1: Definition
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

3.3 Economic Growth

1) Which of the following is the best definition of economic growth?
A) the investment in capital and consumption goods by an economy
B) the opportunity cost of capital
C) the opportunity cost of consumption
D) increased development of land and entrepreneurship
E) the sustained expansion of production possibilities
Answer: E
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

2) The sustained expansion of production possibilities is called
A) economic investment.
B) production expansion.
C) opportunity cost of growth.
D) economic growth.
E) production possibilities.
Answer: D
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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3) Which of the following would most likely cause a country's production possibilities set to shift outward at every point along the frontier?
A) a decrease in idle capital
B) a decrease in unemployment
C) a technological advance in only one sector of the economy
D) a general technological advance that affects all sectors of the economy
E) none of the above
Answer: D
Topic: Economic growth and the PPF
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

4) Consider a *PPF* with consumption goods on the horizontal axis and capital goods on the vertical axis. If the country operates on its *PPF* near its _____ axis, this country _____.
A) vertical; will experience greater economic growth
B) vertical; will not face opportunity costs
C) horizontal; will have a larger chance at economic growth
D) horizontal; faces larger tradeoffs
E) vertical; is operating at an inefficient point
Answer: A
Topic: Economic growth and the PPF
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

5) Economic growth depends upon which of the following?
i. Increasing the quantity of labor
ii. Lowering the prices of goods and services
iii. Advancing technology
A) i only
B) ii only
C) iii only
D) i and iii
E) i, ii, and iii
Answer: D
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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6) Economic growth depends upon which of the following?
i. Improving the quality of labor
ii. Technological advancement
iii. Increasing the amount of capital
A) i only
B) ii only
C) iii only
D) i and iii
E) i, ii, and iii
Answer: E
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

7) As an economy grows,
A) its *PPF* shifts outward.
B) it can eliminate scarcity.
C) the opportunity cost of production will approach 0.
D) the opportunity cost of production will increase.
E) its *PPF* does not shift; instead, the production point moves from inside the *PPF* to be closer to the *PPF*.
Answer: A
Topic: Economic growth and the PPF
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

8) The opportunity cost of economic growth is
A) 0, because it means an expansion of production possibilities.
B) the decrease in the current production of productive factors.
C) a slower accumulation of human capital.
D) the decrease in the current production of consumption goods.
E) the increase in the nation's capital stock and/or its technology.
Answer: D
Topic: Economic growth, opportunity cost
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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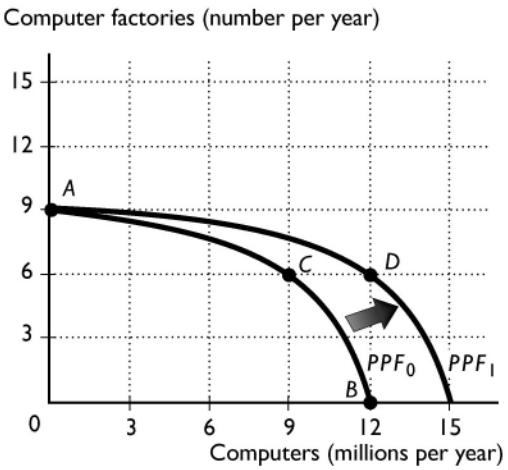
9) What is the opportunity cost of economic growth?
A) current period consumption goods
B) current period capital goods
C) land
D) both current period consumption and capital goods
E) both current period capital goods and land
Answer: A
Topic: Economic growth, opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking



10) The above figure shows the *PPF* for a country that produces computers and computer factories. Which of the following would most likely shift the *PPF* from PPF_0 in one year to PPF_1 in the next?
A) Nothing, because the *PPF* does not shift.
B) Increase the production of computers from 9 million (at point *C*) to 11 million (at point *B*).
C) Decrease the production of computers from 11 million (at point *B*) to 9 million (at point *C*) and build 9 new computer factories.
D) Increase consumption of both computers and computer factories.
E) Decrease production of both computers and computer factories by moving into the interior of the *PPF*.
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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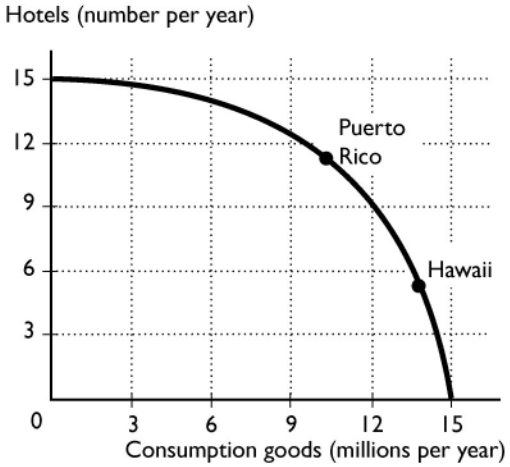
11) The above figure shows the *PPF* for a country that produces computers and computer factories. The nation's production possibilities frontier is PPF_0 . At which of the following production points would the economy grow most rapidly?
A) Point *A*
B) Point *B*
C) Point *C*
D) It makes no difference among the three points because they are all production efficient.
E) More information is needed to answer the question.
Answer: A
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills



12) Suppose Puerto Rico and Hawaii currently have the same production possibilities so that the above figure is the *PPF* for hotels and consumption goods in the two areas. Hotels are a capital good that,once built, will help produce still more consumption goods. If Puerto Rico produces more hotels than Hawaii,
A) Hawaii's *PPF* will shift outward further than Puerto Rico's *PPF*.
B) Hawaii's *PPF* will shift inward.
C) Puerto Rico's *PPF* will not shift.
D) Puerto Rico's and Hawaii's *PPF* will shift outward by the same amount.
E) Puerto Rico's *PPF* will shift outward further than Hawaii's *PPF*.
Answer: E
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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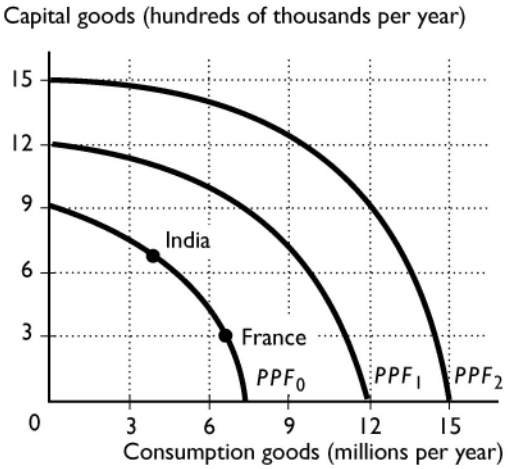
13) Suppose Puerto Rico and Hawaii currently have the same production possibilities so that the above figure is the *PPF* for hotels and consumption goods in the two areas. Hotels are a capital good that,once built, will help produce still more consumption goods. According to the figure, which island will have more rapid economic growth?
A) Hawaii
B) Both Hawaii and Puerto Rico will grow at the same speed.
C) Puerto Rico
D) Neither Hawaii nor Puerto Rico will grow.
E) More than one of the above answers is correct.
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills



14) Suppose India and France have the same *PPF*, shown in the figure above. Based on their current production points, which is India's most likely future *PPF*?
A) PPF_2
B) PPF_1
C) PPF_0
D) either PPF_0 or PPF_1
E) None of the above because economic growth will not happen in India.
Answer: A
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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15) Suppose India and France have the same *PPF*, shown in the figure above. Based on their current production points, which is France's most likely future *PPF*?
A) PPF_2
B) PPF_1
C) PPF_0
D) either PPF_0 or PPF_1
E) None of the above because economic growth will not happen in India.
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

16) Suppose India and France have the same *PPF*, shown in the figure above. Based on their current production points, India's most likely future *PPF* is _____, and France's most likely future *PPF* is _____.
A) PPF_1; PPF_1
B) PPF_2; PPF_2
C) PPF_0; PPF_0
D) PPF_2; PPF_1
E) PPF_1; PPF_2
Answer: D
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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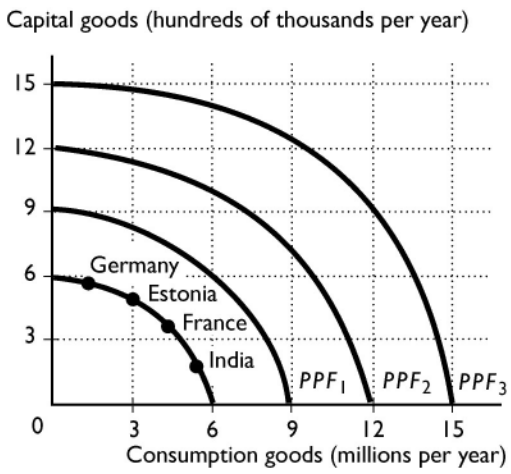

17) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the figure above. Based on the production points in the figure, which country is most likely to expand its *PPF* to PPF_3?

A) India
B) Germany
C) Estonia
D) France and Germany equally
E) France
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

18) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the figure above. Based on the production points in the figure, which country is most likely to expand its *PPF* to PPF_1?

A) France and Germany equally
B) India
C) Estonia
D) France
E) Germany
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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19) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the figure above. Based on the production points in the figure, India is most likely to expand its *PPF* to
A) PPF_3 or PPF_2.
B) PPF_3.
C) PPF_1.
D) PPF_1. or PPF_2.
E) PPF_2.
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

20) Suppose that Germany, France, Estonia, and India all have the same production possibilities, illustrated in the figure above. Based on the production points in the figure, Germany is most likely to expand its *PPF* to
A) PPF_3 or PPF_2.
B) PPF_3.
C) PPF_1.
D) PPF_1 or PPF_2.
E) PPF_2.
Answer: B
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

21) To increase its economic growth, a nation should
A) limit the number of people in college because they produce nothing.
B) encourage spending on goods and services.
C) encourage education because that increases the quality of labor.
D) increase current consumption.
E) eliminate expenditure on capital goods.
Answer: C
Topic: Economic growth
Skill: Level 2: Using definitions
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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22) Other things equal, if Mexico devotes more resources to train its population than Spain,
A) Mexico will be able to eliminate opportunity cost faster than Spain.
B) Mexico will be able to eliminate scarcity faster than Spain.
C) Spain will grow faster than Mexico.
D) Mexico will have more current consumption than Spain.
E) Mexico will grow faster than Spain.
Answer: E
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

23) If a nation devotes a larger share of its current production to consumption goods, then
A) its economic growth will slow down.
B) its *PPF* will shift outward.
C) its *PPF* will shift inward.
D) some productive factors will become unemployed.
E) it must produce at a point within its *PPF*.
Answer: A
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

24) Which of the following statements is correct?
i. As the economy grows, the opportunity costs of economic growth decrease.
ii. Economic growth has no opportunity cost.
iii. The opportunity cost of economic growth is current consumption forgone.
A) i only
B) ii only
C) iii only
D) i and iii
E) i and ii
Answer: C
Topic: Economic growth
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
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25) When a country's production possibilities frontier shifts outward over time, the country is experiencing
A) no opportunity cost.
B) economic growth.
C) higher unemployment of resources.
D) a decrease in unemployment of resources.
E) an end to opportunity cost.
Answer: B
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

