Macroeconomics 2nd edition Karlan Test Bank

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Chapter 02 Test Bank

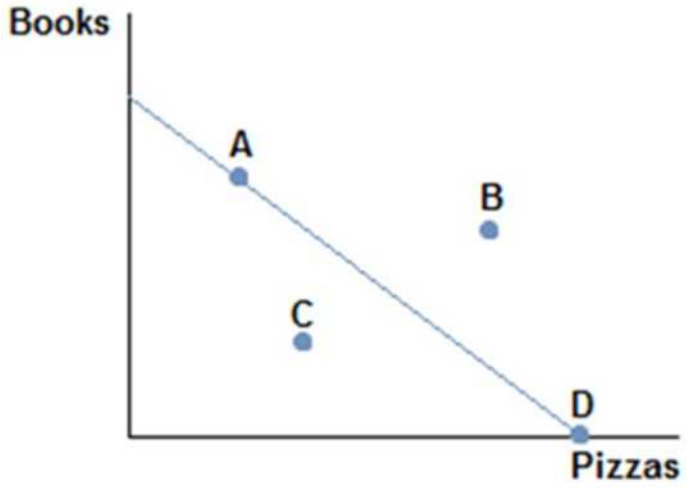
Student: _____

1. The invisible hand refers to the coordination that occurs from:
A. everyone working in his or her own self-interest.
B. a government agency finding efficiencies.
C. everyone working for the overall good of society.
D. a government coordinating economic activity.

2. The concepts of specialization and gains from trade can be applied to:
A. international trade.
B. why globalization has expanded recently.
C. consumer decisions.
D. household decisions.

3. The concept of the invisible hand was first introduced to economics by:
A. David Ricardo.
B. Adam Smith.
C. Thomas Malthus.
D. Milton Friedman.

4. A production possibilities frontier is a line or curve that:
A. shows all the possible combinations of outputs that can be produced using all available resources.
B. shows what can be produced when all available resources are efficiently used.
C. shows the best combinations of outputs that can be produced using all available resources.
D. explains why societies make the choices they do.



5.

Consider the production possibilities frontier displayed in the figure shown. The fact that the line slopes downward displays which economic concept?
A. Production possibilities
B. Trade-offs

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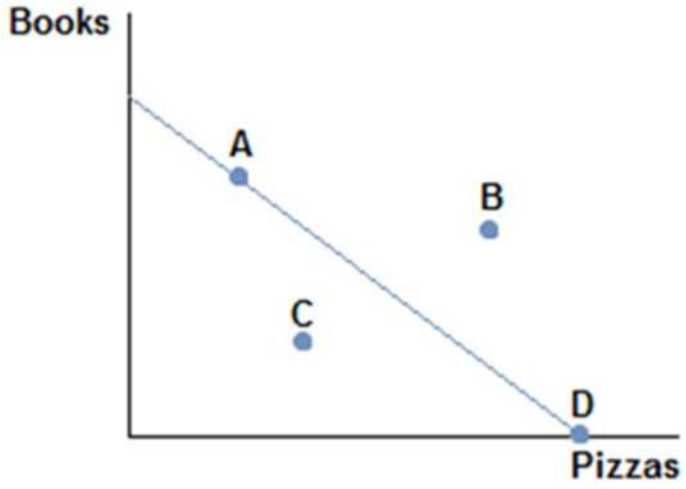
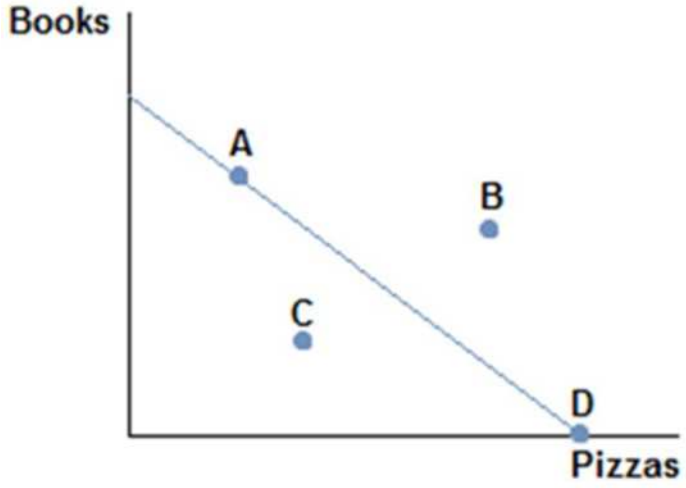
C. Specialization
D. Efficiency



6.

Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve could choose to produce:
A. A, B, or D.
B. A, B, or C.
C. A, D, or C.
D. B, C, or D.



7.

Consider the production possibilities frontier displayed in the figure shown. Which points are efficient and attainable with existing resources?
A. Only point B.
B. Only point A.
C. Points A and D.
D. Points A, C, and D.

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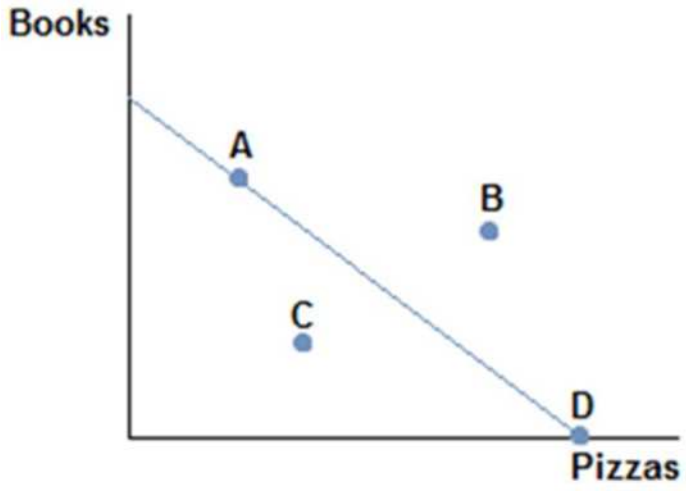
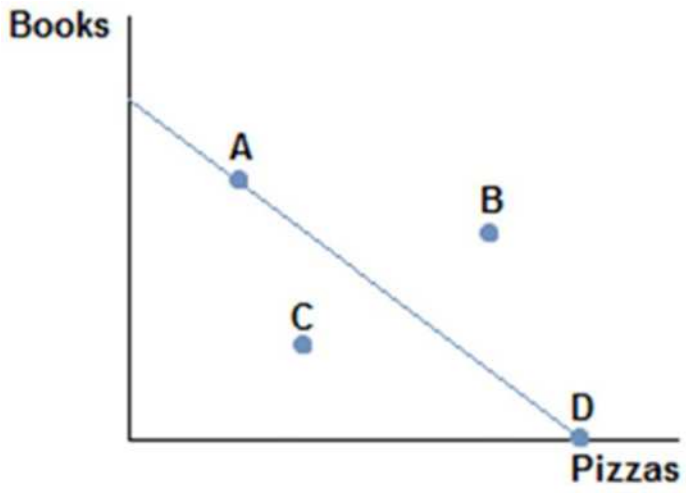


8.

Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve currently:

A. cannot obtain point B.
B. can only obtain point C.
C. can only obtain point D or point A.
D. cannot obtain point C.



9.

Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true?

A. Producing at point D would be inefficient.
B. Producing at point C would be inefficient.
C. Producing at point B would be inefficient.
D. Producing at point A would be inefficient.

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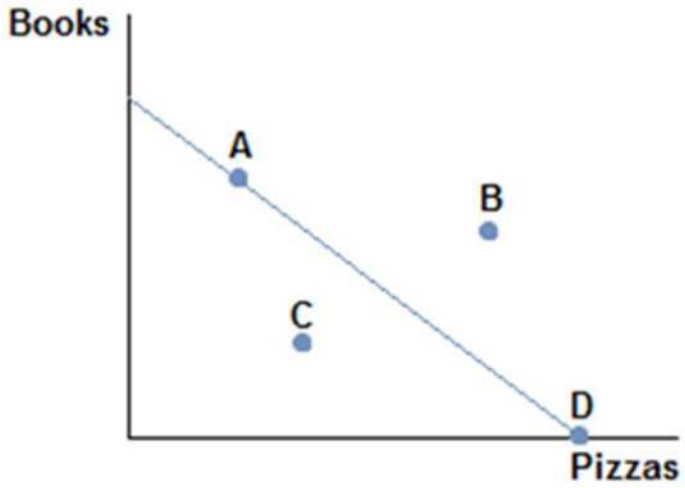
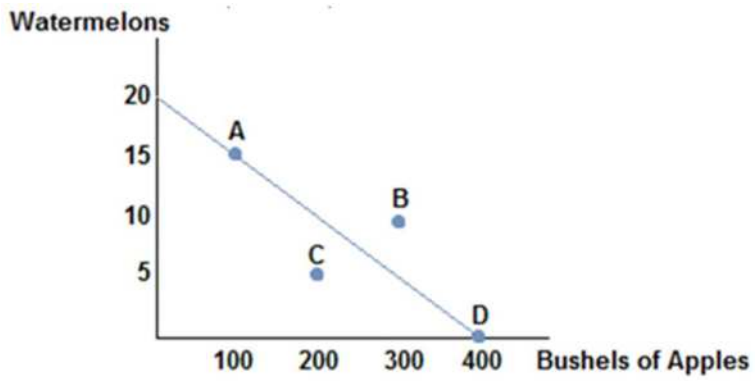


10.

Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is currently true?
A. Producing at point A is the best choice, because some of both items are made.
B. Producing at point D would be inefficient, since no books would be produced.
C. Producing at point C is the best choice, because it's closest to the middle.
D. Producing at point B is impossible.

11. The slope of a production possibilities frontier measures:
A. the opportunity cost of producing one good in terms of the other good.
B. the trade-off in the consumptionof one good versus the other good
C. how much of the resources must be used in order to produce one the goods.
D. inefficient production of a good.



12.

Consider the production possibilities frontier displayed in the figure shown. A society should choose to produce:
A. at point C because it is the safest.
B. at point B because it represents the most the society can produce.
C. at any point that produce some of each good.
D. at any point on the frontier rather than inside it.

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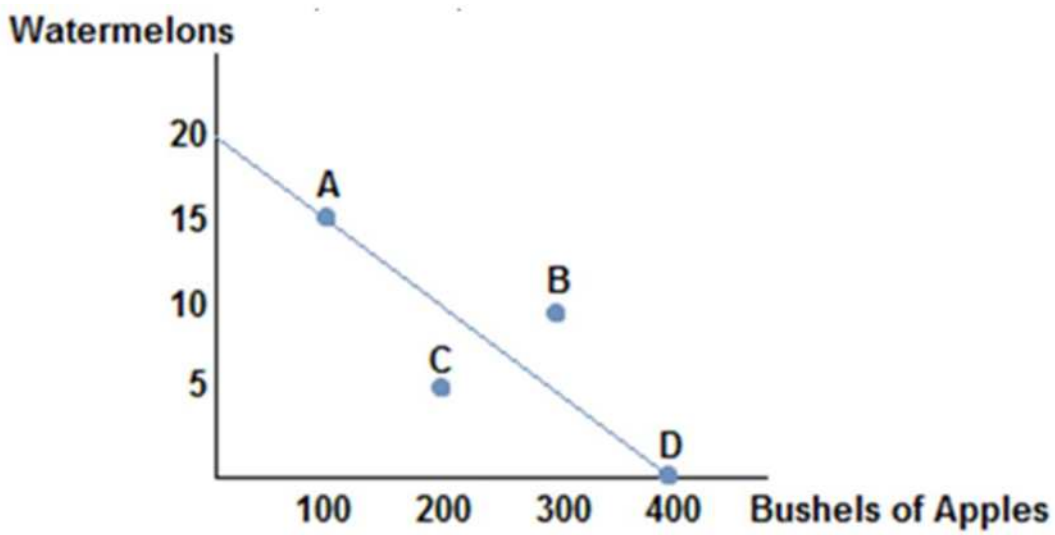
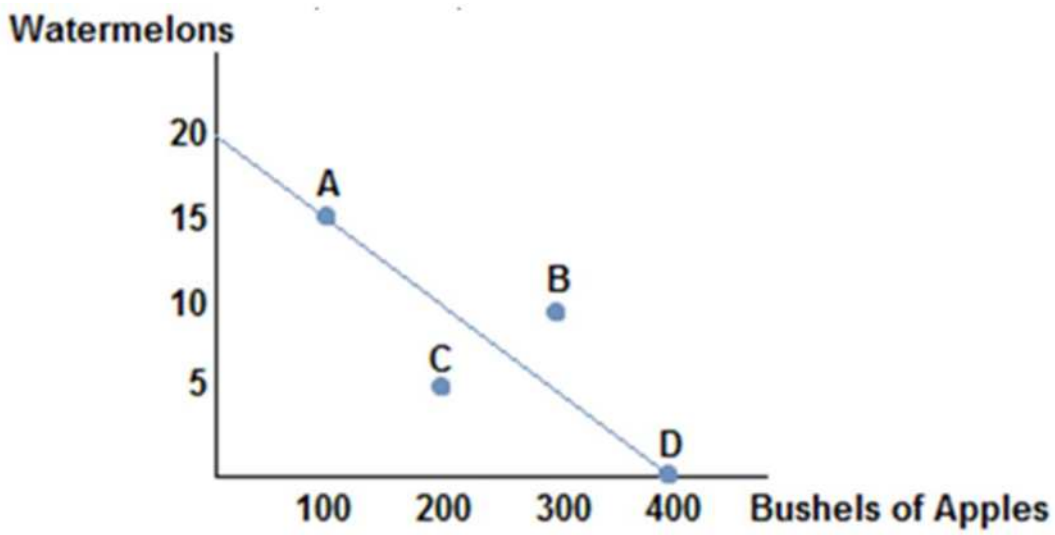
13. 

Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of a bushel of apples is:
A. 3/20 watermelons.
B. 1/20 watermelons.
C. 1/40 watermelons.
D. 1/30 watermelons.

14. 

Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of one watermelon is:
A. 10 bushels of apples.
B. 20 bushels of apples.
C. 30 bushels of apples.
D. 40 bushels of apples.

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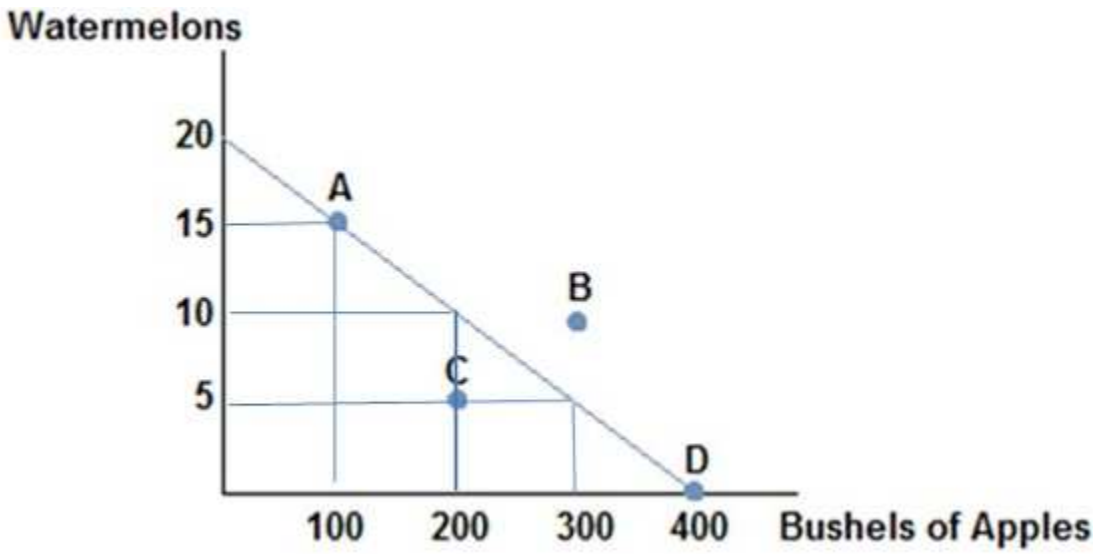
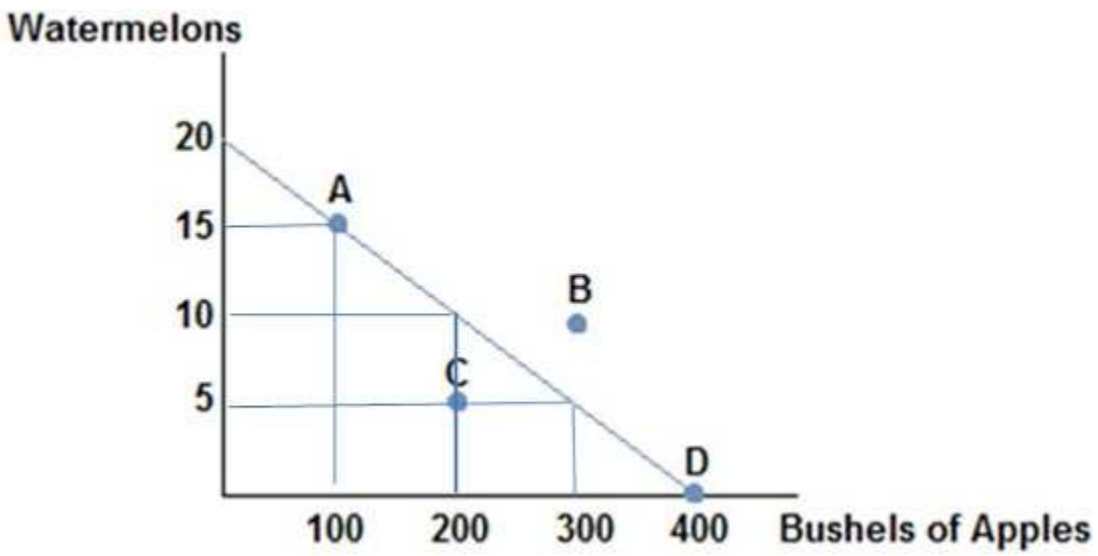


15.

Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 200 bushels of apples it can produce no more than:
A. 20 watermelons.
B. 15 watermelons.
C. 10 watermelons.
D. 5 watermelons.



16.

Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could be produced?
A. (20 watermelons, 400 bushels of apples)
B. (15 watermelons, 100 bushels of apples)
C. (10 watermelons, 300 bushels of apples)
D. (10 watermelons, 400 bushels of apples)

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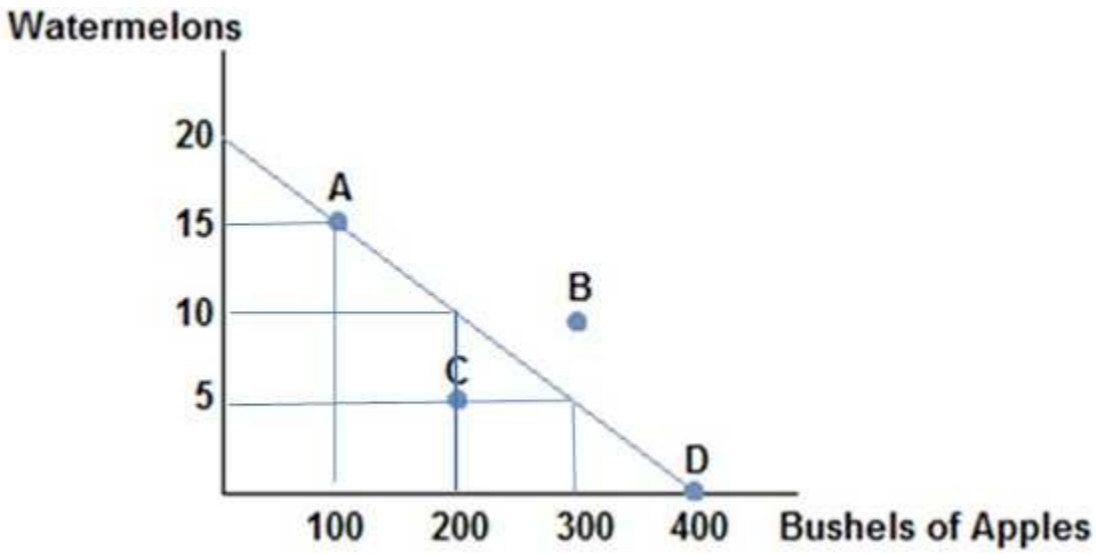
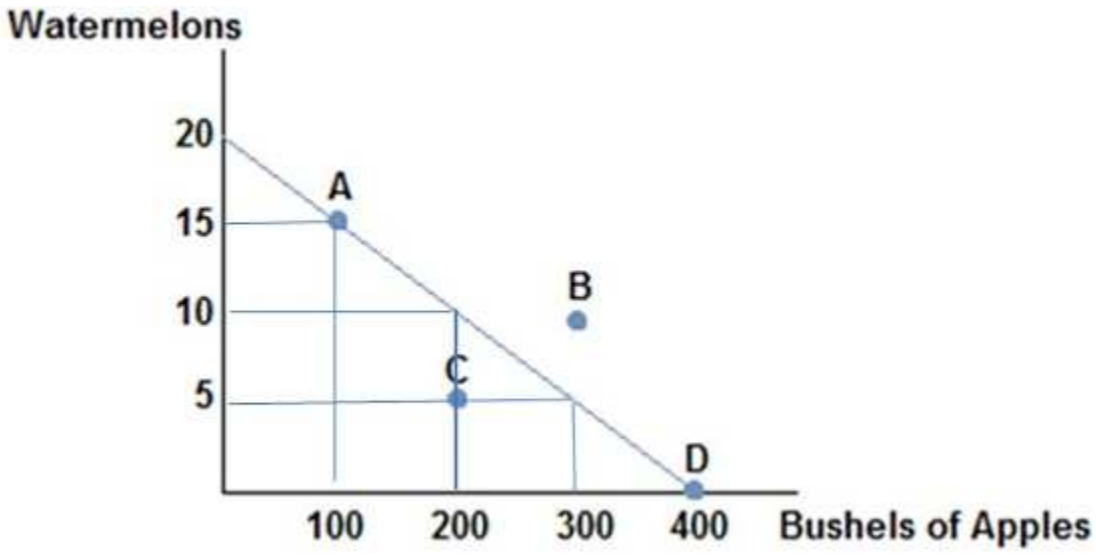


17.

Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could **not** be produced?

A. (20 watermelons, 400 bushels of apples)
B. (15 watermelons, 100 bushels of apples)
C. (10 watermelons, 150 bushels of apples)
D. (0 watermelons, 400 bushels of apples)



18.

Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 15 watermelons in can produce no more than:

A. 400 bushels of apples.
B. 300 bushels of apples.
C. 200 bushels of apples.
D. 100 bushels of apples.

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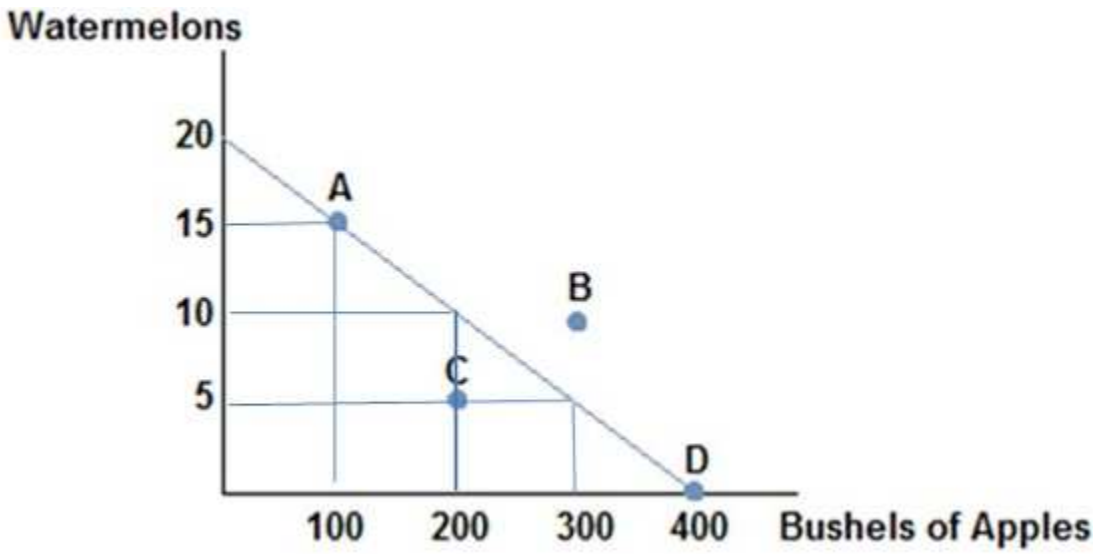
19. 

Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true? The opportunity cost of one watermelon:
A. will decrease as more watermelons are produced.
B. is constant.
C. will increase as more watermelons are produced.
D. is zero at point C.

20. If we consider the reality that each worker has different skills, then the production possibilities frontier would:
A. have a convex shape.
B. have a concave shape.
C. be a straight line.
D. shift outward.

21. If we consider the reality that each worker has different skills, then the production possibilities frontier
A. would display a constant opportunity cost of a good as more of that good is produced.
B. would display a decreasing opportunity cost of a good as more of that good is produced.
C. would display an increasing opportunity cost of a good as more of that good is produced.
D. cannot be drawn, as too many variables would need to be taken into consideration.

22. A realistic production possibilities curve:
A. is concave while a simple PPF has constant opportunity costs.
B. is straight lined while a simple PPFhas constant opportunity costs.
C. is straight lined while a simple PPF is bowed outward.
D. is concave while a simple PPFhas increasing opportunity costs.

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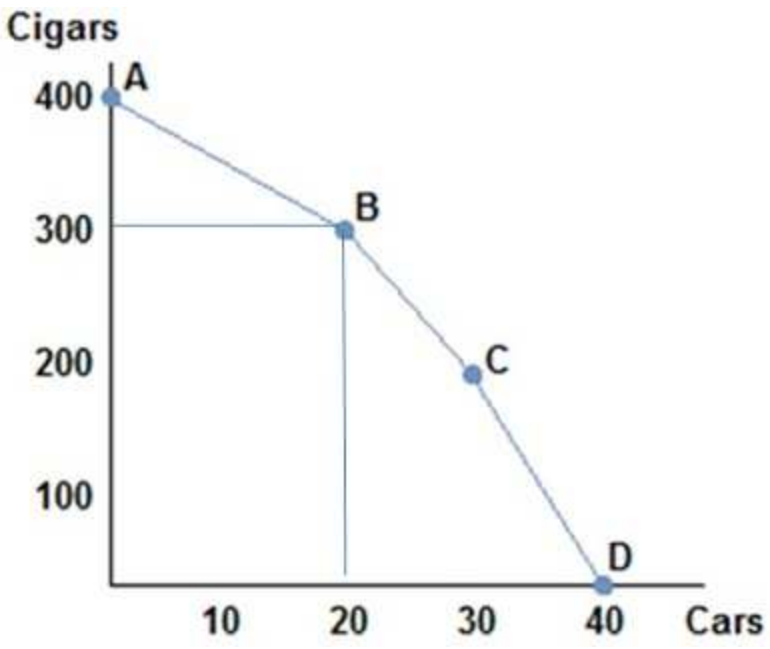
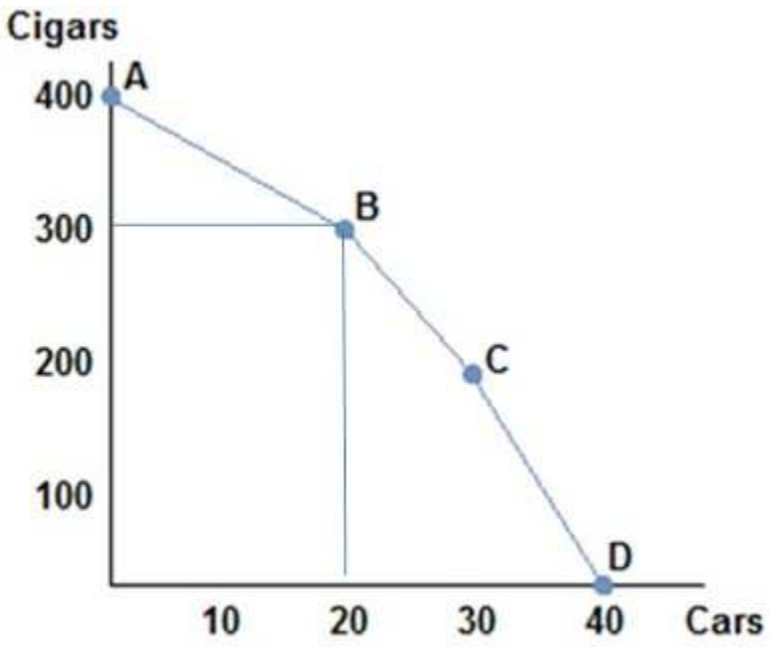


23.

Consider the production possibilities frontier in the figure shown. As more and more cars are produced the opportunity cost of producing more cars:
A. decreases.
B. stays the same.
C. increases.
D. decreases then increases.



24.

Consider the production possibilities frontier in the figure shown. As more and more cigars are produced the opportunity cost of producing more cigars:
A. decreases.

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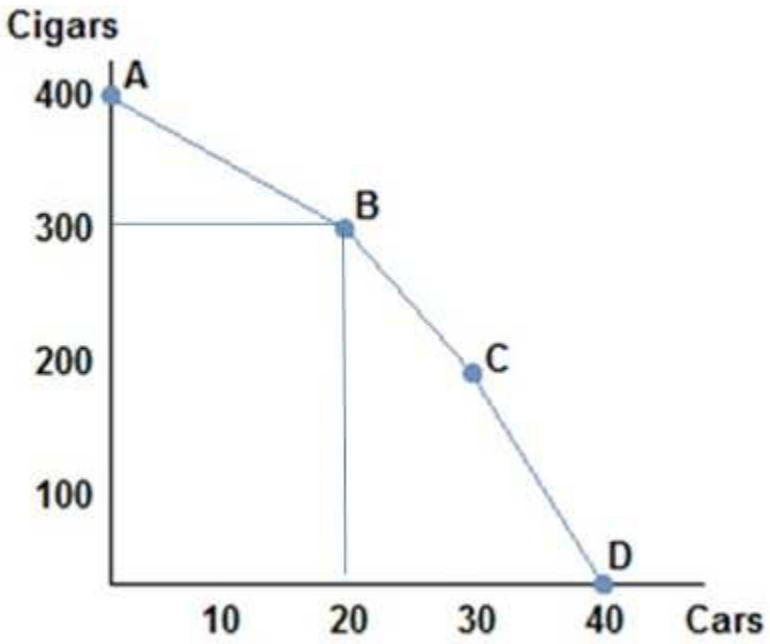
B. stays the same.
C. increases.
D. decreases then increases.



25.

Consider the production possibilities frontier in the figure shown. The opportunity cost of moving from point A to point B is:
A. 5 cars per cigar.
B. 10 cars per cigar.
C. 5 cigars per car.
D. 10 cigars per car.

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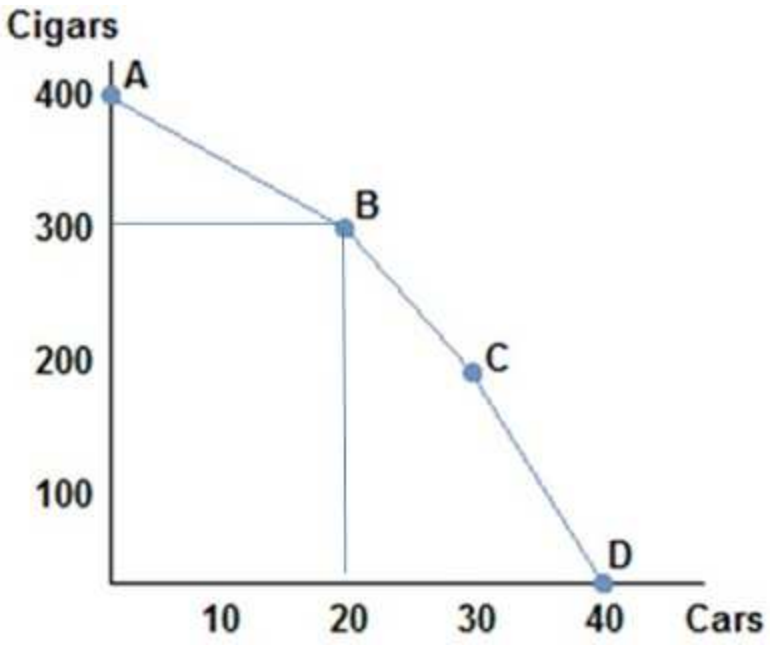
26.