26) The opportunity cost of economic growth is _____ and the benefit of economic growth is _____.
A) increased current consumption; increased future consumption
B) increased current consumption; decreased future consumption
C) decreased current consumption; increased future consumption
D) decreased current consumption; decreased future consumption
E) nothing; increased future consumption
Answer: C
Topic: Economic growth
Skill: Level 1: Definition
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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3.4 Specialization and Trade

1) If Wendy can produce more of all goods than Tommy in an hour, then
A) Wendy has an absolute advantage in all goods.
B) Wendy does not need to trade with Tommy in order to achieve the gains from trade.
C) Wendy has a comparative advantage in all goods.
D) Tommy has an absolute advantage in all goods.
E) Only Tommy, but not Wendy, can benefit from trade between the two of them.
Answer: A
Topic: Absolute advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

2) Mac can bake more cookies than Monica per hour. It must be true that
A) Monica has an absolute advantage in cookie baking.
B) Mac has an absolute advantage in baking cookies.
C) Mac has a comparative advantage in baking cookies.
D) Monica has a comparative advantage in baking cookies.
E) Mac cannot benefit by trade between the two of them.
Answer: B
Topic: Absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

3) When Mik has an absolute advantage in the production of two goods over Tommy, Mik
A) is less productive than Tommy.
B) is better off if he does not engage in specialization and trade with Tommy.
C) is more productive in producing both goods than Tommy.
D) always has a comparative advantage over Tommy in the production of both goods.
E) cannot gain from trade with Tommy.
Answer: C
Topic: Absolute advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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4) If John can produce 10 chairs or 20 lamps during a week while Mary can produce 12 chairs or 22 lamps in the same time, who has the absolute advantage in producing each good?
A) Mary in producing both goods
B) John in producing both goods
C) Mary in producing chairs, John in producing lamps
D) John in producing chairs, Mary in producing lamps
E) Both Mary and John in both goods
Answer: A
Topic: Absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

5) If Toni has an absolute advantage in both sewing and ironing when compared to Tom, then
A) they might benefit from trading, but we need more information to determine in which task they should specialize.
B) neither Toni nor Tom can benefit from trading with each other.
C) Toni should specialize in sewing, and Tom should specialize in ironing.
D) Toni cannot benefit from trading with Tom, but Tom can benefit from trading with Toni.
E) Tom cannot benefit from trading with Toni, but Toni can benefit from trading with Tom.
Answer: A
Topic: Absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

6) If a country has
A) an absolute advantage in producing a good, it definitely also has a comparative advantage in producing that good.
B) an absolute advantage in producing a good, it might or might not have a comparative advantage in producing that good.
C) a comparative advantage in production of a good, it must also have an absolute advantage in producing that good.
D) an absolute advantage in producing a good, it definitely will not have a comparative advantage in producing that good.
E) None of the above answers is correct.
Answer: B
Topic: Absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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7) Hank requires 1 hour to cut the grass and 3 hours to clean the house. His sister Holly requires 1 hour to cut the grass and 4 hours to clean the house. Which of the following statements is true?
A) Hank has a comparative advantage in both cutting the grass and cleaning the house.
B) Hank and Holly both have a comparative advantage in cutting the grass.
C) Hank has a lower opportunity cost of cutting the grass.
D) Hank has an absolute advantage in both cutting the grass and cleaning the house.
E) Holly has a comparative advantage in cutting the grass.
Answer: E
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

8) The United States can use all its resources to produce 250 DVDs or 500 shoes. China can use all of its resources to produce 30 DVDs or 300 shoes. The opportunity cost of producing a DVD in the United States is
A) 2 shoes.
B) 1/2 of a shoe.
C) 20 shoes.
D) 500 shoes.
E) 1 DVD.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

Mary's production in 1 day		Mark's production in 1 day	
Dresses	8	Dresses	24
Jackets	12	Jackets	16

9) In the table above, how many jackets must Mary forgo for every dress she makes?
A) 12 jackets
B) 3/4 of a jacket
C) 2/3 of a jacket
D) 1 1/2 jackets
E) 8 jackets
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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10) In the table above, how many jackets must Mark forgo for every dress he makes?
A) 1 jacket
B) 16 jackets
C) 2/3 of a jacket
D) 1 1/2 jackets
E) 24 dresses
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

11) In the above table, for Mary the opportunity cost of producing a dress is _____ and the opportunity cost for Mark of producing a dress is _____.
A) 1 1/2 jackets; 2/3 of a jacket
B) 1 1/2 jackets; 2 1/2 jackets
C) 1 1/4 jackets; 1/2 of a jacket
D) 1 jacket; 1 jacket
E) 1 dress; 1 dress
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

12) A country has a comparative advantage in the production of a good if it can
A) produce more of the good than another country.
B) produce more of the good most efficiently.
C) produce the good on and remain on its production possibilities frontier.
D) trade off producing the good for another good.
E) produce the good at the lowest opportunity cost.
Answer: E
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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13) Having a comparative advantage means a nation can
A) benefit from trade.
B) produce at a higher opportunity cost.
C) produce more of the good.
D) produce without incurring an opportunity cost.
E) produce the good at a point beyond its *PPF*.
Answer: A
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

14) When a person has a comparative advantage in producing a good or service, the person has
A) a higher opportunity cost in producing that product than someone else.
B) a constant opportunity cost in producing that product.
C) a decreasing opportunity cost in producing that product.
D) a lower opportunity cost in producing that product than someone else.
E) an increasing marginal benefit in producing the good.
Answer: D
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

15) Which of the following best describes comparative advantage?
A) being able to produce more output than any other country
B) using the fewest number of resources to produce a given amount of output
C) having the largest number of resources compared to other countries
D) forgoing the fewest units of one product to produce a unit of another product
E) It is the same as absolute advantage.
Answer: D
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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16) Which of the following is correct about comparative advantage?
A) Some countries will have a comparative advantage in everything.
B) Having a comparative advantage without an absolute advantage is impossible.
C) A comparative advantage in a good means that the country can produce more of the good than any other country.
D) A country has a comparative advantage in the production of a good if it can produce the good at lower opportunity cost than any other country.
E) None of the above answers is correct.
Answer: D
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

17) John can make pizza at a lower opportunity cost than Allen, but Allen can make more pizzas per day than John. Therefore,
A) John cannot benefit from trade with Allen.
B) Allen cannot benefit from trade with John.
C) John has a comparative advantage in pizza.
D) John has an absolute advantage in pizza.
E) Allen has a comparative advantage in pizza.
Answer: C
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

18) Alice and Gene work in the mailroom, sorting and delivering mail. In order for them to benefit from specialization and trade, Alice must
A) be able to both sort and deliver faster than Gene.
B) be equally productive in both sorting and delivering.
C) have a comparative advantage in both sorting and delivering.
D) have a comparative advantage in one task and Gene must have a comparative advantage in the other task.
E) be equally productive as Gene in both sorting and delivering.
Answer: D
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
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19) When one person's opportunity cost of producing a good is lower than another person's opportunity cost of producing the same good, it is called
A) an absolute advantage.
B) a comparative advantage.
C) specialization.
D) production possibilities.
E) a tradeoff.
Answer: B
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

20) For country Gamma the opportunity cost for producing 1 computer is 10 tons of steel. For country Beta the opportunity cost for producing 1 computer is 6 tons of steel. Which country has the comparative advantage in the production of steel?
A) Gamma
B) Beta
C) Both have the comparative advantage in the production of steel.
D) Neither country has the comparative advantage in the production of steel.
E) More information is needed to determine which of the two nations has the comparative advantage.
Answer: A
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

21) For country North, the opportunity cost incurred when 3 tractors are produced is 21 watches. For country South, the opportunity cost incurred when 5 tractors are produced is 100 watches. Which country has the comparative advantage in the production of tractors?
A) North
B) South
C) Both have the comparative advantage in the production of tractors.
D) Neither country has the comparative advantage in the production of tractors.
E) More information is needed about which country has the comparative advantage in the production of watches.
Answer: A
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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22) If Country A can produce an extra plane by giving up two boats, and Country B can produce an extra plane by giving up three boats, then
A) Country A has a comparative advantage over Country B in the production of planes.
B) Country B has a comparative advantage over Country A in the production of planes.
C) The two countries have no incentive to trade with one another.
D) Country A would like to trade with B, but B cannot gain by trading with A.
E) Country A has an absolute advantage in producing planes and a comparative advantage in producing boats.
Answer: A
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

23) David takes 10 minutes to process a customer, and 20 minutes to stock the shelves. Danny takes 15 minutes to process a customer, and 15 minutes to stock the shelves. Which of the following statements is true?
A) David has an absolute advantage in performing both tasks.
B) Danny has an absolute advantage in performing both tasks.
C) David has a comparative advantage in processing customers but not in stocking shelves.
D) Danny has a comparative advantage in processing customers but not in stocking shelves.
E) Danny has a comparative advantage in processing customers and in stocking shelves.
Answer: C
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

24) Rika's opportunity cost of producing 100 t-shirts is 50 jackets. Jeff's opportunity cost of producing 75 t-shirts is 25 jackets. Who should specialize in jackets?
A) Rika
B) Jeff
C) neither
D) both
E) More information is needed about their production possibilities frontiers to determine who should specialize in jackets.
Answer: A
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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25) On a typical acre of land, Iowa can produce either 300 pounds of beef or 100 pounds of soybeans in a year. On a typical acre of land, Nebraska can produce 150 pounds of beef or 200 pounds of soybeans. Which of the following is correct?
A) Nebraska should produce soybeans because its opportunity cost of soybeans is lower.
B) Nebraska should produce soybeans because its opportunity cost of soybeans is higher.
C) Iowa should produce soybeans because its opportunity cost of soybeans is lower.
D) Iowa should produce soybeans because its opportunity cost of soybeans is higher.
E) Nebraska and Iowa should divide each acre evenly between soybean and beef production.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 5: Critical thinking
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

	Potatoes (pounds)		Tomatoes (pounds)
Huey	12	or	8
Steve	6	or	2

26) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, Huey's opportunity cost of producing one pound of tomatoes is
A) 1.5 pounds of potatoes.
B) 0.66 pound of potatoes.
C) 0, because he has an absolute advantage in it.
D) 0, because he has a comparative advantage in it.
E) 1.0 pound of potatoes.
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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27) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, Steve has a comparative advantage in
A) both potatoes and tomatoes.
B) neither potatoes nor tomatoes.
C) potatoes.
D) tomatoes.
E) More information is needed about Huey's comparative advantage in order to determine Steve's comparative advantage.
Answer: C
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

28) Huey and Steve can grow potatoes or tomatoes. The table above shows the pounds of potatoes and tomatoes Huey and Steve can grow in a week. Based on the table, which of the following statements is correct?
A) Steve has an absolute advantage in both potatoes and tomatoes.
B) Steve has a comparative advantage in both potatoes and tomatoes.
C) Steve has an absolute advantage in potatoes only.
D) Huey has an absolute advantage in potatoes only.
E) Huey has an absolute advantage in both potatoes and tomatoes.
Answer: E
Topic: Absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

29) If Tom can wax a car in fewer hours than Jerry, then Tom definitely has
A) a comparative advantage in car waxing.
B) an absolute advantage in car waxing.
C) both a comparative and an absolute advantage in car waxing.
D) neither a comparative nor an absolute advantage in car waxing.
E) an undetermined advantage because we do not know how long it takes Tom and Jerry to wash a car.
Answer: B
Topic: Comparative advantage versus absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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Jack's production possibilities				Jill's production possibilities			
Production point	Food (pounds)		Clothing (pounds)	Production point	Food (pounds)		Clothing (pounds)
A	24	and	0	A	45	and	0
B	16	and	4	B	30	and	5
C	8	and	8	C	15	and	10
D	0	and	12	D	0	and	15

30) In the table above, Jack's opportunity cost for 1 pound of food is _____ and his opportunity cost for 1 pound of clothing is _____.
A) 1 pound of clothing; 4 pounds of food
B) 1/2 of a pound of clothing; 2 pounds of food
C) 1/3 of a pound of clothing; 3 pounds of food
D) 2 pounds of clothing; 2 pounds of food
E) 1 pound of food; 1 pound of clothing
Answer: B
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

31) In the table above, Jill's opportunity cost for 1 pound of food is _____ and her opportunity cost for 1 pound of clothing is _____.
A) 1 pound of clothing; 4 pounds of food
B) 1/2 of a pound of clothing; 2 pounds of food
C) 1/3 of a pound of clothing; 3 pounds of food
D) 2 pounds of clothing; 2 pounds of food
E) 1 pound of food; 1 pound of clothing
Answer: C
Topic: Opportunity cost
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
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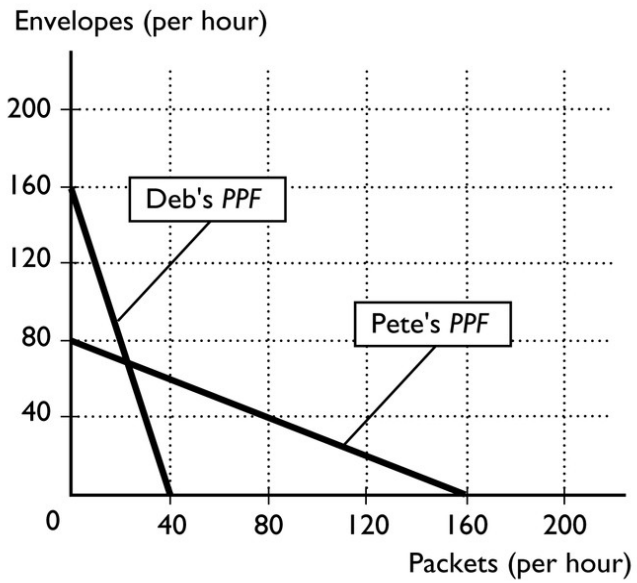
32) In the table above, Jack's comparative advantage is producing _____ and Jill's comparative advantage is producing _____.
A) clothing; food
B) clothing and food; nothing
C) nothing; clothing and food
D) food; clothing
E) clothing; clothing
Answer: A
Topic: Comparative advantage
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills



33) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. If Deb spends all her time assembling packets, how many can she assemble?
A) 32
B) 40
C) 64
D) 160
E) 22
Answer: B
Topic: Production possibilities frontier
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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34) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. What is Deb's opportunity cost of assembling 1 packet?
A) 160 envelopes
B) 40 envelopes
C) 4 envelopes
D) 1/4 of an envelope
E) 4 packets
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

35) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. Which of the following statements is correct?
A) Deb has a comparative advantage in assembling packets.
B) Pete has an absolute advantage in both assembling packets and stuffing envelopes.
C) Deb has a comparative advantage in stuffing envelopes.
D) Deb has an absolute advantage in both assembling packets and stuffing envelopes.
E) Deb has a comparative advantage in both assembling packets and stuffing envelopes.
Answer: C
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

36) Deb and Pete have volunteered to help their favorite charity mail out fundraiser information. The figure above shows their production possibilities frontiers for assembling packets and stuffing envelopes. If Deb and Pete specialize and trade, how many packets will be assembled?
A) 40
B) more than 40 and less than 80
C) 80
D) 160
E) more than 80 and less than 160
Answer: D
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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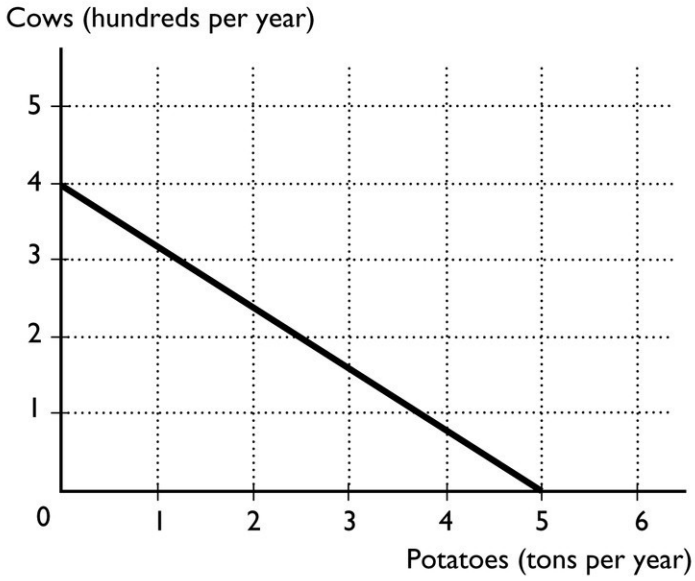

37) Gabriel operates a ranch in Idaho where he raises cattle and grows potatoes. The figure above illustrates his production possibilities frontier. What is Gabriel's opportunity cost of growing another ton of potatoes?
A) 400 cows
B) 80 cows
C) 100 cows
D) 0 cows
E) 1 ton of potatoes
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

38) Gabriel operates a ranch in Idaho where he raises cattle and grows potatoes. The figure above illustrates his production possibilities frontier. What is Gabriel's opportunity cost of raising another 100 cows?
A) 1.25 tons of potatoes
B) 5.0 tons of potatoes
C) 3.0 tons of potatoes
D) 1.0 ton of potatoes
E) 100 cows
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
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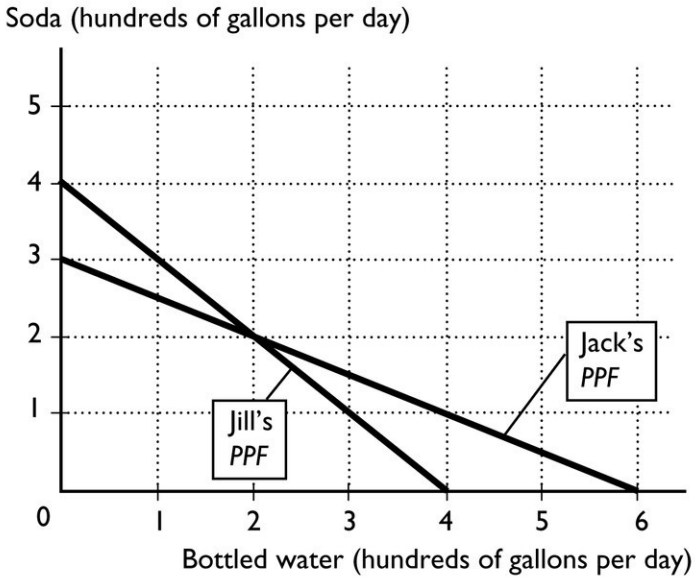

39) In the above figure, Jack's opportunity cost of producing 1 gallon of soda is _____ of bottled water.
A) 1 gallon
B) 1/2 of a gallon
C) 6 gallons
D) 1/4 of a gallon
E) 2 gallons
Answer: E
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

40) In the above figure, Jack's opportunity cost of producing 1 gallon of bottled water is _____ of soda.
A) 2 gallons
B) 1/2 of a gallon
C) 6 gallons
D) 1/4 of a gallon
E) 1 gallon
Answer: B
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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41) In the above figure, Jill's opportunity cost of producing 1 gallon of soda is _____ of bottled water.
A) 2 gallons
B) 1/2 of a gallon
C) 4 gallons
D) 1 gallon
E) 1/4 of a gallon
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

42) In the above figure, Jill's opportunity cost of producing 1 gallon of bottled water is _____ of soda.
A) 2 gallons
B) 1/2 of a gallon
C) 4 gallons
D) 1 gallon
E) 1/4 of a gallon
Answer: D
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

43) Using the figure above, if Jack and Jill specialize and gain from trade, then
A) Jack produces equal amounts of gallons of water and bottled water.
B) Jack specializes in the production of bottled water.
C) Jack and Jill produce beyond their *PPF*.
D) Jack specializes in the production of soda.
E) Jack specializes on the production of soda and water.
Answer: B
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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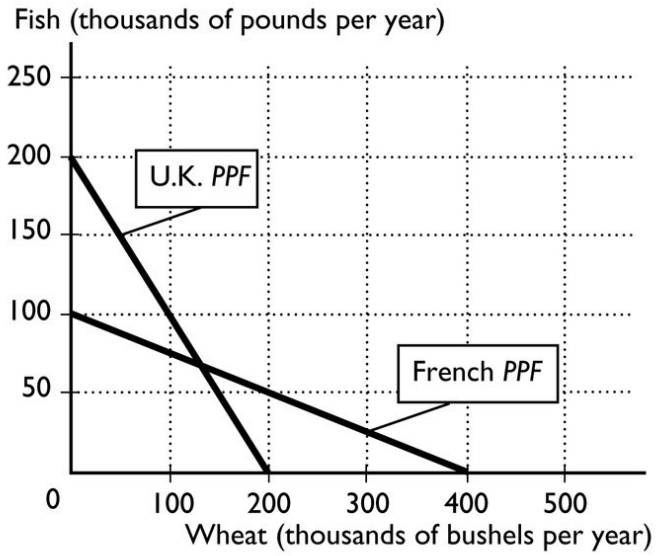

44) The figure above shows the production possibilities frontiers for the United Kingdom and France. What is the opportunity cost of one bushel of wheat in France?
A) 1/4 of a pound of fish
B) 4 pounds of fish
C) 1 pound of fish
D) 100 pounds of fish
E) 2 pounds of fish
Answer: A
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

45) The figure above shows the production possibilities frontiers for the United Kingdom and France. What is the opportunity cost of one bushel of wheat for the United Kingdom?
A) 1/4 of a pound of fish
B) 1/2 of a pound of fish
C) 1 pound of fish
D) 200 pounds of fish
E) 2 pounds of fish
Answer: C
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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46) The figure above shows the production possibilities frontiers for the United Kingdom and France. If the United Kingdom and France specialize and engage in trade, the United Kingdom will produce _____ and France will produce _____.
A) wheat; wheat
B) wheat; fish
C) fish; wheat
D) fish; fish
E) both wheat and fish; both wheat and fish
Answer: C
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