Consider the production possibilities frontier in the figure shown. The opportunity cost of cars when moving from point B to point C:
A. is greater than the opportunity cost of cars when moving from point A to point B.
B. is less than the opportunity cost of cars when moving from point A to point B.
C. is greater than the opportunity cost of cars when moving between any other two points.
D. there is no opportunity cost when we move from B to C.

27. Choosing to produce at any point within a production possibilities frontier is:
A. inefficient, meaning the society would not be using all its available resources in their best possible uses.
B. efficient, meaning the society would be using all its available resources in their best possible uses.
C. unobtainable, meaning the society cannot produce that combination of goods.
D. efficient but not attainable.

28. The production possibilities frontier:
A. can show all possible combinations of goods but not tell us which combination society should choose.
B. can show the best combination of goods which society should choose.
C. cannot show all possible combinations of goods because society is typically inefficient.
D. can show us which possible combinations of goods society should choose, but cannot tell us which points will be inefficient.

29. If society were to experience an increase in its available resources its production possibilities frontier would:
A. shift out.
B. shift in.
C. not move.
D. become convex.

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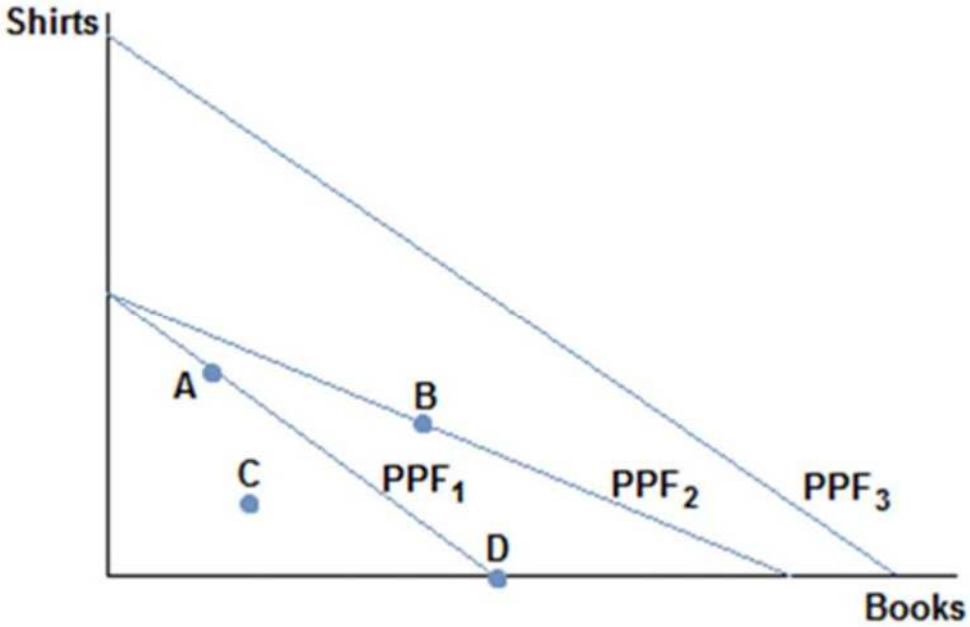
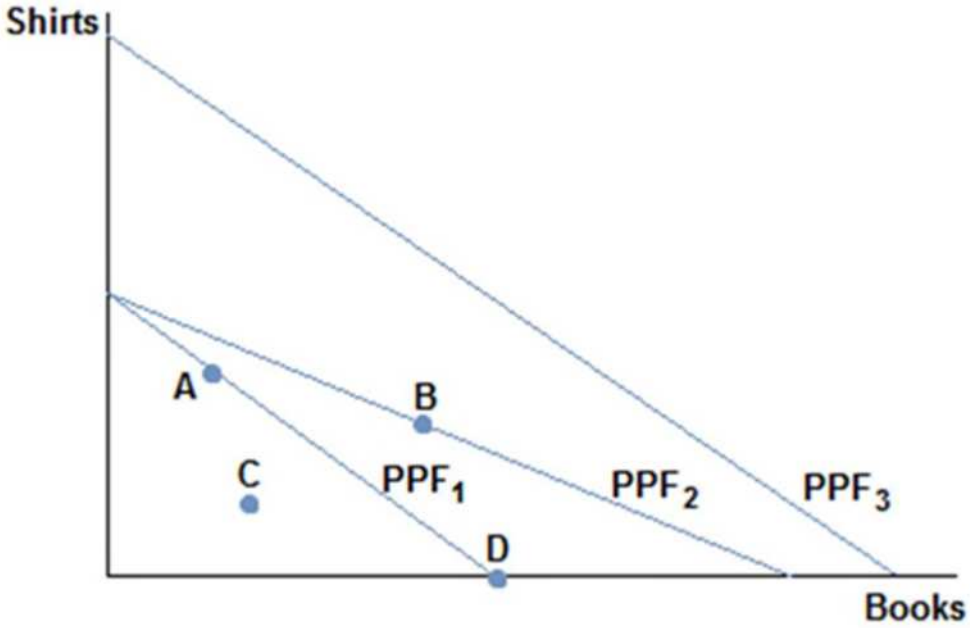


30.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_2?
A. More workers
B. Better printing press technology
C. A desire to read more books
D. Better sewing technology



31.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_3?
A. More workers

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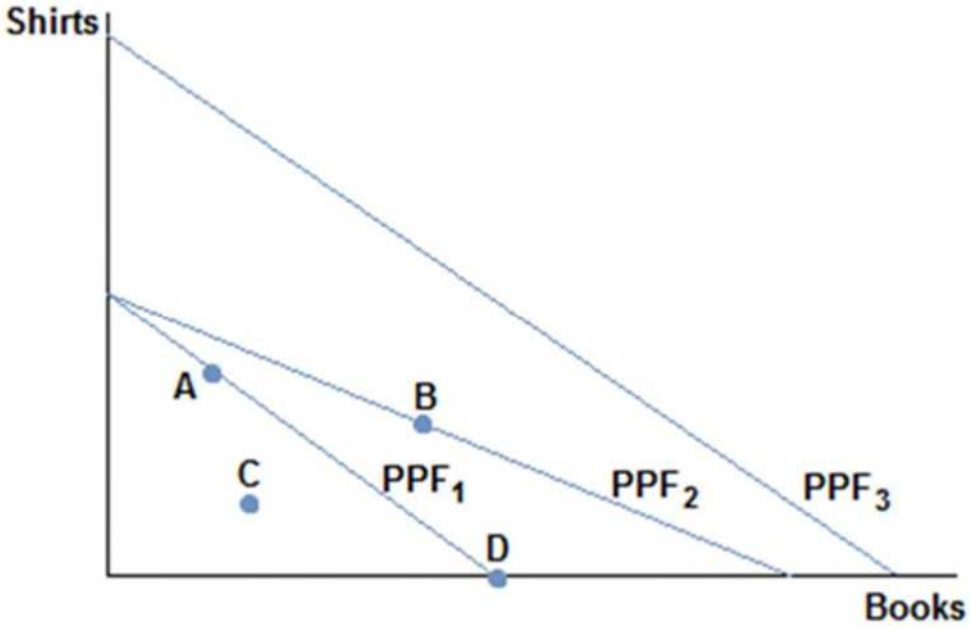
B. Better printing press technology
C. A desire to read more books
D. Better sewing technology



32.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_3 to PPF_1?
A. A tornado
B. More workers
C. A desire to read lessbooks
D. Better sewing technology

33. An increase in productivity as a result of a new technology would cause the production possibilities frontier to:
A. shift in.
B. shift out.
C. not move until society chooses to move it.
D. become more meaningful in policy decisions.

34. Hurricane Katrina destroyed much of New Orleans and other parts of the South. Which of the following statements is true? The hurricane:
A. caused the production possibilities frontier of the United States to shift in.
B. caused the production possibilities to increase, since it created a lot of work to rebuild the city affected areas.
C. caused the production possibilities frontier of the United States to shift.
D. didn't change the production possibilities frontier, but moved from a point on the frontier to a point inside the frontier.

35. When nations trade the result would most likely be:
A. increase in total production, which can benefit every nation involved.
B. increase in total production, which would benefit only the wealthier nation.
C. decrease in total production across nations but increases it for some.

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D. decrease in total production across all nations but benefits every nationbecause they are individually more productive.

36. When nations trade, it:
A. only benefits the stronger nation.
B. only benefits the weaker nation.
C. can benefit all nations involved.
D. can only benefit one nation, but we cannot say whichnation without more information.

37. Which of the following statements about trade is true?
A. Tradeinvolves a winner and a loser.
B. Trade often hurts both parties in the long run.
C. Trade is a zero sum proposition.
D. Trade can benefit both parties.

38. If a wealthy nation such as the United States trades with a poorer, less developed nation like Cambodia, then it is likely true that:
A. the United States is taking advantage of Cambodia and is the only beneficiary to the trade.
B. Cambodia is pressured to enter trade and not benefiting at all.
C. both the United States and Cambodia can benefit from trading.
D. the United States is being charitable and not benefiting from the trade at all.

39. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A. (1,000 iPods, 500 tablets).
B. (500 iPods, 500 tablets).
C. (500 iPods, 250 tablets).
D. (750 iPods, 150 tablets).

40. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. Which of the following statements is now true?
A. Country B's production possibilities curve has rotated out for only production of iPods.
B. Country B's production possibilities curve has shifted straight out.
C. Country B's production possibilities curve has shifted straight in.
D. Country B's production possibilities are now more limited because of crowding from having more workers.

41. When a producer is operating efficiently it is producing:
A. at a point on its production possibilities frontier.
B. at a point on or under its production possibilities frontier.
C. only one good.
D. the good in which it has an absolute advantage.

42. When a country is producing goods and services efficiently it:
A. is producing at a point on or below its production possibilities frontier.
B. is getting the most output by using all its available resources.
C. has unemployed workers.
D. is able to reach a point beyond its production possibilities frontier.

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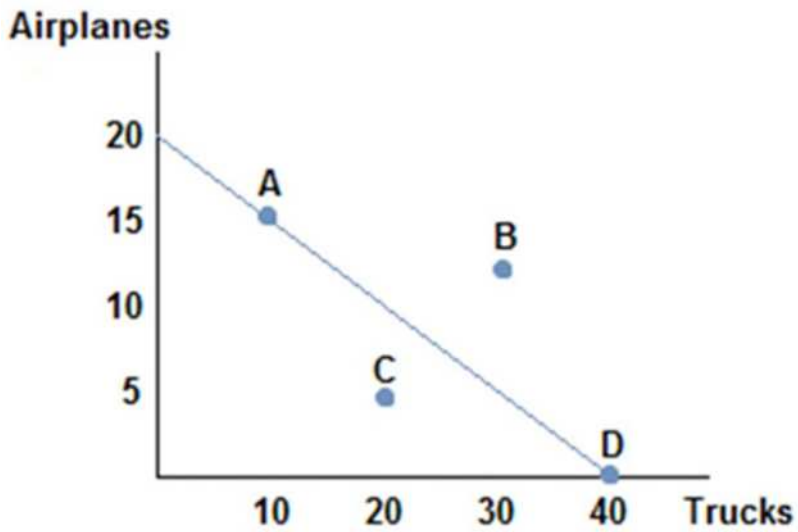
43. 

Suppose the figure shown represents the production possibilities frontier for Country A. Which of the following combinations of goods could Country A consume in the absence of trade?
A. (15 airplanes, 15 trucks)
B. (10 airplanes, 25 trucks)
C. (10 airplanes, 30 trucks)
D. (5 airplanes, 30 trucks)

44. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A. (500 iPods, 500 tablets).
B. (500 iPods, 400 tablets).
C. (500 iPods, 300 tablets).
D. (500 iPods, 200 tablets).

45. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could *not* make would be:
A. (500 iPods, 150 tablets).
B. (500 iPods, 200 tablets).
C. (500 iPods, 250 tablets).
D. (500 iPods, 300 tablets).

46. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A would be using resources efficiently if it produced:
A. (500 iPods, 100 tablets).
B. (500 iPods, 150 tablets).
C. (500 iPods, 200 tablets).
D. (500 iPods, 250 tablets).

47. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A. (400 iPods, 2,000 tablets).
B. (300 iPods, 500 tablets).

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C. (200 iPods, 1,500 tablets).
D. (100 iPods, 2,000 tablets).

48. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A. (400 iPods, 2,000 tablets).
B. (200 iPods, 1,500 tablets).
C. (300 iPods, 450 tablets).
D. (400 iPods, 1 tablet).

49. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could *not* make would be:
A. (400 iPods, 250 tablets).
B. (300 iPods, 500 tablets).
C. (200 iPods, 750 tablets).
D. (100 iPods, 1,000 tablets).

50. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B would be using resources efficiently if they were producing:
A. (200 iPods, 1,750 tablets).
B. (200 iPods, 1,500 tablets).
C. (200 iPods, 1,000 tablets).
D. (200 iPods, 750 tablets).

51. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country A could produce are:
A. (5,000 bananas, 1,000 tomatoes) and (1,000 bananas, 5,000 tomatoes)
B. (5,000 bananas, 0 tomatoes) and (2,500 bananas, 500 tomatoes)
C. (2,500 bananas, 500 tomatoes) and (1,250 bananas, 800 tomatoes)
D. (2,500 bananas, 750 tomatoes) and (1,250 bananas, 750 tomatoes)

52. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country B could produce are:
A. (7,200 bananas, 2,400 tomatoes) and (3,600 bananas, 1,200 tomatoes)
B. (7,200 bananas, 0 tomatoes) and (4,000 bananas, 1,200 tomatoes)
C. (3,600 bananas, 1,200 tomatoes) and (1,800 bananas, 1,600 tomatoes)
D. (1,800 bananas, 1,800 tomatoes) and (900 bananas, 2,200 tomatoes)

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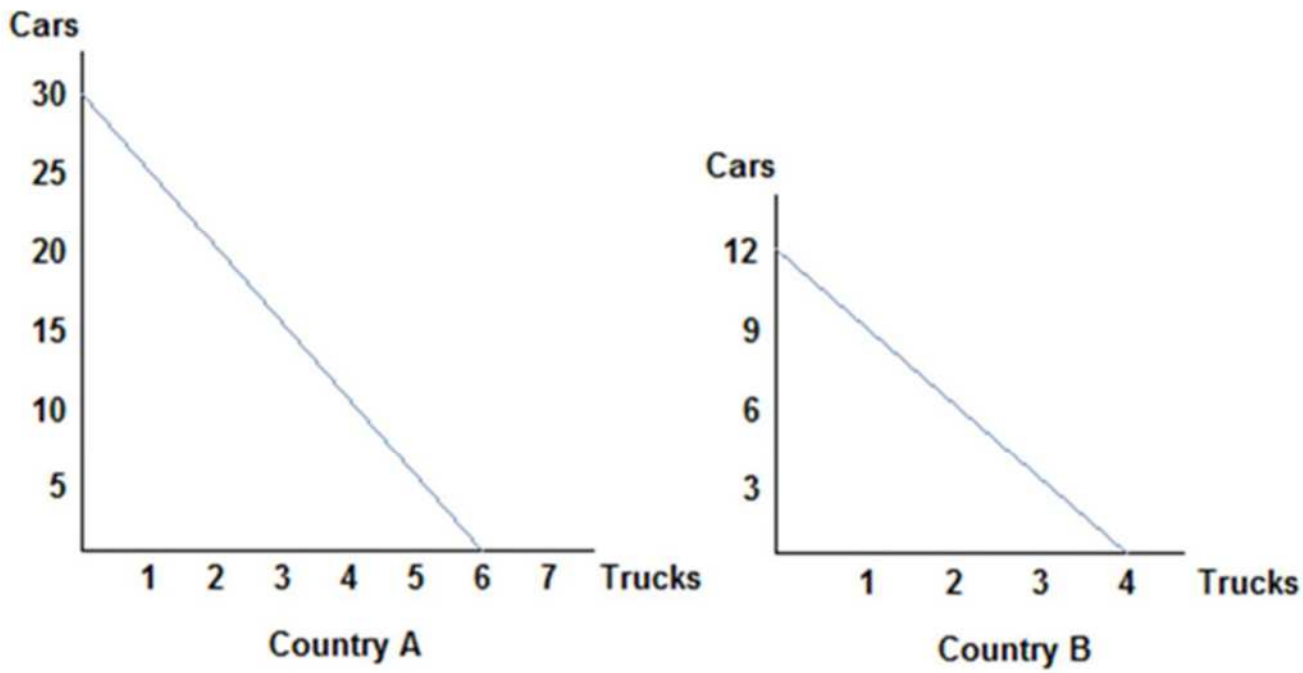
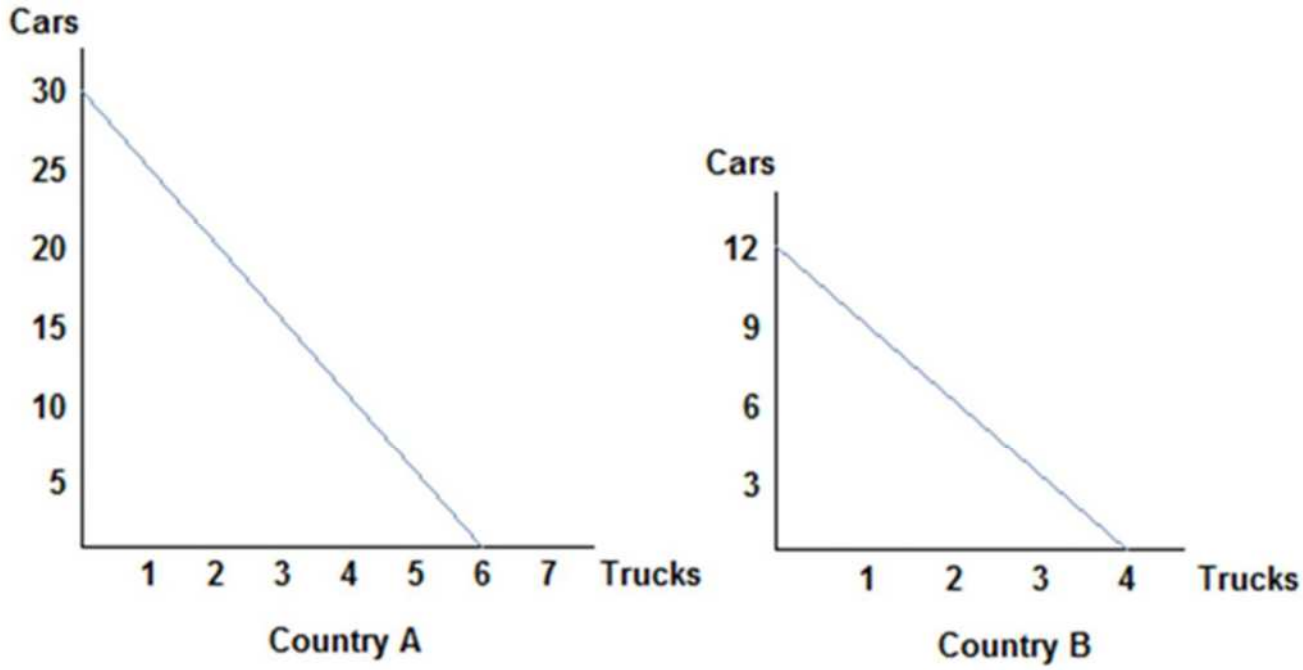


Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. If Country A were to divide its resources equally, it could produce:
A. 30 cars and 6 trucks.
B. 25 cars and 5 trucks.
C. 15 cars and 3 trucks.
D. 10 cars and 4 trucks.

54.



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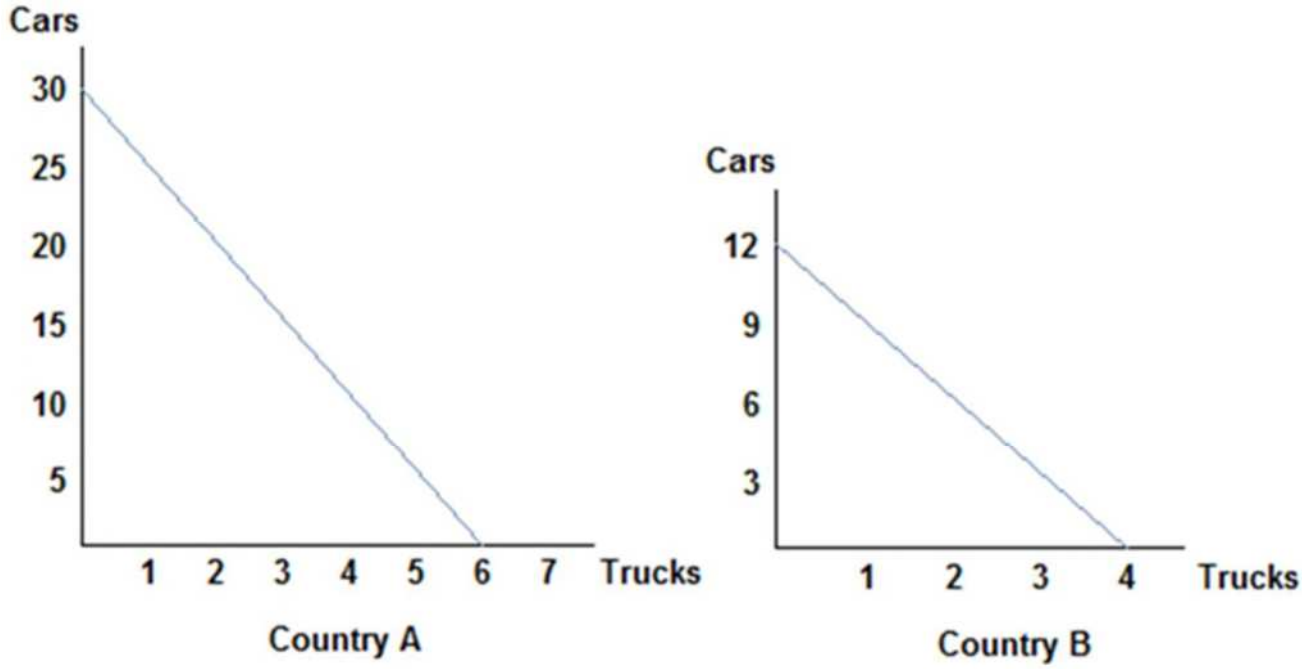
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. The slope of Country A's production possibilities frontier:
A. measures the opportunity cost of trucks in terms of cars.
B. measures the trade-off that Country A face when deciding how to allocate resources.
C. is constant because the opportunity cost remains constant.
D. All of these statements are true.

55.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. The slope of Country A's production possibilities frontier is _____, and Country B's is _____.
A. 5; 3
B. 30; 3
C. 1/5; 1/3
D. 1/5; 1/3

56. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. If Tom divides his time evenly between activities and acts efficiently, he will produce:
A. 16 dishes and 4 fences.
B. 12 dishes and 3 fences.
C. 8 dishes and 2 fences.
D. 4 dishes and 3 fences.

57. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. At the end of the day, Tom could have:
A. (16 dishes, 4 fences) or (8 dishes, 2 fences).
B. (8 dishes, 2 fences), or (4 dishes, 6 fences).

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C. (8 dishes, 2 fences), or (4 dishes, 3 fences).
D. (12 dishes, 3 fences), or (8 dishes, 3 fences).

58. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. At the end of the day, Jerry could have produced:
A. 14 dishes and 7 fences.
B. 12 dishes and 6 fences.
C. 10 dishes and 5 fences.
D. 6 dishes and 4 fences.

59. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. At the end of the day, if Jerry was efficient with his resources, he could have produced:
A. 12 dishes and 0 fences.
B. 10 dishes and 2 fences.
C. 8 dishes and 2 fences.
D. 6 dishes and 2 fences.

60. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. For Tom, the opportunity cost of building a fence is _____ dishes made.
A. 16
B. 12
C. 8
D. 4

61. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. For Jerry, the opportunity cost of building a fence is _____ dishes made.
A. 14
B. 7
C. 4
D. 2

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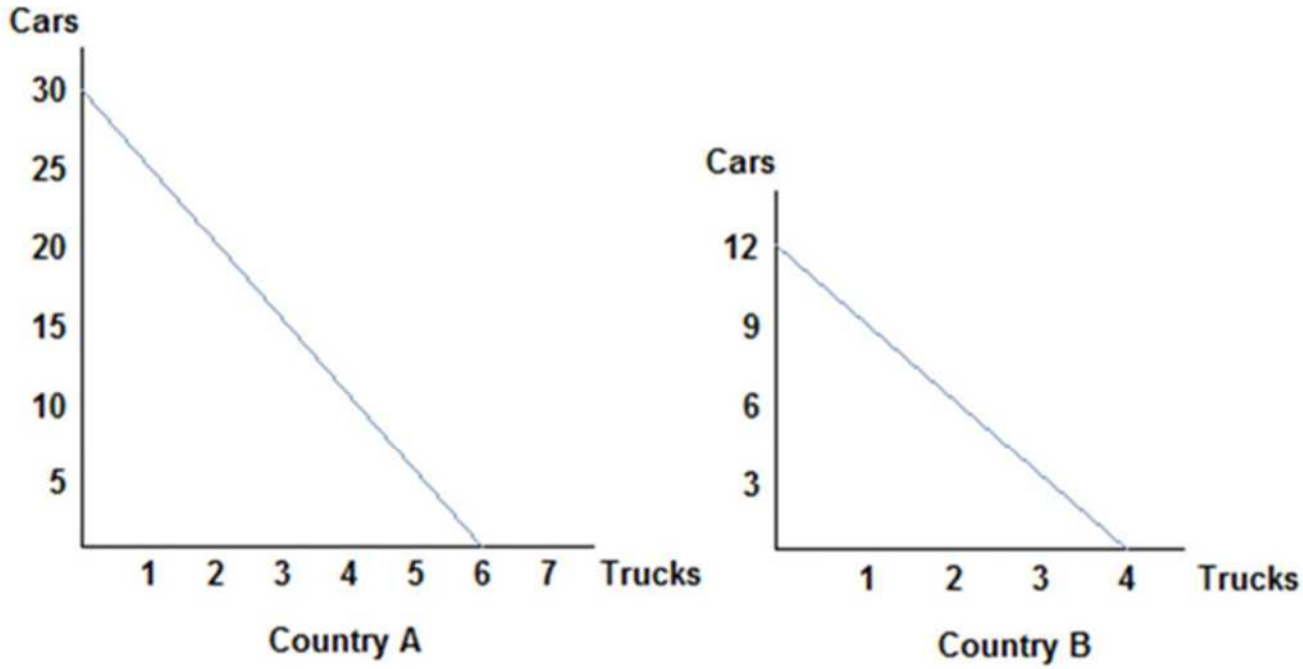
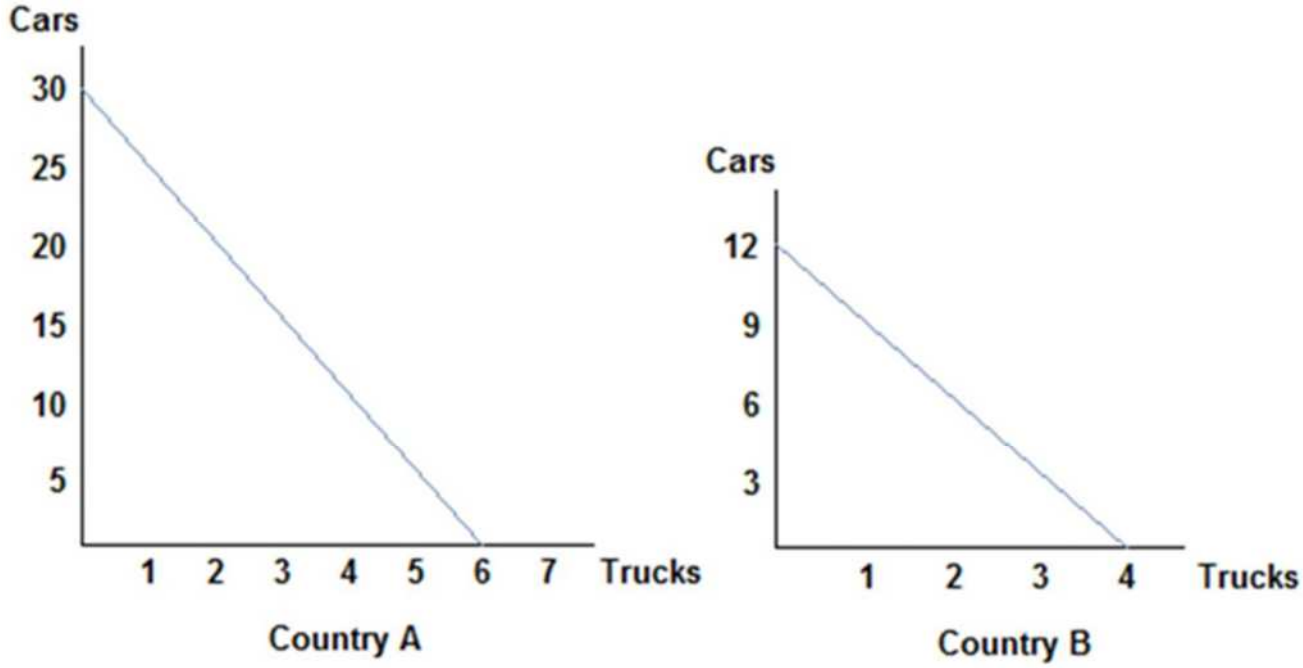


Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements is true? The opportunity cost of a truck in Country A is:
A. 30 cars.
B. 6 trucks.
C. 5 cars.
D. 3 cars.

63.



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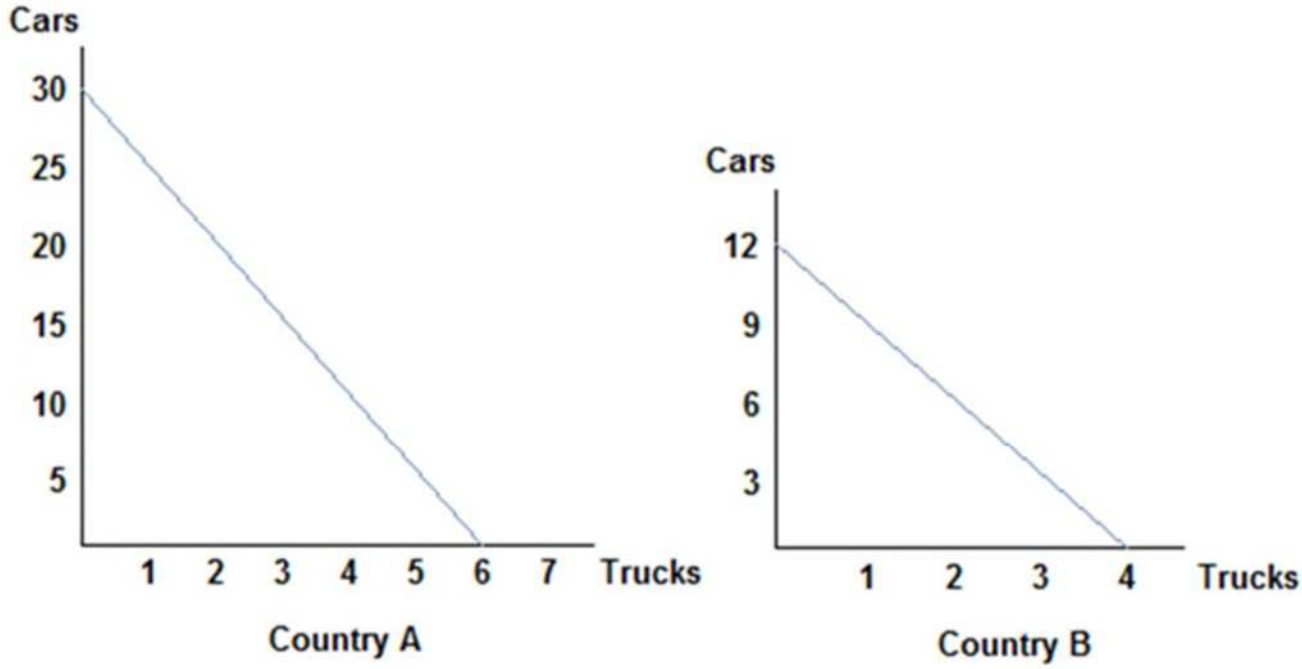
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements is true? The opportunity cost of a truck in Country B is:
A. 12 cars.
B. 4 trucks.
C. 1.5 cars
D. 3 cars.

64.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. One of the reasons why Country A and Country B are not realistic representations of actual countries is:
A. the production possibilities curves are straight lines; realistic ones would be concave.
B. they only represent the production of two goods.
C. they only represent two countries.
D. All of these statements are true.

65. If the opportunity cost of producing corn is lower for Ohio than for Iowa, then:
A. Iowa should specialize in corn production.
B. Iowa has the comparative advantage in corn production.
C. Iowa should export corn to Ohio.
D. Ohio has the comparative advantage in corn production.