47) The figure above shows the production possibilities frontiers for the United Kingdom and France. If the United Kingdom and France specialize and engage in trade, the United Kingdom will export _____ and France will export _____.
A) wheat; wheat
B) wheat; fish
C) fish; wheat
D) fish; fish
E) nothing; nothing
Answer: C
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

48) What is gained when people engage in specialization and trade?
A) Specialization and trade allow people to consume outside their individual production possibilities frontiers.
B) Specialization and trade allow people to consume inside their production possibilities frontiers.
C) Specialization and trade allow people to consume at a point on their production possibilities frontiers.
D) Specialization and trade allow people to produce outside their individual production possibilities frontiers.
E) There are no gains from specialization and trade.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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49) Gains from trade
A) occur when one party to the trade has an absolute advantage in both goods.
B) result in being able to consume beyond the trading individuals' production possibilities frontiers.
C) occur when people do not specialize.
D) occur when opportunity costs are equal.
E) always benefit one party but not the other party of any trade.
Answer: B
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

50) Consider the United States' production of soy beans and running shoes. If the United States has an absolute advantage in the production of both goods compared to China,
A) both countries can gain from trade.
B) only the United States can gain from trade.
C) only China can gain from trade.
D) each country will be able to produce at a point beyond its PPF.
E) only the United States will be able to operate beyond its PPF.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

51) To achieve gains from trade, a country
A) needs to have an absolute advantage in the production of all goods.
B) specializes in the producing a good in which it has a lower opportunity cost.
C) must produce at a point beyond its *PPF*.
D) should produce at the midpoint of its *PPF*.
E) needs to have an absolute advantage in the production of at least one good.
Answer: B
Topic: Achieving the gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
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52) Specialization and trade
A) does not benefit anyone.
B) allows nations to produce inside their individual production possibilities frontier.
C) allows nations to consume combinations of products that are outside their individual production possibilities frontier.
D) shifts the production possibilities frontier inward.
E) shifts the production possibilities frontier outward.
Answer: C
Topic: Achieving the gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

53) The United States is one of the richest nations in the world,
A) so it does not need to trade with poor nations in order to achieve any gains from trade.
B) so it might not have a comparative advantage in producing any goods.
C) but it can still benefit from specialization and trade.
D) so it must have a comparative advantage in the production of all goods.
E) so it must have an absolute advantage in the production of all goods.
Answer: C
Topic: Achieving the gains from trade
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

54) Specialization and trade make a country better off because with trade, the country can consume at a point
A) outside its production possibilities frontier.
B) inside its production possibilities frontier.
C) on its production possibilities frontier.
D) on its trading partner's production possibilities frontier.
E) inside its trading partner's production possibilities frontier.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
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55) By specializing and trading, a country is able to
A) obtain the absolute advantage in the goods it produces.
B) consume but not to produce combinations of goods that lie beyond its production possibilities frontier.
C) produce but not to consume combinations of goods that lie beyond its production possibilities frontier.
D) BOTH produce and consume combinations of goods that lie beyond its production possibilities frontier.
E) NEITHER produce nor consume combinations of goods that lie beyond its production possibilities frontier.
Answer: B
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

56) With no international trade, a country _____ consume at a point outside of its *PPF*; with international trade, a country _____ consume at a point outside of its *PPF*.
A) cannot; can
B) can; cannot
C) can; can
D) cannot; cannot
E) None of the above answers is correct because the presence or absence of international trade has nothing to do with where a country consumes in comparison to its *PPF*.
Answer: A
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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57) In terms of a nation's production possibilities frontier, what impact does international trade have?
A) International trade shifts the nation's production possibilities frontier outward.
B) International trade shifts the nation's production possibilities frontier inward.
C) International trade allows the nation to consume at a point outside its production possibilities frontier.
D) International trade shifts the production possibilities frontier outward for the goods that are exported and inward for the goods that are imported.
E) International trade shifts the production possibilities frontier outward for the goods that are imported and inward for the goods that are exported.
Answer: C
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

58) The gains from trade include:
i. lower prices from competition
ii. greater output from specialization
iii. greater variety of goods and services available
A) i and iii only
B) ii and iii only
C) i and ii only
D) i, ii, and iii
E) ii only
Answer: D
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

59) If a nation has an absolute advantage in producing a good, then it
A) will have a comparative advantage in producing that good.
B) will have no need to trade with other nations.
C) will always specialize in that good.
D) might or might not have a comparative advantage in producing that good.
E) will not have a comparative advantage in producing that good.
Answer: D
Topic: Comparative advantage versus absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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60) In one hour John can produce 20 loaves of bread or 8 cakes. In one hour Phyllis can produce 30 loaves of bread or 15 cakes. Which of the following statements is true?
A) Phyllis has a comparative advantage in producing bread.
B) John has a comparative advantage in producing cakes.
C) Phyllis has an absolute advantage in both goods.
D) John has an absolute advantage in both goods.
E) Phyllis has a comparative advantage in producing both cakes and bread.
Answer: C
Topic: Absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

61) "Comparative advantage" is defined as a situation in which one person can produce
A) more of all goods than another person.
B) more of a good than another person.
C) a good for a lower dollar cost than another person.
D) a good for a lower opportunity cost than another person.
E) all goods for lower opportunity costs than another person.
Answer: D
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

62) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Scott's opportunity cost of producing 1 taco is
A) 1/2 of a pizza.
B) 1 pizza.
C) 2 pizzas.
D) 20 pizzas.
E) 2 tacos.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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63) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Cindy's opportunity cost of producing 1 taco is
A) 3/4 of a pizza.
B) 1 pizza.
C) 30 pizzas.
D) 40 pizzas.
E) 1 1/3 tacos.
Answer: A
Topic: Opportunity cost
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

64) Scott and Cindy both produce only pizza and tacos. In one hour, Scott can produce 20 pizzas or 40 tacos. In one hour, Cindy can produce 30 pizzas or 40 tacos. Based on these data,
A) Cindy has a comparative advantage at producing tacos.
B) Scott has a comparative advantage at producing tacos.
C) Cindy and Scott have the same comparative advantage in producing tacos.
D) neither Cindy nor Scott has a comparative advantage in producing tacos.
E) Cindy and Scott have the same comparative advantage in producing pizzas.
Answer: B
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

65) In one hour John can produce 20 loaves of bread or 16 cakes. In one hour Phyllis can produce 30 loaves of bread or 15 cakes. Which of the following statements is true?
A) Phyllis has a comparative advantage in producing bread.
B) John has a comparative advantage in producing cakes.
C) Phyllis has an absolute advantage in both goods.
D) John has an absolute advantage in both goods.
E) Phyllis has a comparative advantage in producing both cakes and bread.
Answer: B
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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66) Comparative advantage is most closely related to which of the following concepts?
A) productivity
B) efficiency
C) opportunity cost
D) competition
E) fairness
Answer: C
Topic: Comparative advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

67) If workers in Mexico produce fewer goods and services per hour than workers in the United States in all areas of production, then
A) the United States will benefit from trade with Mexico, but Mexico will not.
B) Mexico will benefit from trade with the United States, but the United States will not.
C) neither Mexico nor the United States will benefit from trade with the other.
D) both the United States and Mexico will benefit from trade with the other.
E) it is unknown whether either country can benefit from trade with the other.
Answer: D
Topic: Achieving the gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

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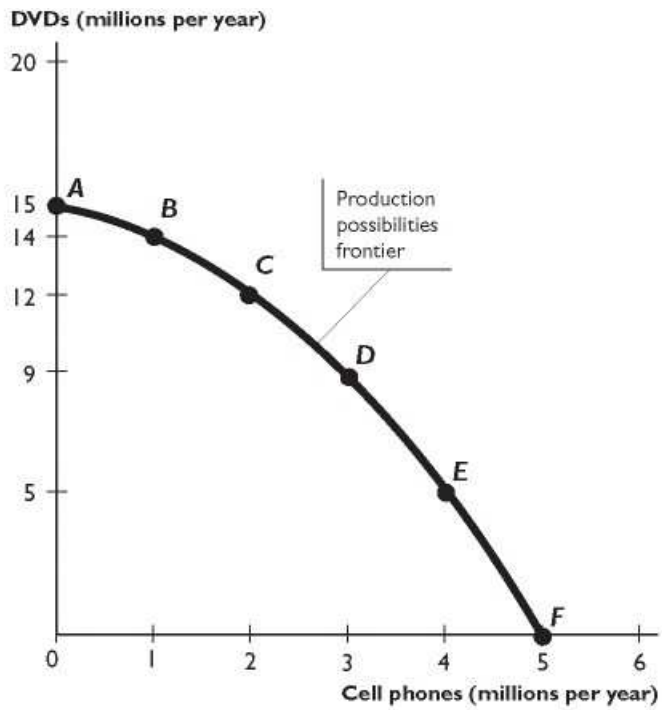
3.5 Chapter Figures



Cell phones (millions)	0	1	2	3	4	5
DVDs (millions)	15	14	12	9	5	0
Possibility	*A*	*B*	*C*	*D*	*E*	*F*

1) The figure above shows a production possibilities frontier. In the figure, which of the following combinations of the two goods cannot be produced with the current resources and technology?
A) 2 million cell phones and 13 million DVDs
B) 4 million cell phones and 4 million DVDs
C) 1 million cell phones and 14 million DVDs
D) 3 million cell phones and 5 million DVDs
E) 5 million cell phones and no DVDs
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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2) The figure above shows a production possibilities frontier. In the figure, which of the following combinations of the two goods are efficient?
A) 2 million cell phones and 13 million DVDs
B) 5 million cell phones and 15 million DVDs
C) no cell phones and 15 million DVDs
D) 4 million cell phones and 4 million DVDs
E) None of these combinations is efficient.
Answer: C
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

3) The figure above shows a production possibilities frontier. In the figure, the economy faces a tradeoff when _____ cell phones and _____ DVDs. are produced.
A) 3 million; 9 million
B) 2 million; 9 million
C) 3 million; 8 million
D) 4.5 million; no
E) 5 million; 15 million
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

4) The figure above shows a production possibilities frontier. In the figure, when the economy moves from point E to point D, what is the opportunity cost of a DVD?
A) 0.25 cell phones
B) 0.5 cell phones
C) 1 cell phone
D) 4 cell phones
E) zero
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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5) The figure above shows a production possibilities frontier. In the figure, when the economy moves from point D to point C, the opportunity cost of producing one more DVD _____, and when it moves from point C to D, the opportunity cost of producing one more cell phone _____.
A) increases; increases
B) increases; decreases
C) decreases; decreases
D) decreases; increases
E) increases; remains the same
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