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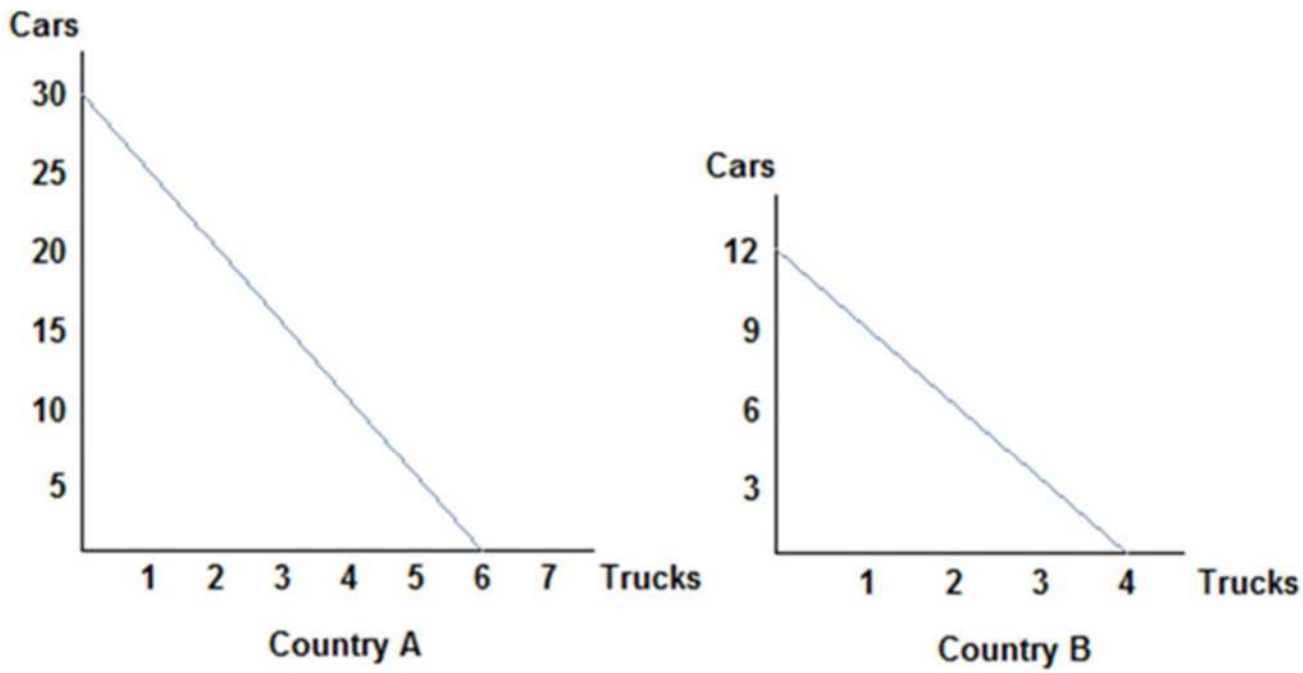
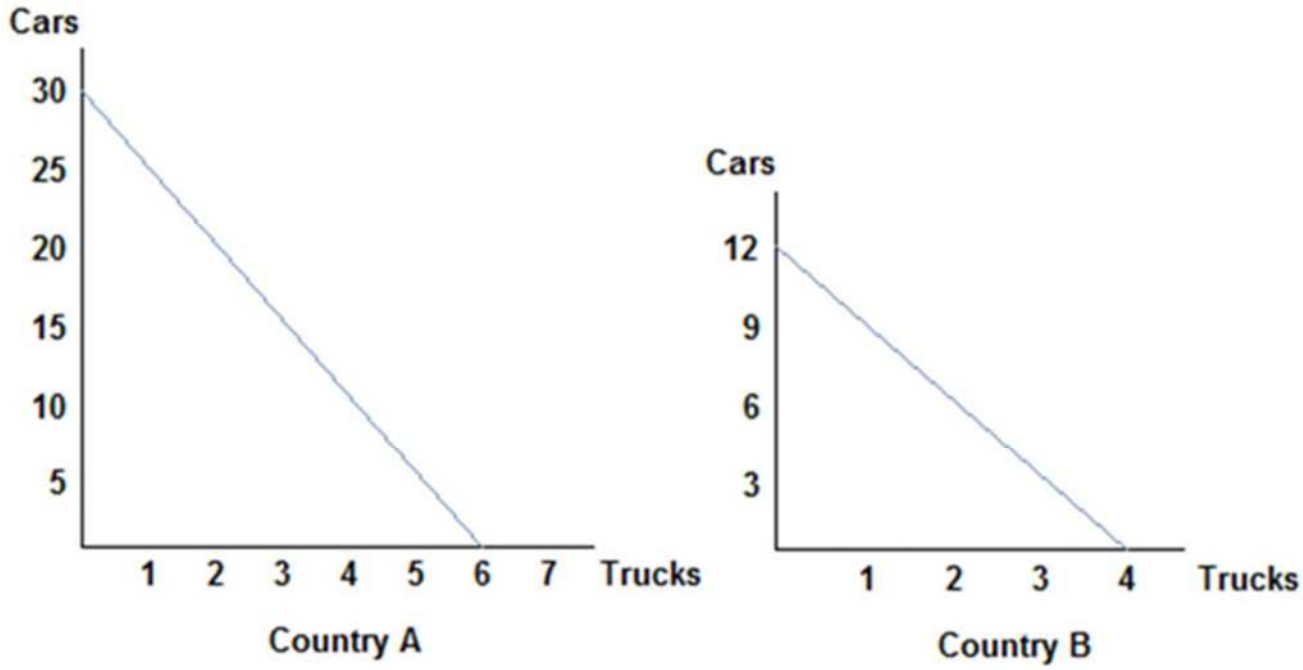


Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements can be said of Country A? Country A:
A. has the comparative advantage in car production only.
B. has the comparative advantage in truck production only.
C. has the comparative advantage in car and truck production.
D. does not possess the comparative advantage in either good.

67.



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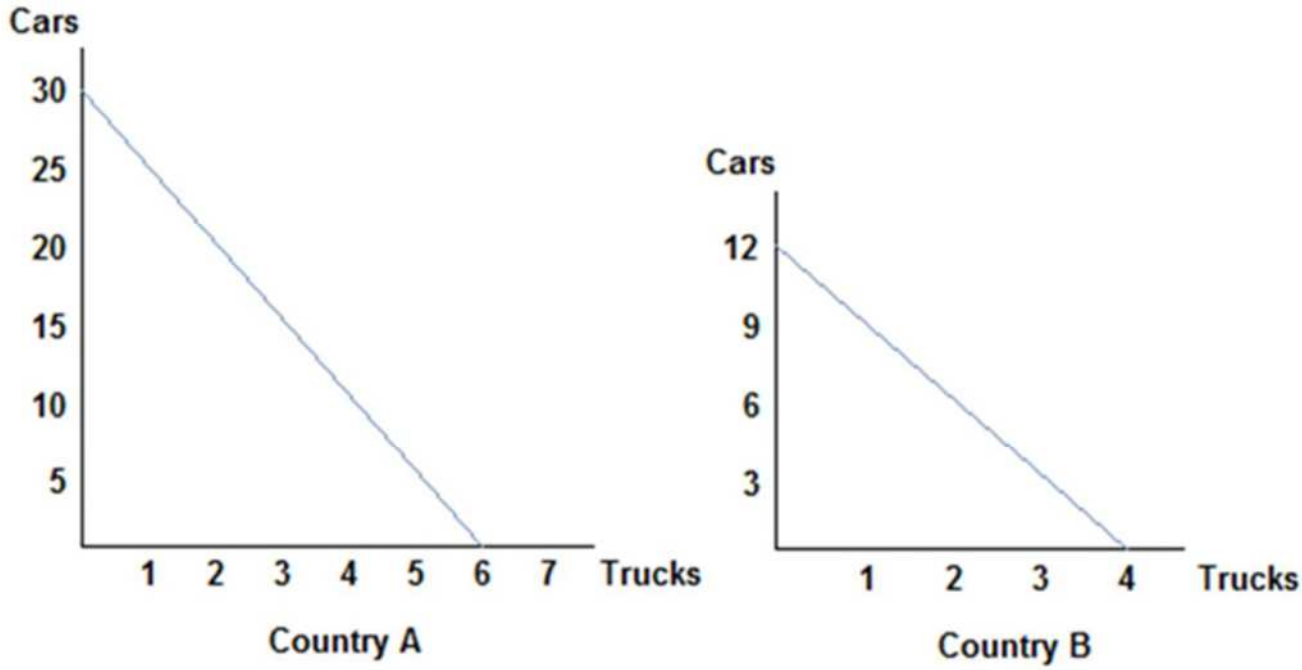
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Assuming both countries have the same amount of resources available to them, which of the following statements is true? Country A has:
A. an absolute advantage in the production of cars, and Country B has the absolute advantage in the production of trucks.
B. an absolute advantage in the production of trucks, and Country B has the absolute advantage in the production of cars.
C. the absolute advantage in the production of both cars and trucks.
D. the absolute advantage in neither the production of cars nor trucks.

68.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Country A has the comparative advantage in:
A. cars and Country B has the comparative advantage in trucks.
B. trucks and Country B has the comparative advantage in cars.
C. cars and trucks.
D. neither cars nor trucks.

69. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country B, the trade-off to making one tomato is:
A. 2 bananas.
B. 3 bananas.
C. 4 bananas.
D. 5 bananas.

70. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country A, the trade-off of making one tomato is:
A. 2 bananas.
B. 3 bananas.

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C. 4 bananas.
D. 5 bananas.

71. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the comparative advantage in the production of:
A. iPods only.
B. tablets only.
C. both iPods and tablets.
D. neither iPods nor tablets.

72. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A has the absolute advantage in the production of:
A. iPods only.
B. tablets only.
C. both iPods and tablets.
D. neither iPods nor tablets.

73. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. We can say:
A. Country B now possesses the absolute advantage in the production of both goods.
B. Country B now possesses the absolute advantage in tablets only.
C. Country B now has the comparative advantage in iPod production.
D. Country B has no need to trade now.

74. Suppose that, given the same number of workers, the United States can produce five times as many computers or 10 times as many airplanes as Mexico. Which of the following statements is true?
A. The United States has an absolute advantage in the production of computers, and Mexico has an absolute advantage in the production of airplanes.
B. The United States has an absolute advantage in the production of airplanes, and Mexico has an absolute advantage in the production of computers.
C. The United States has an absolute advantage in the production of both airplanes and computers.
D. Mexico has an absolute advantage in the production of both airplanes and computers.

75. Suppose that, given the same number of workers, the United States can produce two times as many TVs or 20 times as many potatoes as Chile. Which of the following statements is true?
A. Chile should trade with the United States for potatoes because the United States has an absolute advantage in the production of potatoes.
B. Chile should trade with the United States for TVs because the United States has an absolute advantage in the production of potatoes.
C. The United States can benefit from trading TVs but not potatoes with Chile.
D. The United States has absolute advantage in producing both goods.

76. If a country possesses the absolute advantage in the production of one good:
A. then it must also possess the absolute advantage in the production of the other good.
B. then it must also possess the comparative advantage in the production of both goods.
C. then it must also possess the comparative advantage in the production of the other good.
D. it can produce more of that good given the same resources.

77. Suppose that only two goods are produced in an economy. If a country possesses the comparative advantage in the production of one good then it:
A. must also possess the comparative advantage in the production of the other good.
B. must also possess the absolute advantage in the production of that good.
C. cannot also possess the comparative advantage in the production of the other good.

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D. cannot also possess the absolute advantage in the production of that good.

78. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?

A. The United States has the absolute advantage in the production of both shoes and apples.
B. Canada has the absolute advantage in the production of both shoes and apples.
C. The United States has the absolute advantage in the production of shoes and Canada has the absolute advantage in the production of apples.
D. Canada has the absolute advantage in the production of shoes and the United States has the absolute advantage in the production of apples.

79. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian workercan produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true? The United States has an absolute advantage:
A. and a comparative advantage in the production of shoes.
B. and a comparative advantage in the production of apples.
C. in the production of both goods and a comparative advantage in the production of neither good.
D. in the production of both goods and a comparative advantage in the production of both goods.

80. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?
A. The United States has a comparative advantage in the production of shoes.
B. Canada has a comparative advantage in the production of shoes.
C. Comparative advantage doesn't exist in this scenario.
D. Both countries have a comparative advantage in the production of shoes.

81. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. When trade opens up, the United States should produce:
A. both goods, since they have an absolute advantage in both goods, and not trade.
B. only shoes, since they have a comparative advantage in the production of shoes, and not trade.
C. apples, since they have a comparative advantage in the production of apples, and not trade.
D. only apples, since they have a comparative advantage in the production of apples, and trade for shoes.

82. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of one pair of shoes for the United States is _____, while the opportunity cost of one pair of shoes for Canada is _____.
A. 5 apples; 2 apples
B. 1/5 apple; Â½ apple
C. 2,000 apples; 200 apples
D. 100 apples; 20 apples

83. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for the United States is:
A. 5 apples for each pair of shoes.
B. 5 pairs of shoes for each apple.
C. 1/5 apple for each pair of shoes.

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D. 1 pair of shoes for every 2 apples.

84. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for Canada is:

A. 2 apples for each pair of shoes.
B. 2 pairs of shoes for each apple.
C. ½ apple for each pair of shoes.
D. ½ pair of shoes for every 2 apples.

85. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of a pair of shoes is _____ for the United States than Canada, so Canada has the _____ advantage in shoe production.

A. higher; comparative
B. lower; comparative
C. higher; absolute
D. lower; absolute

86. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Canada has the _____ opportunity cost of a pair of shoes than the United States, so: _____.

A. higher; Canada should specialize in shoe production
B. lower; Canada should specialize in apple production
C. higher; Canada should specialize in apple production
D. lower; Canada should specialize in shoe production

87. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. The opportunity cost of one pair of gloves is:
A. 6 radishes for the United States and 2 radishes for Bangladesh.
B. 60 radishes for the United States and 20 radishes for Bangladesh.
C. 1/6 radishes for the United States and Â½ radishes for Bangladesh.
D. 6,000 radishes for the United States and 2,000 radishes for Bangladesh.

88. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Using the concept of absolute advantage, which of the following statements is true? The United States:
A. has the absolute advantage in the production of both gloves and radishes.
B. does not have the absolute advantage in the production of either gloves or radishes.
C. has the absolute advantage in the production of gloves, but not radishes.
D. has the absolute advantage in the production of radishes, but not gloves.

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89. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of absolute and comparative advantage, we can say that the United States has the comparative advantage in:
A. the production of both gloves and radishes.
B. neither the production of gloves nor radishes.
C. the production of gloves only.
D. the production of radishes only.

90. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of advantage and trade, we can say that the opportunity cost of one pair of gloves is:
A. lower for the United States than Bangladesh, therefore the United States has a comparative advantage in glove production.
B. higher for the United States than Bangladesh, therefore the United States has a comparative advantage in radish production.
C. the same for both the United States and Bangladesh, therefore no comparative advantage exists.
D. the same for both the United States and Bangladesh, therefore they both have the comparative advantage in glove production.

91. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Which of the following statements is true? Bangladesh should:
A. specialize in glove production since it possesses the comparative advantage in glove production.
B. despecialize in radish production since it possesses the comparative advantage in radish production.
C. produceboth gloves and radishes since it has the absolute advantage in glove production.
D. only produce radishes since it has the absolute advantage in radish production.

92. Suppose an American worker can make 100 chairs or catch 1,000 fish per day. A Chilean worker, on the other hand, can produce 40 chairs or catch 400 fish per day. Which of the following statements is true?
A. The United States has the comparative advantage in chair production.
B. Chile has the comparative advantage in chair production.
C. Both the United States and Chile have a comparative advantage in chair production.
D. Neither the United States nor Chile has a comparative advantage in chair production.

93. Suppose an American worker can make 100 chairs or catch 1000 fish per day. On the other hand, a Chilean worker can produce 40 chairs or catch 400 fish per day. The United States possesses a(n) _____ advantage in chair production, but *not* a(n) _____ advantage in fish production.
A. absolute; comparative
B. comparative; absolute
C. absolute; absolute
D. comparative; comparative

94. Suppose an American worker can make 100 chairs or catch 900 fish per day. On the other hand, a Chilean worker, can make 40 chairs or catch 400 fish per day. The United States has an absolute advantage in the production of both fish and chairs. This means that the United States:
A. should produce only chairs and trade with Chile to get fish.
B. should produce only fish and trade with Chile to get chairs.
C. should take advantage of Chile by trading with them.
D. can produce more fish and chairs than Chile given the same amount of workers.