6) The figure above shows a production possibilities frontier. In the figure, when the economy moves from point C to point B, what is the opportunity cost of a DVD?
A) 0.5 cell phones
B) 2 cell phones
C) 0.5 million cell phones
D) 2 million cell phones
E) zero
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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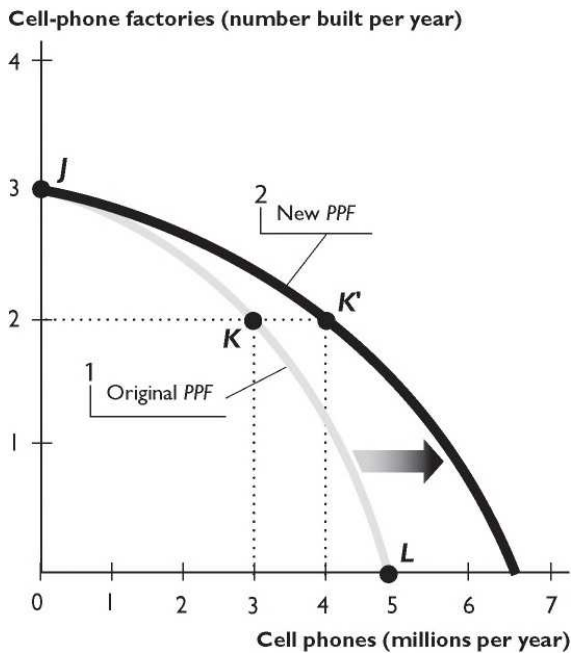

7) The figure above shows how the *PPF* for cell phones and new cell-phone factories can expand. In the figure, if the economy produced 4 million cell phones using the resources efficiently, the *PPF* would
A) expand, but not as far as shown in the figure.
B) not expand.
C) expand farther than shown in the figure.
D) expand along the vertical axis and not along the horizontal axis.
E) expand evenly along both axes.
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

8) The figure above shows how the *PPF* for cell phones and new cell-phone factories can expand. In the figure, if the economy chose the point on this year's *PPF* that is above point K, the next year's *PPF* would
A) shift outward along the horizontal axis farther than the new *PPF* shown in the figure.
B) shift outward along the horizontal axis, but not as far as the new *PPF* shown in the figure.
C) shift outward along the vertical axis, not along the horizontal axis.
D) shift inward along the horizontal axis.
E) shift inward along the vertical axis.
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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9) The figure above shows how the *PPF* for cell phones and new cell-phone factories can expand. In the figure, if the economy chose the point on this year's *PPF* that is below point K, the next year's *PPF* would
A) shift outward along the horizontal axis farther than the new *PPF* shown in the figure.
B) shift outward along the horizontal axis, but not as far as the new *PPF* shown in the figure.
C) shift outward along the vertical axis, not along the horizontal axis.
D) shift inward along the horizontal axis.
E) shift inward along the vertical axis.
Answer: B
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.3
Status: Old
AACSB: Analytic skills

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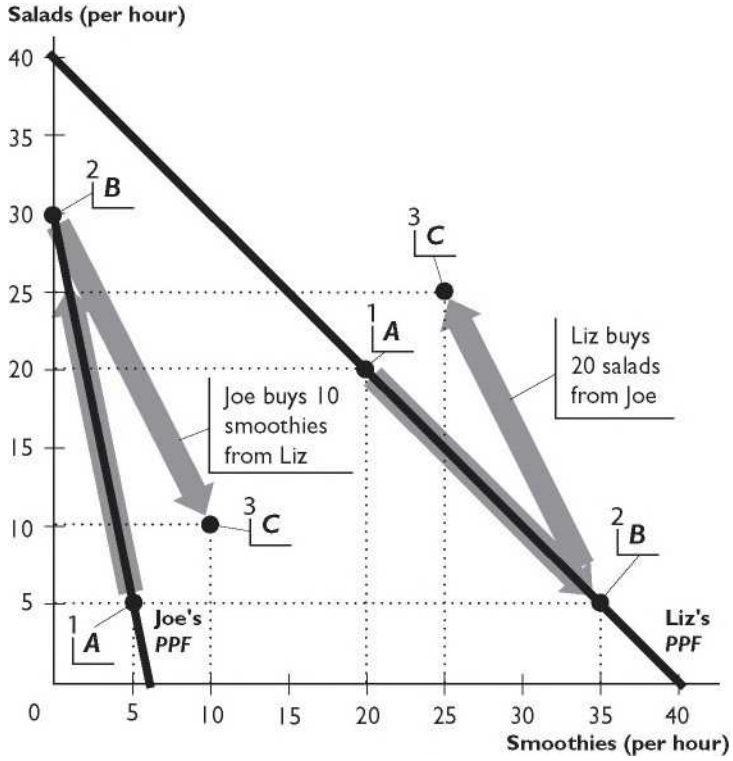

The figure above shows Liz's and Joe's production possibilities for Salads and Smoothies.

10) Liz has a comparative advantage in _____ and an absolute advantage in _____.
A) smoothies only; both goods
B) smoothies only; smoothies only
C) both goods; both goods
D) salads only; both goods
E) salads only; salads only
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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11) Liz has a comparative advantage in _____ because _____.
A) smoothies; her opportunity cost of producing smoothies is lower than Joe's
B) salads; her opportunity cost of producing salads is lower than Joe's
C) smoothies; she can produce more smoothies per hour than Joe can
D) salads; she can produce more salads per hour than Joe can
E) both goods; she can produce more of both goods per hour than Joe can
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

12) Given the information in the figure above, Liz _____ benefit from trade with Joe because _____.
A) can; each of them has a comparative advantage in one of the goods
B) can; each of them has an absolute advantage in one of the goods
C) cannot; she has an absolute advantage in both goods
D) cannot; she has a comparative advantage in both goods
E) can; Joe is more productive in producing one of the goods
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

13) Given the information in the figure above, Joe can benefit from trade as far as the price at which he buys Liz's smoothies is
A) below 5 salads per smoothie.
B) not higher than 2 salads per smoothie.
C) not lower than 2 salads per smoothie.
D) not lower than 1 salad per smoothie.
E) not higher than 4 salads per smoothie.
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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14) Using the figure above, suppose with no trade Liz and Joe each produce at point A on their respective *PPF*s. Then, Liz suggests that they specialize and trade. She would produce only smoothies and Joe would produce only salads. Then she would sell 10 smoothies to Joe at a price of 2.5 salads per smoothie. In this scenario,
A) Liz gains 10 smoothies and 5 salads, and Joe gains 5 smoothies.
B) Liz gains 5 smoothies, and Joe gains 10 smoothies.
C) Liz gains 10 smoothies, and Joe loses 5 smoothies.
D) Liz gains 5 smoothies and 5 salads, and Joe loses 5 salads.
E) Neither of the individuals gains from trade.
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

15) Using the figure above, suppose with no trade Liz and Joe each produce at point A on their respective *PPF*s. Then, Joe suggests that they specialize and trade. He would produce only salads and Liz would produce only smoothies. Then, Joe says, he would buy 16 smoothies from Liz at a price of 1.5 salads per smoothie. Liz should
A) accept Joe's offer since she will gain 4 smoothies and 4 salads.
B) accept Joe's offer, as she will be as well off as with no trade.
C) not accept Joe's offer, as the price he offers is too low for her to gain from trade.
D) not accept Joe's offer since she would lose 2 smoothies and 2 salads.
E) accept Joe's offer since she will gain 4 salads.
Answer: A
Topic: The economic problem
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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3.6 Integrative Questions

1) As technology advances,
A) all opportunity costs decrease.
B) the *PPF* shifts outward.
C) a country moves toward the midpoint along its *PPF* and can produce more of both goods.
D) all opportunity costs increase.
E) the *PPF* shifts inward because unemployment occurs.
Answer: B
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

2) If a country is operating at a point of production efficiency,
A) it enjoys a free lunch when increasing production.
B) it produces on its production possibilities frontier.
C) it must specialize in the production of a good.
D) it operates on its trade line.
E) it cannot be producing at its point of comparative advantage.
Answer: B
Topic: Integrative
Skill: Level 2: Using definitions
Section: Integrative
Status: Old
AACSB: Reflective thinking

3) Relative to Al, Joe has _____ if Joe can produce a good at a lower opportunity cost than Al.
A) a comparative advantage
B) more production efficiency
C) a comparative benefit
D) a marginal benefit
E) a free lunch
Answer: A
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Reflective thinking

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4) Suppose that after specializing according to comparative advantage, a country is trading with another nation that also specializes according to *its* comparative advantage. Which of the following statements are true for the first country?
i. It enjoys gains from trade.
ii. It must have an absolute advantage in the production of the good it produces.
iii. It is producing at a point beyond its *PPF*.
A) i only
B) i and ii
C) i and iii
D) ii and iii
E) i, ii, and iii
Answer: A
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Reflective thinking

Anaconda				Bear			
Production point	Corn (tons)		Shoes (number)	Production point	Corn (tons)		Shoes (number)
A	0	and	700	A	0	and	1,000
B	1	and	650	B	1	and	900
C	2	and	550	C	2	and	700
D	3	and	350	D	3	and	400
E	4	and	0	E	4	and	0

5) The table above gives the production possibilities frontier for two countries, Anaconda and Bear. This table shows that
A) when Anaconda and Bear specialize and trade, Anaconda should specialize in the production of shoes.
B) when Anaconda and Bear specialize and trade, Anaconda should produce at its production point *E*.
C) Anaconda has an absolute advantage in the production of corn and shoes.
D) Bear can consume no more than 2 bushels of corn and 700 pairs of shoes.
E) Bear is unable to gain from trade with Anaconda.
Answer: B
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

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6) The table above gives the production possibilities frontier for two countries, Anaconda and Bear. The table shows that
A) Bear achieves production efficiency ONLY at its production point *A*.
B) Anaconda achieves production efficiency ONLY at its production point *A*.
C) Anaconda has a comparative advantage in the production of corn.
D) Bear has an absolute advantage in the production of both goods.
E) Both answers A and B are correct.
Answer: C
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

7) The table above gives the production possibilities frontier for two countries, Anaconda and Bear. The opportunity cost of moving from production point *B* to production point *C* for Anaconda equals _____ and for Bear equals _____.
A) 1 ton of corn; 1 ton of corn
B) 650 pairs of shoes; 900 pairs of shoes
C) 550 pairs of shoes; 700 pairs of shoes
D) 100 pairs of shoes; 200 pairs of shoes
E) 50 pairs of shoes; 100 pairs of shoes
Answer: D
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

8) The table above gives the production possibilities frontier for two countries, Anaconda and Bear. The opportunity cost of moving from _____ is greater for _____.
A) point *A* to point *B*; Anaconda
B) point *B* to point *A*; Bear
C) point *D* to point *E*; Bear
D) point *E* to point *D*; Bear
E) any point to any other point; Bear
Answer: C
Topic: Integrative
Skill: Level 3: Using models
Section: Integrative
Status: Old
AACSB: Analytic skills

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3.7 Essay: Production Possibilities

1) What does the vertical intercept of a production possibilities frontier represent?
Answer: The vertical intercept is the maximum amount that can be produced if all available resources are dedicated to the production of the good or service measured on the vertical axis.
Topic: Production possibilities frontier
Skill: Level 2: Using definitions
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

2) What economic concepts are represented in the production possibilities model?
Answer: There are a large number of economic concepts illustrated by the production possibilities frontier:
· Scarcity of resources: The production possibilities frontier is a frontier between attainable and unattainable combinations.
· Opportunity cost: The negative slope of the production possibilities frontier indicates that in order to get more of one good, you must produce less of the other (tradeoff).
· Increasing opportunity cost: The bowed out production possibilities frontier represents the changing opportunity costs when resources are specialized.
· Production efficiency: Points on the production possibilities frontier efficiently use all resources while points below the production possibilities frontier represent unemployed or misallocated resources and the possibility of a free lunch.
Topic: Production possibilities frontier
Skill: Level 5: Critical thinking
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

3) How can a combination of goods be unattainable?
Answer: A combination of goods can be unattainable if producing that combination requires more resources and technology than are available.
Topic: Unattainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

4) What does a production point beyond the production possibilities frontier represent?
Answer: A production point beyond the production possibilities frontier is an unattainable combination of products.
Topic: Unattainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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5) "If Mexico is currently operating at a point beyond its production possibilities frontier, then there are unemployed or misallocated resources in Mexico." Is this statement true or false? Briefly explain your answer.
Answer: The statement is false. It is false on two counts. First, production points beyond the production possibilities frontier are unattainable, so it is not possible for Mexico to be producing at such a point. Second, it is points *within* the production possibilities frontier that have unemployed or misallocated resources.
Topic: Unattainable points
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

6) "If Mexico is currently operating at a point inside its production possibilities frontier, then there are unemployed or misallocated resources in Mexico." Is this statement true or false? Briefly explain your answer.
Answer: The statement is true. Points within the production possibilities frontier are attainable, so it is possible for Mexico to be producing at a point within its frontier. At points within the production possibilities frontier, there are unemployed or misallocated resources.
Topic: Attainable points, unemployment
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

7) Are all points inside the production possibilities frontier unattainable?
Answer: No, all points within the production possibilities frontier are attainable, though there are unemployed resources at these points.
Topic: Attainable points, unemployment
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Reflective thinking

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8) In the movie *Cast Away*, Tom Hanks plays a FedEx efficiency expert stranded on a deserted island. While on the island, he divides his time between catching fish, gathering coconuts, painting, and building a raft. Suppose that these were Mr. Hanks' only activities. Did he face an opportunity cost from pursuing any of these activities? Why or why not?
Answer: Yes, Mr. Hanks faces an opportunity cost from all of these endeavors. If he decides to use his time catching fish, he couldn't gather coconuts, paint, or build a raft. Whatever he would have been doing, not opting to catch fish is his opportunity cost of catching fish. Similarly, time spent on building his raft means less time painting, or fewer coconuts for breakfast, or fewer fish for dinner. Tradeoffs such as these are a feature of any economy that is operating on its production possibilities frontier and cannot be avoided.
Topic: Tradeoffs
Skill: Level 3: Using models
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

9) What does it mean when a "free lunch" is available? Relate your answer to the production possibilities frontier.
Answer: A free lunch means that there is no tradeoff, that is, the production of one good or service can be increased without decreasing the production of another good or service and thereby giving up some of the other good. A free lunch occurs when the economy is producing at a point within the production possibilities frontier because at these points some resource is unemployed. By utilizing the unemployed resource, more goods or services can be produced without giving up any other goods or services.
Topic: Free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

10) Describe the differences between tradeoffs and free lunches in terms of a *PPF*.
Answer: A tradeoff is a constraint or limit that forces giving up one thing in exchange for something else. When resources are fully employed, a country operates on its *PPF*. Any movement from one point to another point along the *PPF* requires the country to make a tradeoff between the two goods because one good is given up to get some other good. A free lunch occurs when some resources are not being used or not being used in their most productive way. When a country operates inside its *PPF* and moves toward its *PPF* choosing a different combination of goods, the country enjoys a free lunch. It does not face a tradeoff.
Topic: Tradeoffs and free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

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11) On a production possibilities frontier diagram, where are production points that have tradeoffs? Where are production points with a free lunch?
Answer: A tradeoff is a situation in which a limit forces one thing to be given up in exchange for something else. Any point on the production possibilities frontier itself is a production point with a tradeoff. Why? Moving along the production possibilities frontier means that more of one good can be obtained only at the (opportunity) cost of giving up some other good, which means that there is a tradeoff. A free lunch is the absence of a tradeoff, that is, when the production of a good or service can be increased without decreasing the production of another good or service. A free lunch occurs at any point within the production possibilities frontier. At these points, resources are being used inefficiently. By utilizing the resource efficiently, more goods or services can be produced without giving up any other goods or services.
Topic: Tradeoffs and free lunches
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Written and oral communication

12) Explain why a movement from a point inside a production possibilities frontier to the production possibilities frontier is described as a free lunch and a movement along a production possibilities frontier is described as a tradeoff.
Answer: The key point to answer this question is the fact that producing more of a good requires more resources. Hence, if all resources are employed efficiently, as is the case when producing on the production possibilities frontier, producing more of one good means reallocating resources away from the production of another good; there is a tradeoff between the two goods. In other words, to produce more of one good, the production of another must be given up. If, however, resources are used inefficiently, as is the case when producing inside the production possibilities frontier, then the production of a good can be increased by using the resources efficiently; hence no tradeoff is required and the additional goods are a free lunch.
Topic: Tradeoffs and free lunches
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
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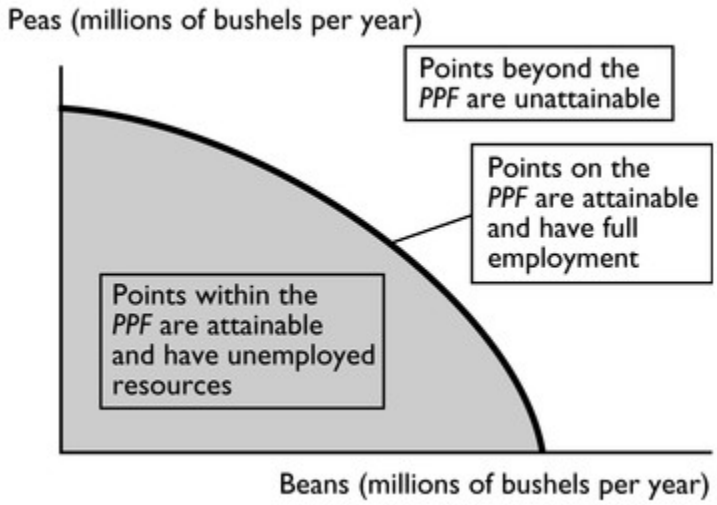
13) Draw a production possibilities frontier between beans and peas. Label the unattainable points, the attainable points with fully employed resources, and the attainable points with unemployed resources.
Answer:



The production possibilities frontier, with the points labeled, is above. Any point beyond the production possibilities frontier is unattainable. Any point on the production possibilities frontier is attainable and resources are fully employed. Finally, any point within the production possibilities frontier is attainable and has unemployed resources.
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
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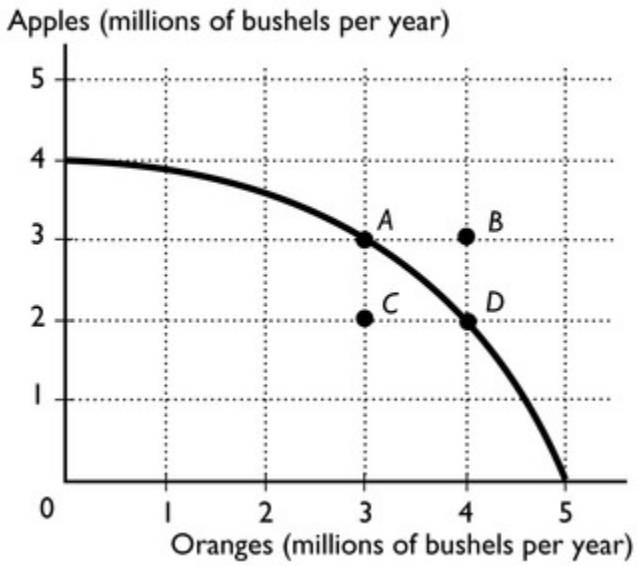

14) The figure above shows a nation's production possibilities frontier for apples and oranges.
a. What combination of goods is represented by poin*t A*?
b. What combination of goods is represented by point *B*?
c. Which point represents an unattainable combination of goods?
d. The movement from point *C* to point *D* results in a free lunch. What is the free lunch?
Answer:
a. 3 million bushels of apples and 3 million bushels of oranges
b. 3 million bushels of apples and 4 million bushels of oranges
c. Point B is an unattainable point.
d. The movement from point *C* to point *D* results in an increase of 1 million bushels of oranges with no decrease in apples. Therefore the 1 million bushels of oranges are a free lunch.
Topic: Production possibilities frontier
Skill: Level 1: Definition
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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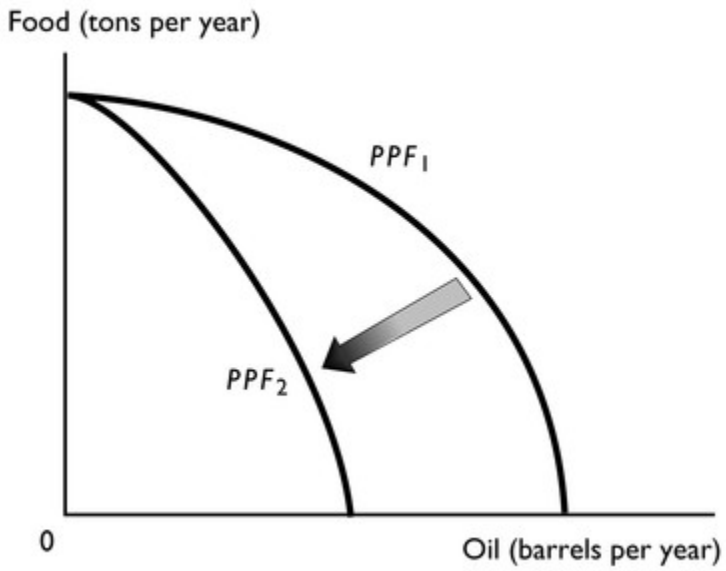
15) Before the first Gulf War, Kuwait had the capacity to produce a certain amount of oil from its oil wells. After the war, it found that capacity greatly diminished because the oil wells were on fire. Draw Kuwait's *PPF* before and after the war, assuming that the only two goods produced are oil and food. Further assume that setting the oil wells on fire did not affect Kuwait's ability to produce food. Explain why the *PPF* before the war is different from the *PPF* after the war.
Answer:



When a *PPF* is drawn, we draw it for a fixed amount of natural resources, along with fixed amounts of the other factors of production such as labor, capital, etc. Fire reduced Kuwait's natural resources temporarily, so the *PPF* after the war shifted inwards. However, because setting the oil wells on fire did not affect Kuwait's ability to produce food, the maximum amount of food production, the point where the *PPF* intersects the vertical axis, did not change.
Topic: Production possibilities frontier
Skill: Level 4: Applying models
Section: Checkpoint 3.1
Status: Old
AACSB: Analytic skills