95. When a producer has the ability to produce a good or service at a lower opportunity cost than others, economists say the producer:
A. has an absolute advantage at producing that good.

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B. has a comparative advantage at producing that good.
C. has no reason to trade with others.
D. is efficient in production.

96. When a producer has a comparative advantage in producing a good, it means the producer:
A. can produce more of that good than others with the same number of workers.
B. has the ability to produce the good at a lower opportunity cost than others.
C. has no reason to trade with others.
D. is efficient in production.

97. When a producer has an absolute advantage at producing a good, it means the producer:
A. can produce more of that good than others with the same amount of resources.
B. has the ability to produce a good or service at a lower opportunity cost than others.
C. has no reason to trade with others.
D. is less efficient than other producers.

98. The United States and Canada trade hockey skates and apple pie. If the United States has an absolute and a comparative advantage in the production of apple pie, then:
A. Canada must have the comparative advantage in the production of skates.
B. Canada must have the absolute advantage in the production of skates.
C. Canada must have the absolute and comparative advantage in the production of skates.
D. the United States must also have the comparative advantage in the production of skates.

99. Which of the following statements about absolute and comparative advantage is ***not*** true? A country may have:
A. a comparative advantage but not an absolute advantage in the production of a good.
B. an absolute advantage but not a comparative advantage in the production of a good
C. the absolute advantage in the production of all goods.
D. neither absolute nor comparative advantage in the production of any goods.

100. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato in Country A is:
A. 100 bananas.
B. 20 bananas.
C. 5 bananas.
D. 4 bananas.

101. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato in Country B is:
A. 108 bananas.
B. 18 bananas.
C. 6 bananas.
D. 3 bananas.

102. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato is:
A. lower in Country A than Country B.
B. higher in Country A than Country B.
C. the same in both countries.
D. impossible to calculate without more information.

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103. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Suppose that a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has an absolute advantage in:
A. the production of bananas, but not tomatoes.
B. the production of both bananas and tomatoes.
C. the production of tomatoes, but not bananas.
D. neither good.

104. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. Because Tom has a _____ opportunity cost for one fence compared to Jerry, we know Tom has _____.

A. higher; the comparative advantage in fence production
B. lower; the comparative advantage in fence production
C. similar; no advantage in production of either good
D. higher; the comparative advantage in dish production

105. Tom and Jerry have two tasks to do all day: makedishes and build fences. If Tom spends all day makingdishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day makingdishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. Jerry has a comparative advantage in:
A. dish production because he has the lower opportunity cost of a dishes.
B. dish production because he has the higher opportunity cost of a dishes.
C. fence production because he has the lower opportunity cost of a fence.
D. fence production because he has the higher opportunity cost of a fence.

106. Tom and Jerry have two tasks to do all day: makedishes and build fences. If Tom spends all day makingdishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day makingdishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. After looking at the production possibilities for both Tom and Jerry, we can surmise that:
A. Tom has the absolute advantage in the production of both dishes and fences.
B. Jerry has the absolute advantage in the production of both dishes and fences.
C. Tom has the absolute advantage in the production of dishes and Jerry has the absolute advantage in fence production.
D. Tom has the absolute advantage in the production of fences and Jerry has the absolute advantage in dish production.

107. Tom and Jerry have two tasks to do all day: makedishes and build fences. If Tom spends all day makingdishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day makingdishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. After looking at the production possibilities for both Tom and Jerry, we can conclude that:
A. Tom has the comparative advantage in dish production.
B. Jerry has the comparative advantage in dish production.
C. Tom has the comparative advantage in fence production.
D. No comparative advantage exists.

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108. We say that a countrycompletely specializes in production when it spends all of its resources producing:
A. a particular good.
B. those goods it has an absolute advantage in producing.
C. only what other countries need.
D. what it can make more of than anyone else.

109. When two countries specialize and trade with one another total production:
A. remains unchanged but consumption rises.
B. increases, but only if comparative advantage exists.
C. may increase, depending on trade relations.
D. and consumption remain unchanged.

110. People would *not* choose to specialize because:
A. it can lead to more consumption than being self-sufficient.
B. it can lead to consumption beyond the production possibilities frontier.
C. it allows people to acquire goods at a lower opportunity cost.
D. production standards are harder to control if goods are imported from other countries.

111. The improvement in outcomes that occurs when specialized producers exchange goods and services is called:
A. gains from trade.
B. absolute advantage.
C. comparative advantage.
D. specialization.

112. People will choose to specialize and trade if they can acquire the goods they want:
A. at a lower cost than it would cost them to make the goods themselves.
B. at a higher cost than it would cost them to make the goods themselves.
C. from someone who is willing to trade with them.
D. from a capitalistic system of exchange.

113. People often choose to specialize and trade because:
A. it will allow them to enjoy more goods than they can create on their own.
B. they can consume a bundle of goods on their production possibilities frontier.
C. it always allows them to produce at a point beyond their own production possibilities frontier.
D. they can take advantage of another nation's poor choices.

114. Two countries will choose to specialize and trade <u>only</u> if:
A. the terms of trade fall between their opportunity costs for producing the goods on their own.
B. the opportunity costs are the same for the two nations.
C. the opportunity costs are astronomically high for producing the goods on their own.
D. one country possesses the absolute advantage in both goods, but the comparative advantage in only one good.

115. When a country loses its comparative advantage in the production of a good it:
A. should stop trading and become self-sufficient.
B. will gain the comparative advantage in the production of another good.
C. will become a loser in trade in the long run.
D. will still have the absolute advantage in the production of the good.

116. If France is capable of producing either cheese or wine or some combination of those two products, then France should:
A. produce the one it is more efficient at producing.
B. produce the one for which it has a comparative advantage.
C. produce the one for which it has a higher opportunity cost.

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D. remain self-sufficient if it has the absolute advantage in the production of both.

117. If Spain is capable of producing either tapas or soccer balls or some combination of those two products, then Spain should:
A. produce the good it has an absolute advantage in producing.
B. produce the good it has a comparative advantage in producing.
C. remain self-sufficient if it can produce both efficiently.
D. trade only if it possesses the absolute advantage in the production of both goods.

118. Assume that the opportunity cost for Germany to produce a jet is 50 cars. If Germany is producing on its production Possibility Frontier, some possible combinations of output for Germany could be:
A. (1,000 jets, 5,000 cars) and (900 jets, 10,000 cars).
B. (1,000 jets, 5,000 cars) and (900 jets, 15,000 cars).
C. (2,500 jets, 2,000 cars) and (2,300 jets, 20,000 cars).
D. (2,500 jets, 2,000 cars) and (2,300 jets, 3,000 cars).

119. Suppose England has a comparative advantage over the United States in producing tea. If this is true, then:
A. England should produce more tea than it wants and sell the rest to the United States.
B. England should produce a small amount of tea and buy the rest of the tea it wants from the United States.
C. England should not produce tea, and should instead buy it all from the United States.
D. the United States has nothing to gain from buying tea from England.

120. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the _____ advantage in the production of tablets, which means they should specialize in _____.
A. comparative; tablets
B. absolute; tablets
C. comparative; iPods
D. absolute; iPods

121. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true? The opportunity cost of:
A. 1 iPod in Country A is 2 tablets.
B. 1 tablet in Country A is 2 iPods.
C. tablets is lower in Country A than Country B.
D. 1 iPod in Country B is 2 tablets.

122. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. The opportunity cost of one fence is _____ for Tom and _____ for Jerry. Therefore Tom should specialize in _____.
A. 4 dishes; 2 dishes; dishes
B. 16 dishes; 14 dishes; dishes
C. 4 dishes; 2 dishes; fences
D. 16 dishes; 14 dishes; fences

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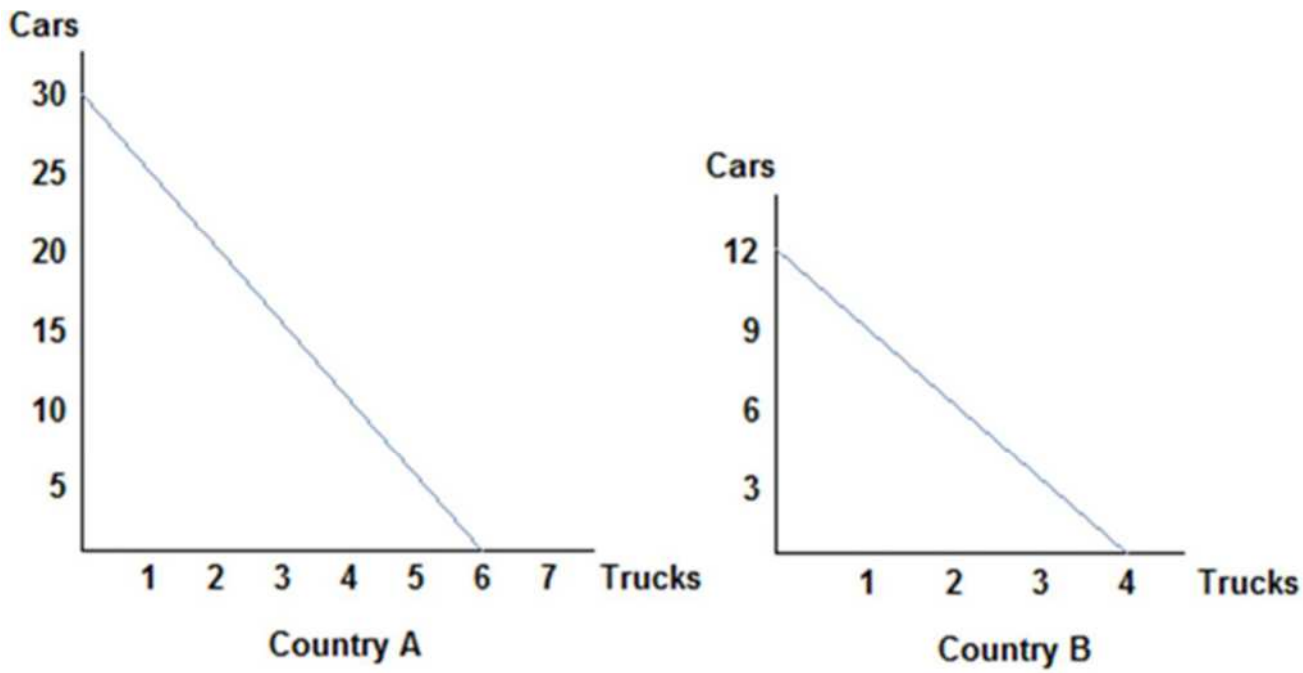

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After comparing each country's production possibilities curve, it is clear that:

A. Country A should specialize in cars and Country B should specialize in trucks, and both could benefit from trade.

B. Country A should specialize in trucks and Country B should specialize in cars, and both will benefit from trade.

C. Country A will not benefit from trade.

D. Country B will lose by trading with Country A.

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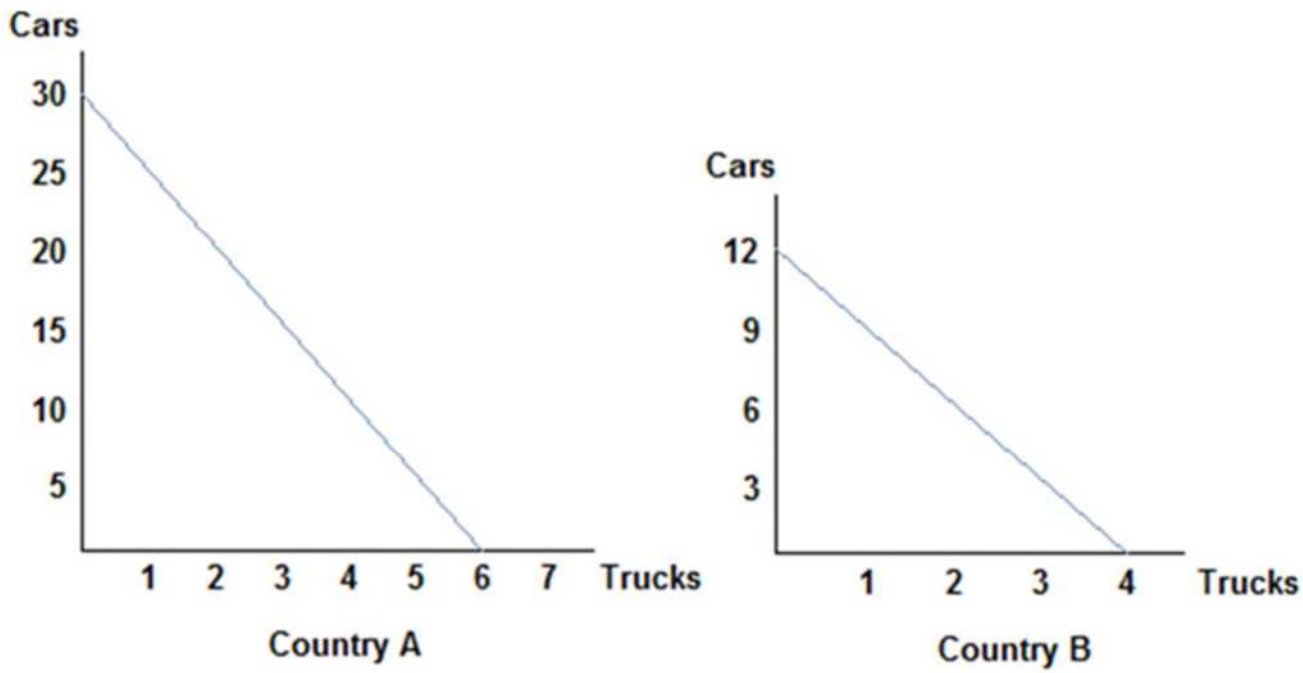
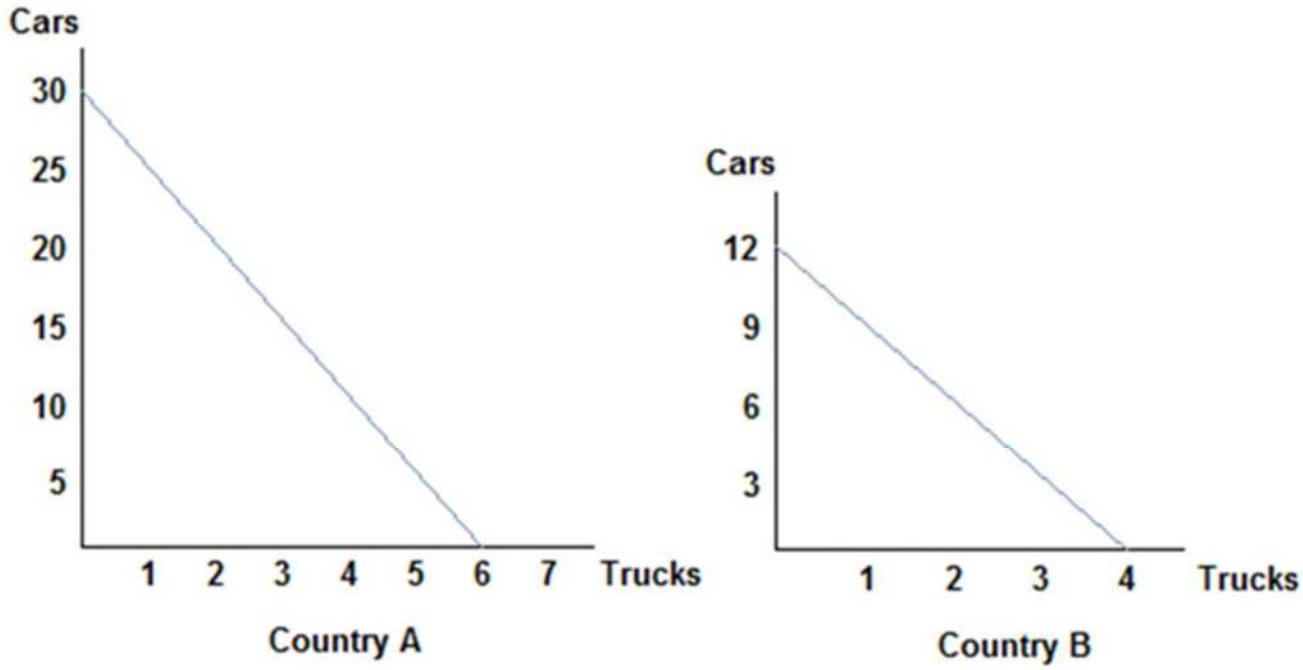


Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining each country's production possibilities curve, it is clear that:
A. neither country will benefit from trade.
B. both countries can benefit from trade because absolute advantage exists.
C. both countries could benefit from trade because comparative advantage exists.
D. only Country A will benefit from trade.