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3.8 Essay: Opportunity Cost

1) Moving on a bowed out *PPF*, what happens to the opportunity cost of its production as a nation specializes more in one product?
Answer: The bowed out *PPF* indicates that as the amount of the good produced increases, the good's opportunity cost increases.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Reflective thinking

2) Why is the production possibilities frontier bowed out?
Answer: The production possibilities frontier is bowed out because resources are not equally productive in all uses. The resources used to produce robots are different from the resources used to produce pizzas. Thus, as more of one good is produced, say robots, less productive resources must be used to increase the number of robots produced. Hence the opportunity cost of the additional robots increases, which gives the production possibilities frontier a bowed out shape.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Written and oral communication

3) Why does the production possibilities frontier have a bowed out shape rather than being a straight line?
Answer: The fact that as the production of one good or service increases, its opportunity cost increases means that the production possibilities frontier will be bowed out. Only if the opportunity cost remained constant as the production of a good increases would the production possibilities frontier be a straight line.
Topic: Increasing opportunity costs
Skill: Level 4: Applying models
Section: Checkpoint 3.2
Status: Old
AACSB: Written and oral communication

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4) When economists state that the opportunity cost of a product increases as more of it is produced, what do they mean? For instance, what is the opportunity cost? And, where in a *PPF* diagram does this statement apply and where does it not apply?
Answer: In general, the opportunity cost of increasing the production of one good or service is the forgone production of another good or service. The statement that the opportunity cost of a product increases as more of it is produced applies to production points on the production possibilities frontier. On the production possibilities frontier, resources are fully employed. Hence to increase the production of one good or service, resources must be switched away from the production of another good or service and hence the production of that good or service decreases. And, as more of the first good or service is produced, the opportunity cost of an additional unit becomes larger, so that the opportunity cost increases. However, the assertion that the opportunity cost of a product increases as more of it is produced does not apply to production points within the production possibilities frontier. Production points within the production possibilities frontier are points at which there are resources being used inefficiently. From a production point with inefficiently used resources, to increase the production of a good, some of the resources can be used efficiently and so there is no opportunity cost in terms of forgone other products. Therefore from a point within the production possibilities frontier, the opportunity cost of increasing the production of a good is zero.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
AACSB: Written and oral communication

5) What is the relationship between the bowed out shape of the production possibilities frontier and the increasing opportunity cost of a good as more of it is produced?
Answer: The production possibilities frontier is bowed out because the opportunity cost of a good increases as more of it is produced. As the first unit of the good measured along the horizontal axis is produced, resources that are extremely well suited for its production can be used. Because of the suitability, not many resources need to be devoted to its production, so the opportunity cost-the decrease in the production of the good measured along the vertical axis-is not large. Hence at this location along the production possibilities frontier, the slope of the production possibilities frontier is shallow. But, as more of the product is produced, resources that are not as well suited must be devoted to its production. Consider one of the last units of this good, just before the production possibilities frontier intersects the horizontal axis. By the time the nation produces this much of the product, to produce one more unit means that resources that are extremely poorly suited in its manufacture must be used. Because these resources are not well suited, a lot of them must be used and, because a lot of them must be used, the opportunity cost in terms of the forgone other good is large. With the large decrease in the production of the good along the vertical axis, the slope of the production possibilities frontier at this location is steep. So, the production possibilities frontier goes from having a shallow slope to a steep one, that is, the production possibilities frontier is bowed outward.
Topic: Increasing opportunity costs
Skill: Level 2: Using definitions
Section: Checkpoint 3.2
Status: Old
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Production point	Milk (gallons)		Shirts (numbers)
A	0	and	100
B	2	and	90
C	4	and	70
D	6	and	40
E	8	and	0

6) A (very, very small) country produces milk and shirts and its production possibilities frontier is in the table above.
a. The nation is currently producing at point *B*. What is the opportunity cost of two additional gallons of milk? At point *C*? At point *D*? What do your results show?
b. Suppose the nation is initially producing 4 gallons of milk and 40 shirts. What is the opportunity cost of 2 additional gallons of milk? Explain your answer.
Answer:
a. At point *B*, the opportunity cost of 2 additional gallons of milk is 20 shirts. At point *C*, the opportunity cost of 2 additional gallons of milk at 30 shirts. At point *D*, the opportunity cost of 2 additional gallons of milk is 40 shirts. The opportunity cost of 2 additional gallons of milk increases as more milk is produced.
b. Producing 4 gallons of milk and 40 shirts means that the nation is producing at a point within the interior of its production possibilities frontier. Hence the opportunity cost of producing an additional 2 gallons of milk is 0. The opportunity cost is 0 because at a production point in the interior of the production possibilities frontier there are unemployed resources. These unemployed resources can be put to work producing the additional 2 gallons of milk. Because they were not producing anything previously, there is no decrease in the production of shirts and hence no opportunity cost.
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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Production point	Pages typed		Web pages created
A	0	and	4
B	40	and	3
C	70	and	2
D	90	and	1
E	100	and	0

7) Jean can either type her term paper or create Web pages during the limited time she has available. The table above shows her *PPF*.
a. Can Jean type 90 pages and create 2 Web pages?
b. Use the above numbers to calculate the opportunity cost of a typed page as she increases her time typing and decreases time creating a Web page.
Answer:
a. Jean cannot type 90 pages and create 2 Web pages because, as row *D* shows, that combination is beyond her *PPF*.
b. The opportunity cost is the ratio of the decrease in the number of Web pages divided by the increase in the number of typed pages. The following table gives the opportunity cost for typed pages.

Movement from	Increase in typed pages	Decrease in Web pages	Opportunity cost
A to *B*	40	1	1/40
B to *C*	30	1	1/30
C to *D*	20	1	1/20
D to *E*	10	1	1/10

Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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Production point	Wheat (bushels)		Soybeans (bushels)
A	1,500	and	0
B	1,000	and	2,250
C	500	and	3,500
D	0	and	4,000

8) The table above gives the production possibilities frontier for a nation that produces wheat and soybeans. Use the information in that table to complete the table below, which has in it the opportunity costs of moving from one production point to another. Do not forget to note the units of the opportunity costs.

Movement from	Opportunity cost	Movement from	Opportunity cost
A to *B*		*D* to *C*	
B to *C*		*C* to *B*	
C to *D*		*B* to *A*	

Answer:

Movement from	Opportunity cost (bushels of soybeans per bushel of wheat)	Movement from	Opportunity cost (bushels of wheat per bushel of soybeans)
A to *B*	0.22	*D* to *C*	1.00
B to *C*	0.40	*C* to *B*	2.50
C to *D*	1.00	*B* to *A*	4.50

The table above gives the opportunity costs. The units of the opportunity costs are in the column headings.
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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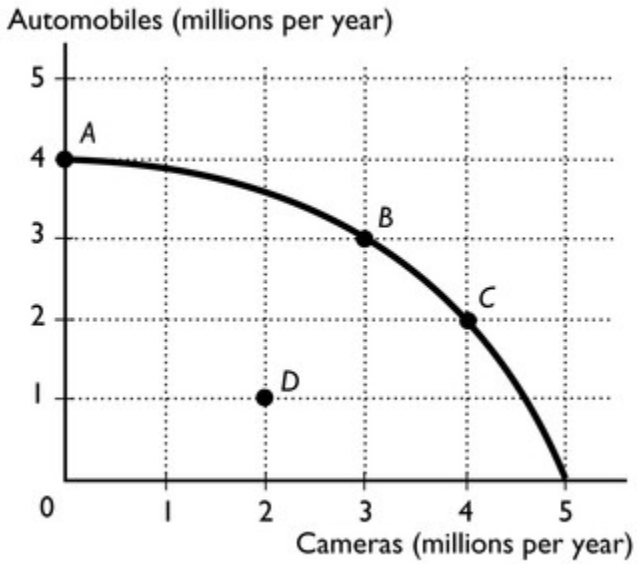

9) The figure above represents the production possibilities frontier for a country.
a. The nation is currently producing at point *B* and wants to move to point *C*. What is the opportunity cost of the move?
b. The nation is currently producing at point *B* and wants to move to point *A*. What is the opportunity cost of the move?
c. The nation is currently producing at point *D* and wants to move to point *B*. What is the opportunity cost of the move?
Answer:
a. By moving from point *B* to point *C*, the production of automobiles decreases by 1 million, from 3 million to 2 million. The 1 million decrease in automobiles is the opportunity cost of the movement.
b. By moving from point *B* to point *A*, the production of cameras decreases by 3 million, from 3 million to 0 million. The 3 million decrease in cameras is the opportunity cost of the movement.
c. By moving from point *D* to point *B* the nation gains 1 million additional cameras and also gains 2 million additional automobiles. The opportunity cost of this movement is zero, because there are no goods forgone. No goods are forgone because the nation is moving from a point with inefficiently used resources, point *D*, to one at which resources are efficiently utilized, point *B*.
Topic: Opportunity cost
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

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Production point	Beef (pounds)		Wheat (bushels)
A	0	and	9
B	2	and	7
C	4	and	4
D	6	and	0

10) The table above presents the production possibilities of Farmer Brown. Use these data to calculate Farmer Brown's opportunity cost of additional beef as Farmer Brown moves from point *A* to *B* to *C* to *D*. Also use the data to calculate Farmer Brown's opportunity cost of additional wheat as Farmer Brown moves from point *D* to *C* to *B* to *A*. Based on these costs, does Farmer Brown use resources that are more productive in one activity than the other or are they equally productive in both uses? Explain your answer.
Answer: The opportunity cost of a pound of beef is 1 bushel of wheat between points *A* and *B*, 1 1/2 bushels of wheat between points *B* and *C*, and 2 bushels of wheat between points *C* and *D*. The opportunity cost of a bushel of wheat is 1/2 pound of beef between points *D* and *C*, 2/3 pound of beef between points *C* and *B*, and 1 pound of beef between points *B* and *A*. Farmer Brown does use resources that are more productive in one activity than the other because the opportunity costs of producing beef and wheat increase as more beef and wheat are produced. If the resources were equally productive in both activities, the opportunity costs would be constant.
Topic: Increasing opportunity costs
Skill: Level 3: Using models
Section: Checkpoint 3.2
Status: Old
AACSB: Analytic skills

3.9 Essay: Economic Growth

1) How is economic growth shown in a production possibilities frontier graph?
Answer: Economic growth is illustrated as an outward shift of the *PPF*.
Topic: Economic growth
Skill: Level 2: Using definitions
Section: Checkpoint 3.3
Status: Old
AACSB: Reflective thinking

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3.10 Essay: Specialization and Trade

1) What is comparative advantage? Give an example.
Answer: Comparative advantage is the ability of a person to produce a good at a lower opportunity cost compared to another person. A lower opportunity cost means that the person gives up less to produce the good compared to another person. For example, one person may need to give up one hour of typing to get dinner made while another person must give up two hours of typing to produce the same dinner.
Topic: Comparative advantage
Skill: Level 1: Definition
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

2) "When a person has an absolute advantage in producing a good, the person necessarily has a lower opportunity cost of producing it." Is this assertion true or false?
Answer: The assertion is incorrect. An absolute advantage is when a person can produce more of the good than someone else. A comparative advantage relies on a comparison of opportunity costs, so a person has a comparative advantage in producing a good if the person can produce the good at a lower opportunity cost.
Topic: Comparative advantage versus absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

3) "When a person is more productive in producing a good or service than another person, the first person has the comparative advantage in producing the good." Is this assertion correct or incorrect? Explain your answer.
Answer: The assertion is incorrect. The statement describes an absolute advantage, that is, a person has an absolute advantage in the production of a good if the person can produce more of it in a given time period than someone else. Comparative advantage, however, relies on a comparison of opportunity costs. A person has a comparative advantage in producing a good if the person can produce the good at a lower opportunity cost than another person.
Topic: Comparative advantage versus absolute advantage
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

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4) Why is it likely that the United States has an absolute advantage in goods and yet it still ends up importing them from other countries?
Answer: The United States might have an absolute advantage in producing a good but not a comparative advantage. In this case, the opportunity cost of producing the good in the United States is higher than in another country. Thus the United States will import the product from the other country.
Topic: Comparative advantage versus absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

5) The United States has an absolute advantage in producing sugar over all of the other sugar producing countries. Does this fact mean that we should not import any sugar from the other countries?
Answer: Having an absolute advantage doesn't mean that the United States should engage in the production of sugar. If the opportunity cost of sugar in the United States is higher than in the other countries, then the other countries will have the comparative advantage. The countries with the comparative advantage are the ones that should do the producing. Quite likely these other nations have the comparative advantage and so it would be good policy for the United States to import sugar from these nations.
Topic: Comparative advantage versus absolute advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

6) Japan can use all of its resources to produce 100 videos or 400 shoes. China can use all of its resources to produce 25 videos or 200 shoes. Which nation has the comparative advantage in shoes and which nation has the comparative advantage in videos?
Answer: In Japan, the opportunity cost of producing a video is 4 shoes and in China it is 8 shoes. Therefore Japan has the comparative advantage in producing videos because its opportunity cost is lower. In Japan, the opportunity cost of producing a shoe is 1/4 of a video and in China the opportunity cost of producing a shoe is 1/8 of a video. China has the comparative advantage in producing shoes because its opportunity cost is lower.
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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7) The United States can use all of its resources to produce 50 computers or 4,000 shoes. Suppose that at world market prices, one computer exchanges for 100 shoes. Explain how the United States can gain from trade.
Answer: In the United States, the opportunity cost to produce 1 computer is 80 pairs of shoes. The United States can then sell the computers on the world market for 100 shoes each and thereby be ahead by 20 shoes per computer.
Topic: Comparative advantage
Skill: Level 4: Applying models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

China's production in 1 hour		Pakistan's production in 1 hour	
Cloth	8	Cloth	4
Cheese	16	Cheese	12

8) The table above shows the amounts of cloth and cheese that China and Pakistan can produce in an hour. Which country has the comparative advantage in cloth and which country has the comparative advantage in cheese?
Answer: In China, to produce 8 cloths has an opportunity cost of 16 cheeses, so the opportunity cost of 1 cloth is (16 cheese)/(8 cloths) = 2 cheeses per cloth. In Pakistan, to produce 4 cloths has an opportunity cost of 12 cheeses. Hence the opportunity cost of 1 cloth is (12 cheeses)/(4 cloths) or 3 cheeses per cloth. Because China's opportunity cost of a cloth is lower, China has the comparative advantage in producing cloth.

In China, to produce 16 cheeses has an opportunity cost of 8 cloths, so the opportunity cost of 1 cheese is (8 cloths)/(16 cheeses) = 1/2 cloth per cheese. In Pakistan, to produce 12 cheeses has an opportunity cost of 4 cloths. Hence the opportunity cost of 1 cheese is (4 cloths)/(12 cheeses) or 1/3 cloth per cheese. Because Pakistan's opportunity cost of a cheese is lower, Pakistan has the comparative advantage in producing cheese.
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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Omar's production in 1 day		John's production in 1 day	
Computers fixed	12	Computers fixed	4
Lines of code	800	Lines of code	200

9) Omar and John can fix computers or write computer programs. The table above shows the number of computers they can fix and the lines of code they can write in a day.

a. Who, if anyone, has the absolute advantage?
b. Who has the comparative advantage in fixing computers? Why?
c. Who has the comparative advantage in writing programs? Why?

Answer:

a. Omar has an absolute advantage in fixing computers and writing code because he can fix 12 per day compared to John who can fix only 4 per day, and can write 800 lines of code per day compared to John who can write only 200 lines a day.

b. John has the comparative advantage in fixing computers. He has the comparative advantage because his opportunity cost of fixing one computer is 50 lines of computer code. Omar does not have a comparative advantage in fixing computers because his opportunity cost of fixing a computer is higher at 66.7 lines of code.

c. Omar has the comparative advantage in writing programs. His opportunity cost of writing one line of code is .015 of a computer fixed. John does not have the comparative advantage in writing programs because his opportunity cost of writing one line of code is 0.02 computers fixed. (Alternatively, to write 1 line of code costs Omar the opportunity to repair 1.5 percent of a computer and costs John the opportunity to repair 2.0 percent of a computer.)

Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
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Nation A's production in 1 day		Nation B's production in 1 day	
Computers	100	Computers	120
Software	140	Software	150

10) Two nations can produce computers and software in the amounts given in the table above. Does either nation have an absolute advantage in producing the products? Which nation has a comparative advantage in computers? Which nation has a comparative advantage in software? Explain your answers.
Answer: Nation B has an absolute advantage in producing both goods because it can produce more of both in one day than can Nation A. Nation B has the comparative advantage in computer production and Nation A has the comparative advantage in software. The nation with the lowest opportunity cost of producing a good has the comparative advantage in that good. In Nation A, to produce 100 computers has the opportunity cost of 140 units of software forgone, so the opportunity cost of 1 computer equals (140 units of software)/(100 computers) = 1.4 units of software per computer. In Nation B, similar calculations show that the opportunity cost for a computer is 1.25 units of software per computer. Nation B's opportunity cost is lower, so Nation B has the comparative advantage in computers. For software, in Nation A the opportunity cost of a unit of software is (100 computers)/(140 units of software) = 0.71 computers per unit of software while in Nation B the opportunity cost is (120 computers)/(150 units of software) = 0.80 computers per unit of software. Nation A's opportunity cost is lower, so Nation A has the comparative advantage in software.
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
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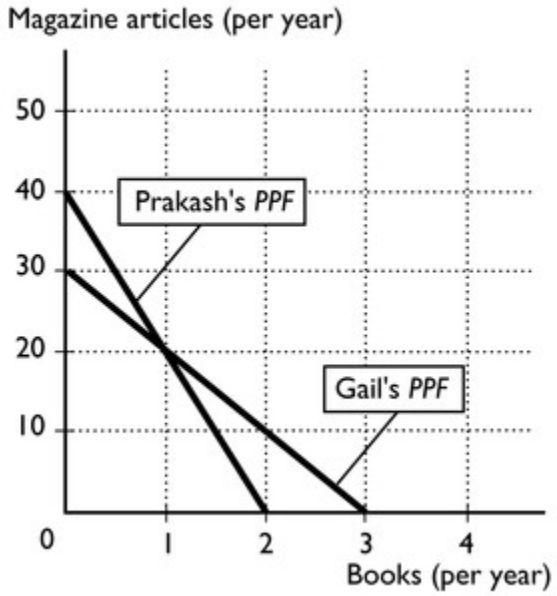

11) The figure above shows Prakash's and Gail's production possibilities frontiers for writing books and magazine articles.
a. What is Prakash's opportunity cost of a book? What is Gail's opportunity cost? Who has the comparative advantage in writing books?
b. Who has the comparative advantage in writing magazine articles?
c. According to their comparative advantages, who should write books and who should write magazine articles?
Answer:
a. In a year, Prakash can write 2 books or 40 magazine articles. Hence the opportunity cost of 1 book is (40 magazine articles) ÷ (2 books) = 20 magazine articles per book. In a year, Gail can write 3 books or 30 magazine articles. Hence the opportunity cost of 1 book is (30 magazine articles) ÷ (3 books) = 10 magazine articles per book. Gail's opportunity cost of writing books is lower than Prakash's, so Gail has the comparative advantage in writing books.
b. Prakash has the comparative advantage in writing magazine articles.
c. Gail has the comparative advantage in writing books, so she should write books. Prakash has the comparative advantage in writing magazine articles, so he should write magazine articles.
Topic: Comparative advantage
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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12) "When countries specialize in producing the good in which they have a comparative advantage and then trade with each other, only the country with the absolute advantage gains." Is the previous statement correct or incorrect? Briefly explain your answer.
Answer: The statement is incorrect. Absolute advantage, which is essentially the ability to produce more of a good than another country, has nothing to do with the gains from trade. All nations gain from free international trade regardless of whether they possess an absolute advantage or not.
Topic: Gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

13) "Because the United States is the largest economy in the world and can produce anything it needs domestically, there are no gains from trade for the United States." Is the previous statement correct or incorrect?
Answer: The statement is incorrect. The United States, like any other nation, gains from trade when it specializes according to comparative advantage.
Topic: Gains from trade
Skill: Level 2: Using definitions
Section: Checkpoint 3.4
Status: Old
AACSB: Reflective thinking

14) How can a nation that is at an absolute <u>DISADVANTAGE</u> gain from trade?
Answer: Being at an absolute disadvantage means that the nation can produce less than its trading partner, but it says nothing about the relative costs of producing the goods. International trade is based on comparative advantage, which means that the low-cost producer specializes in the production of a good and exports it to the other nation that has the higher cost of production. A nation that has an absolute disadvantage still has a lower opportunity cost of production for one of the goods and hence has the comparative advantage in the production of that good. Therefore this country will gain from trade, as will all its trading partners.
Topic: Gains from trade
Skill: Level 4: Applying models
Section: Checkpoint 3.4
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15) Why do nations engage in international trade?
Answer: Nations engage in international trade because they gain from trade. International trade results in a more efficient use of resources and thereby increases world output. As a result, it increases the amount of goods and services available for consumption in all nations and thereby makes all countries better off.
Topic: Gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Written and oral communication

16) Explain why specialization and trade increases a country's overall level of consumption.
Answer: A country specializes in the activities in which it has the lowest opportunity cost. By trading, it can obtain goods and services at a lower opportunity cost than it would cost to produce the goods and services domestically. Hence the nation acquires goods and services at a lower cost than before and so the nation's consumption increases. In fact, trade allows the nation to consume at a point beyond its production possibilities frontier.
Topic: Gains from trade
Skill: Level 3: Using models
Section: Checkpoint 3.4
Status: Old
AACSB: Analytic skills

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