125.



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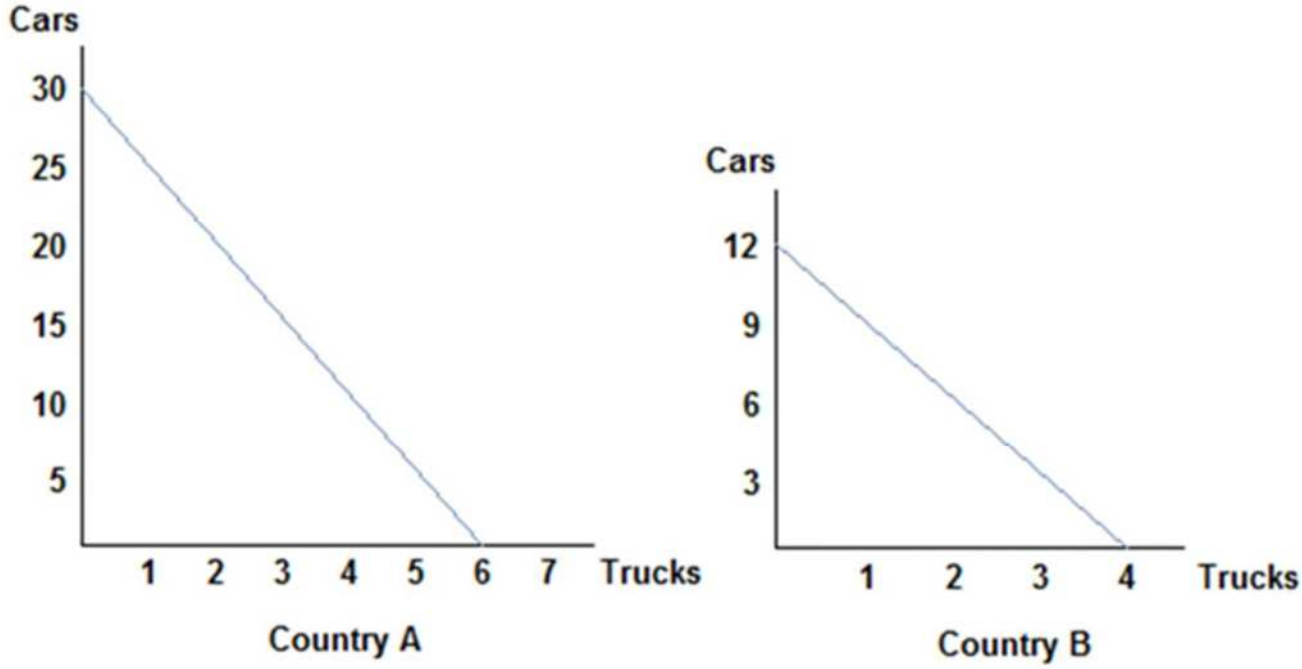
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining the production possibilities of each country, we can surmise that Country A's opportunity cost of a car:
A. is lower than that of Country B, and so they should specialize in cars and trade.
B. is higher than that of Country B, and so they should specialize in cars and trade.
C. is the same as that of Country B, and so they will not benefit from trade.
D. does not determine a country's decision to trade; it is absolute advantage that drives that decision.

126.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we know that would both agree to terms of trade of one truck to:
A. two cars.
B. four cars.
C. six cars.
D. eight cars.

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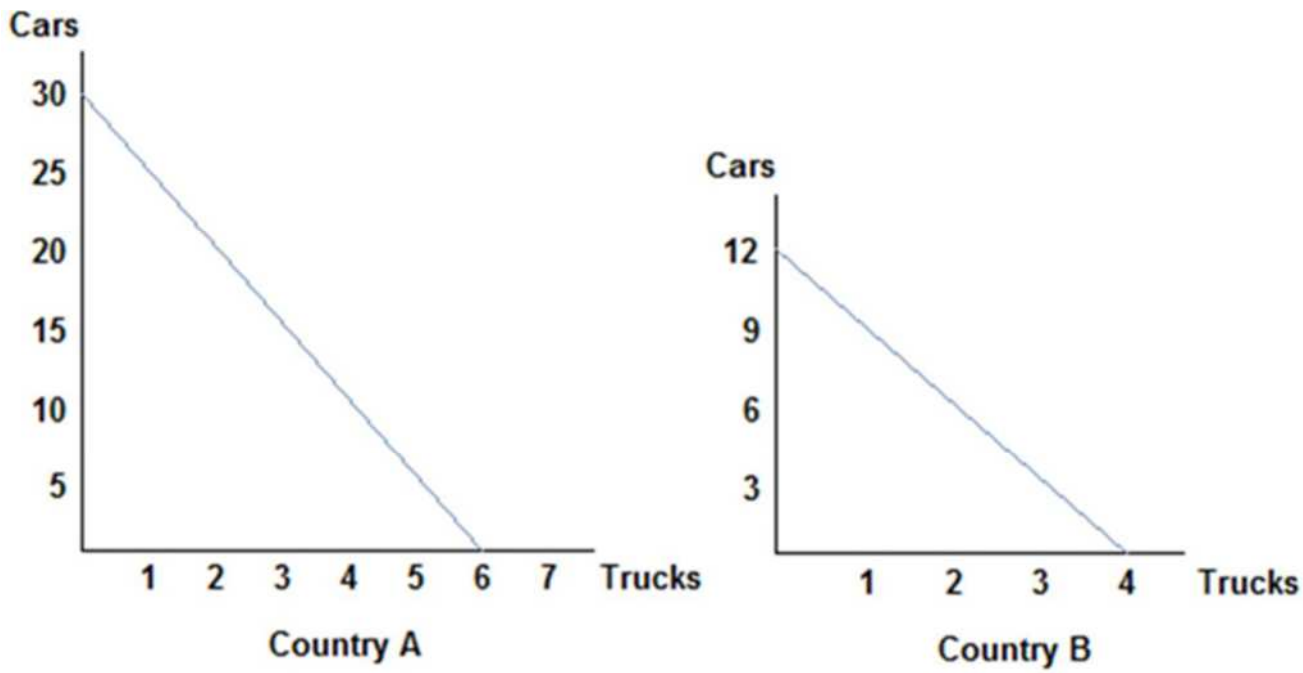
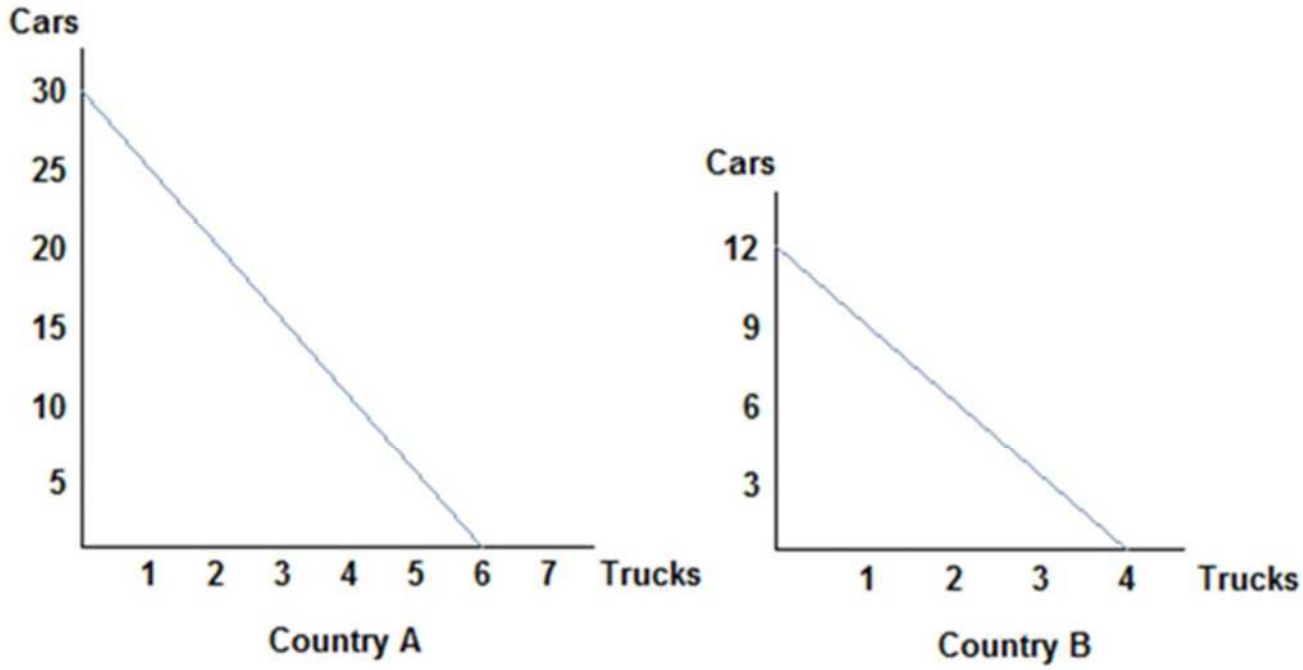


Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can infer that Country A will specialize in:
A. trucks, and be willing to accept no less than 5 cars for each truck.
B. cars, and be willing to give no more than 5 cars for each truck.
C. trucks, and be willing to accept no more than 5 cars for each truck.
D. cars, and be willing to give no less than 5 cars for each truck.

128.



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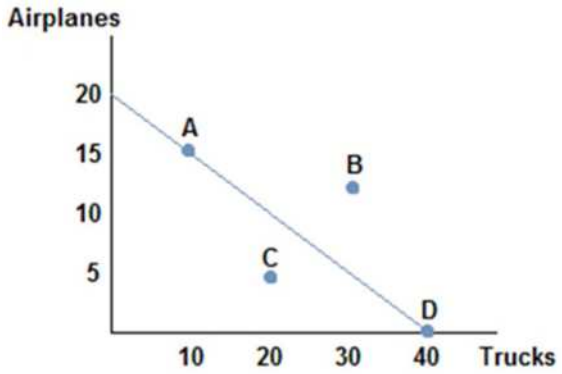
Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can conclude that Country B will specialize in:
A. trucks, and be willing to accept no fewer than 3 cars for each truck.
B. cars, and be willing to give no more than 3 cars for each truck.
C. trucks, and be willing to accept no more than 3 cars for each truck.
D. cars, and be willing to give no fewer than 3 cars for each truck.



129.

Suppose the figure shown represents the production possibilities frontier for Country A. Country B offers to trade four trucks for every airplane. Assuming Country A specializes in airplane production, which of the following combinations of goods could Country A consume?
A. (15 airplanes, 20 trucks)
B. (10 airplanes, 20 trucks)
C. (10 airplanes, 30 trucks)
D. (5 airplanes, 20 trucks)

130. A country's newest ruler has decided the country will become self-sufficient and ceases trade with the rest of the world. The likely outcome of this action will be that the country's citizens will be:
A. forced to consume less than before if they possessed a comparative advantage in the production of a good.
B. better off than before if they possess an absolute advantage in the production of a good.
C. better off than before only if they have the absolute advantage in the production of most goods they consume.
D. better off than before only if they have the comparative advantage in allgoods

131. Economic theory states that losing comparative advantage in one good means creating a comparative advantage in another. This suggests that:
A. those who experience the transition may find it difficult in the short run.
B. it canbe seen as a success in the short run.
C. outsourcing willalways be good for every member of a society.
D. in the long run people may not like it, but no one will complain in the short run.

132. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true?
A. Country B should produce tablets and Country A should produce iPods, and they could benefit from trade.
B. Country B should produce iPods and Country A should produce tablets, and they could benefit from trade.
C. Neither country can benefit from trade since no comparative advantage exists.

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D. Because Country B has the absolute advantage in producing tablets, they should specialize in the production of tablets.

133. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country A should specialize in _____ because they possess the _____ in the production of that good.
A. bananas; comparative advantage
B. tomatoes; comparative advantage
C. bananas; absolute advantage
D. tomatoes; absolute advantage

134. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country B will benefit from trade if they:
A. specialize in bananas because they have a comparative advantage in banana production.
B. specialize in tomatoes because their opportunity cost of tomatoes is higher than Country A's.
C. specialize in tomatoes because their opportunity cost of tomatoes is lower than Country A's.
D. specialize in bananas because they have an absolute advantage in banana production.

135. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country B decides to specialize in tomatoes, and Country A specializes in bananas. What terms of trade would both countries agree to? One tomato for:
A. one banana
B. two bananas
C. four bananas
D. six bananas

136. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country A would find acceptable are Country A will give no:
A. more than 5 bananas for each tomato.
B. less than 5 bananas for each tomato.
C. more than 1 tomato for every 5 bananas.
D. less than 1 tomato for every 5 bananas.

137. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country B would find acceptable are Country B will accept no:
A. more than 3 bananas for each tomato.
B. less than 3 bananas for each tomato.
C. more than 1 tomato for every 3 bananas.
D. less than 1 tomato for every 3 bananas.

138. What determines a country's limits to acceptable terms of trade?
A. Their opportunity costs in production.
B. Whether they possess the absolute advantage in the production of a good.
C. How much a country likes a good for which they are trading.
D. When a country has a comparative advantage in production of both goods.

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139. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. Based on their production possibilities frontiers, Tom and Jerry:
A. can both benefit from trade because absolute advantage exists.
B. could both benefit from trade because comparative advantage exists.
C. cannot benefit from trade because Tom has the absolute advantage in both goods.
D. will not decide to trade because no comparative advantage exists.

140. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. If Jerry decides to specialize in building fences, what are the limits to his terms of trade?
A. Jerry will accept no less than 7 dishes for each fence.
B. Jerry will accept no less than 2 dishes for each fence.
C. Jerry will accept no less than 7 fences for each dishes.
D. Jerry will accept no less than 2 fences for each dishes.

141. The concepts of comparative advantage, specialization, and trade form a compelling argument in favor of:
A. free trade.
B. protectionism.
C. self-sufficiency.
D. only exporting goods and not importing goods.

142. The concepts of comparative advantage, specialization, and trade:
A. can be useful in explaining why countries import and export certain goods.
B. can be useful in explaining why individuals typically work at one job, and buy the other goods and services they need.
C. can be useful in explaining why we allow ourselves to be interdependent on others.
D. All of the statements are true.

Chapter 02 Test Bank KEY

1. The invisible hand refers to the coordination that occurs from:
A. everyone working in his or her own self-interest.
B. a government agency finding efficiencies.
C. everyone working for the overall good of society.
D. a government coordinating economic activity.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Invisible Hand

2. The concepts of specialization and gains from trade can be applied to:

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A. international trade.
B. why globalization has expanded recently.
C. consumer decisions.
D. household decisions.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Gains from Trade

3. The concept of the invisible hand was first introduced to economics by:
A. David Ricardo.
B. Adam Smith.
C. Thomas Malthus.
D. Milton Friedman.

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Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Invisible Hand

4. A production possibilities frontier is a line or curve that:
A. shows all the possible combinations of outputs that can be produced using all available resources.
B. shows what can be produced when all available resources are efficiently used.
C. shows the best combinations of outputs that can be produced using all available resources.
D. explains why societies make the choices they do.

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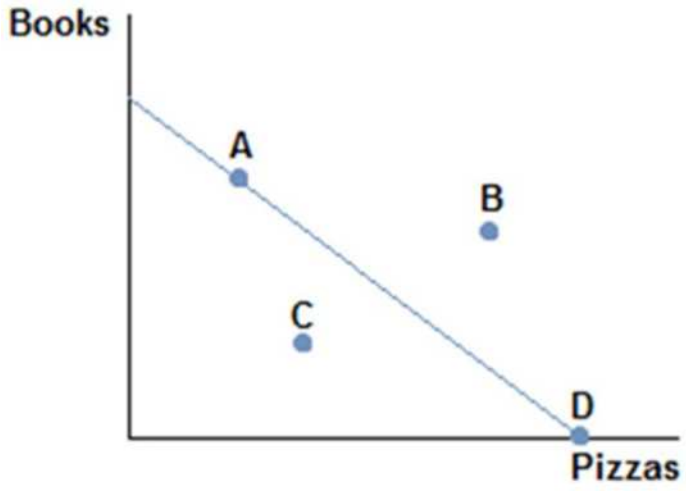
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



5.

Consider the production possibilities frontier displayed in the figure shown. The fact that the line slopes downward displays which economic concept?
A. Production possibilities

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B. Trade-offs
C. Specialization
D. Efficiency

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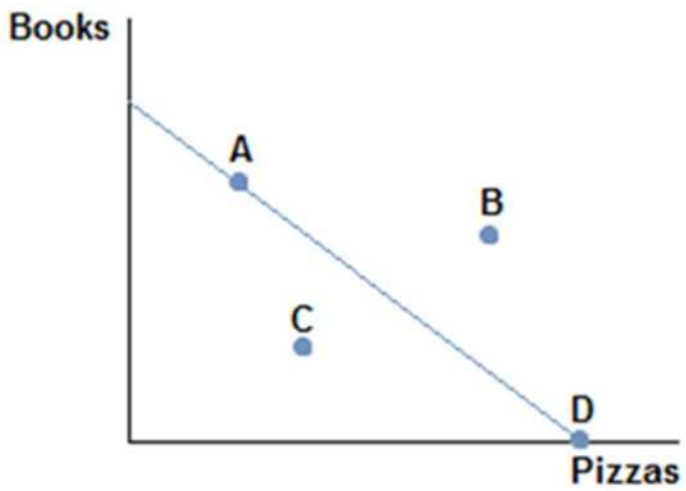
Topic: PPF



6.

Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve could choose to produce:
A. A, B, or D.
B. A, B, or C.
C. A, D, or C.
D. B, C, or D.

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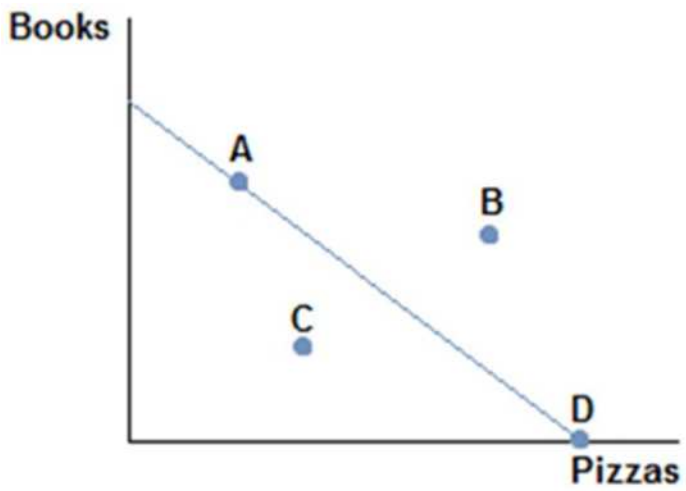
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



7.

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Consider the production possibilities frontier displayed in the figure shown. Which points are efficient and attainable with existing resources?
A. Only point B.
B. Only point A.
C. Points A and D.
D. Points A, C, and D.

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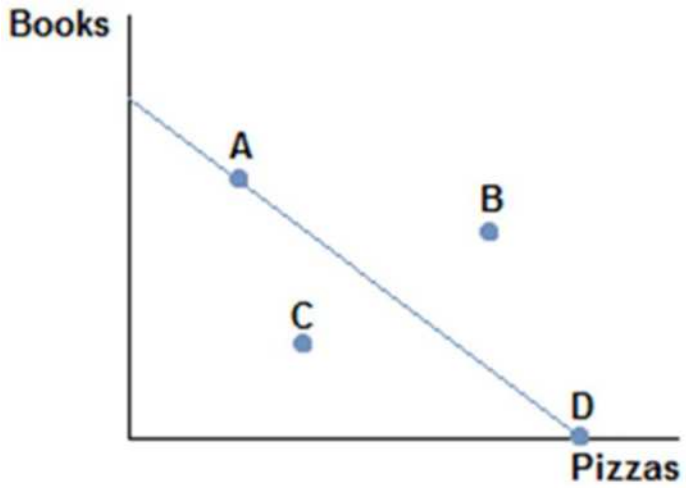
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



8.

Consider the production possibilities frontier displayed in the figure shown. A society faced with this curve currently:
A. cannot obtain point B.
B. can only obtain point C.
C. can only obtain point D or point A.
D. cannot obtain point C.

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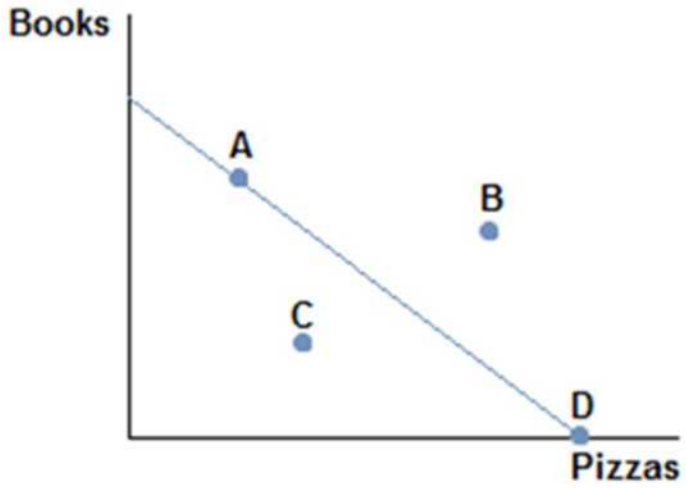

9.

Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true?
A. Producing at point D would be inefficient.
B. Producing at point C would be inefficient.
C. Producing at point B would be inefficient.
D. Producing at point A would be inefficient.

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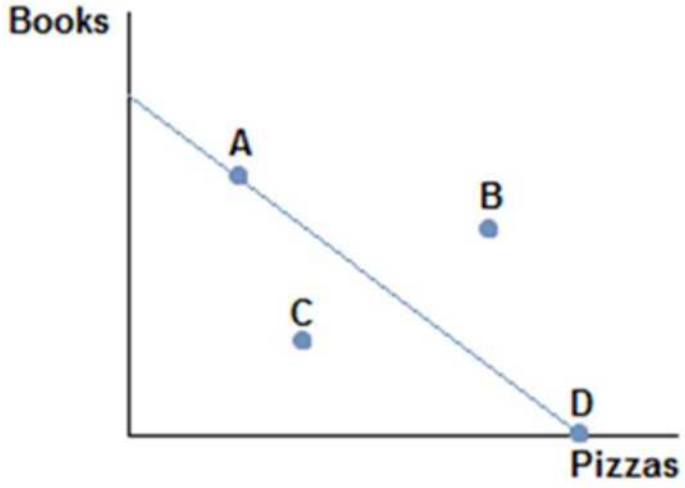
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



10.

Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is currently true?
A. Producing at point A is the best choice, because some of both items are made.
B. Producing at point D would be inefficient, since no books would be produced.
C. Producing at point C is the best choice, because it's closest to the middle.
D. Producing at point B is impossible.

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Topic: PPF

11. The slope of a production possibilities frontier measures:
A. the opportunity cost of producing one good in terms of the other good.
B. the trade-off in the consumption of one good versus the other good
C. how much of the resources must be used in order to produce one the goods.
D. inefficient production of a good.

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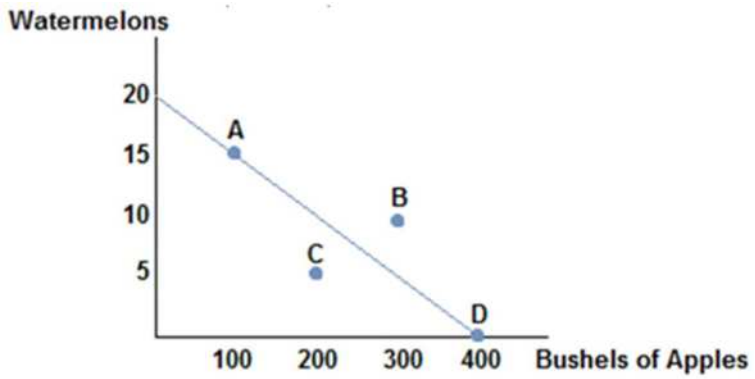
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

12. 

Consider the production possibilities frontier displayed in the figure shown. A society should choose to produce:
A. at point C because it is the safest.
B. at point B because it represents the most the society can produce.
C. at any point that produce some of each good.
D. at any point on the frontier rather than inside it.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

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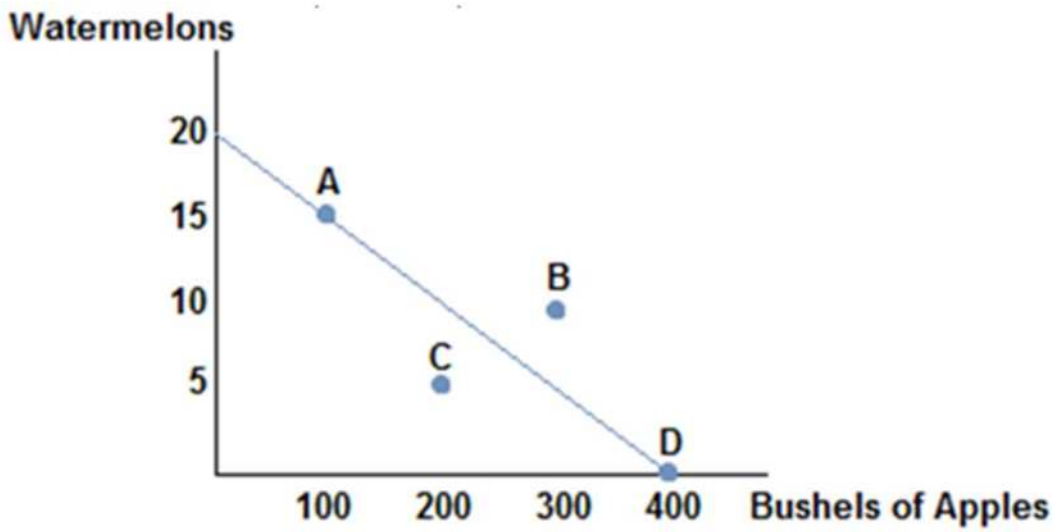
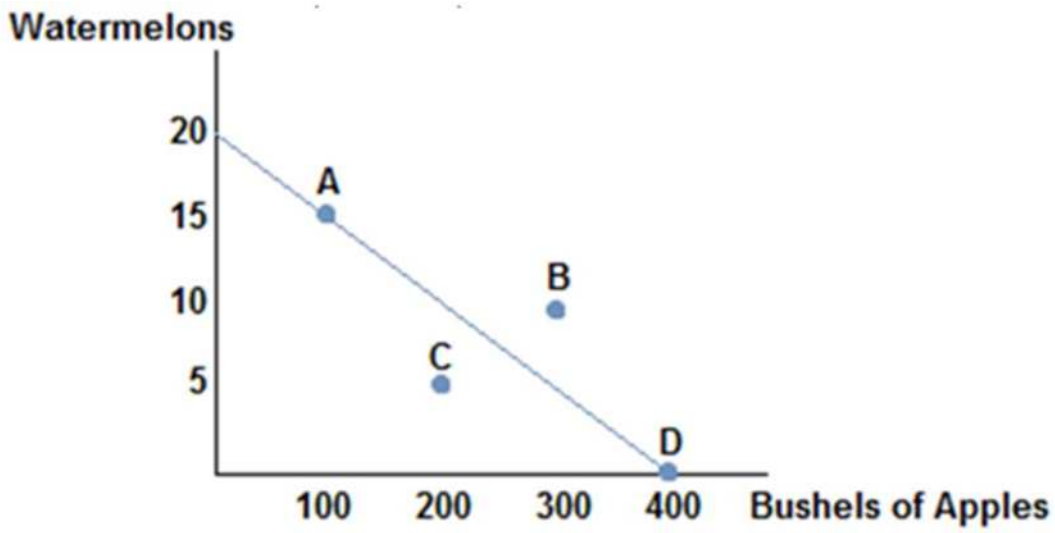
13. 

Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of a bushel of apples is:
A. 3/20 watermelons.
B. 1/20 watermelons.
C. 1/40 watermelons.
D. 1/30 watermelons.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

14. 

Consider the production possibilities frontier displayed in the figure shown. The opportunity cost of one watermelon is:
A. 10 bushels of apples.
B. 20 bushels of apples.
C. 30 bushels of apples.
D. 40 bushels of apples.

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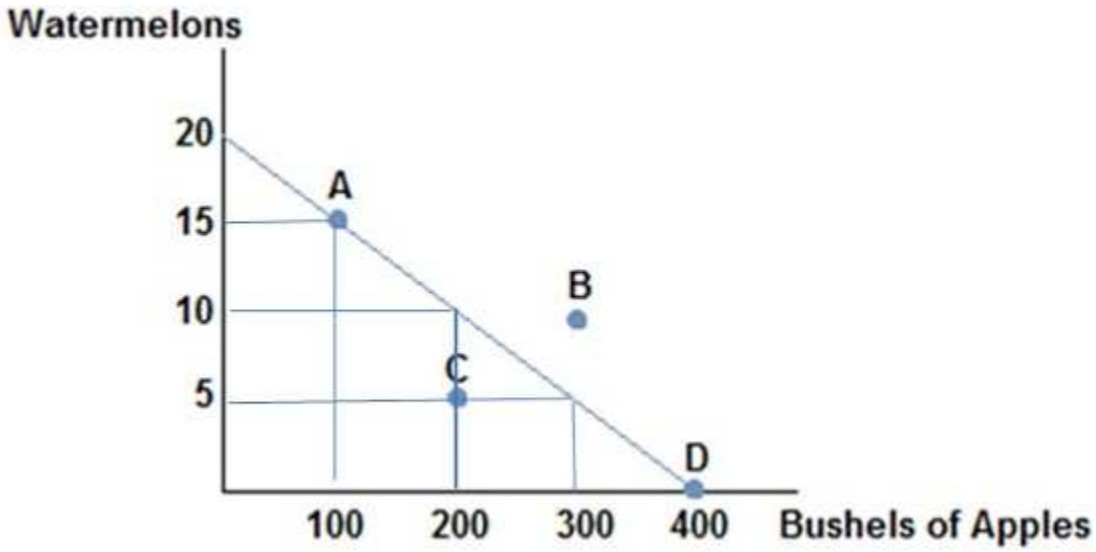
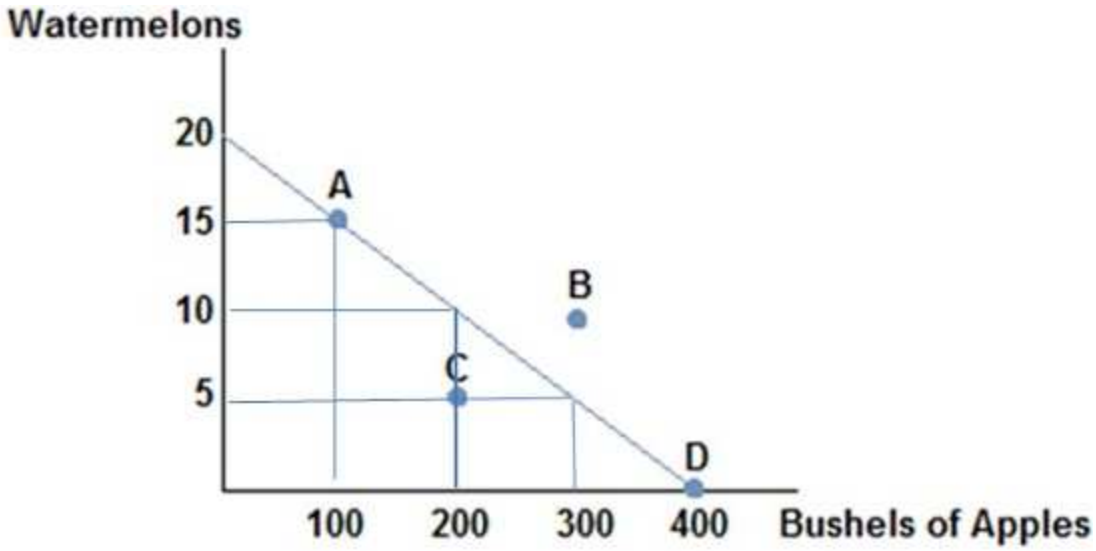
AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF/Opportunity Costs



15.

Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 200 bushels of apples it can produce no more than:
A. 20 watermelons.
B. 15 watermelons.
C. 10 watermelons.
D. 5 watermelons.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



16.

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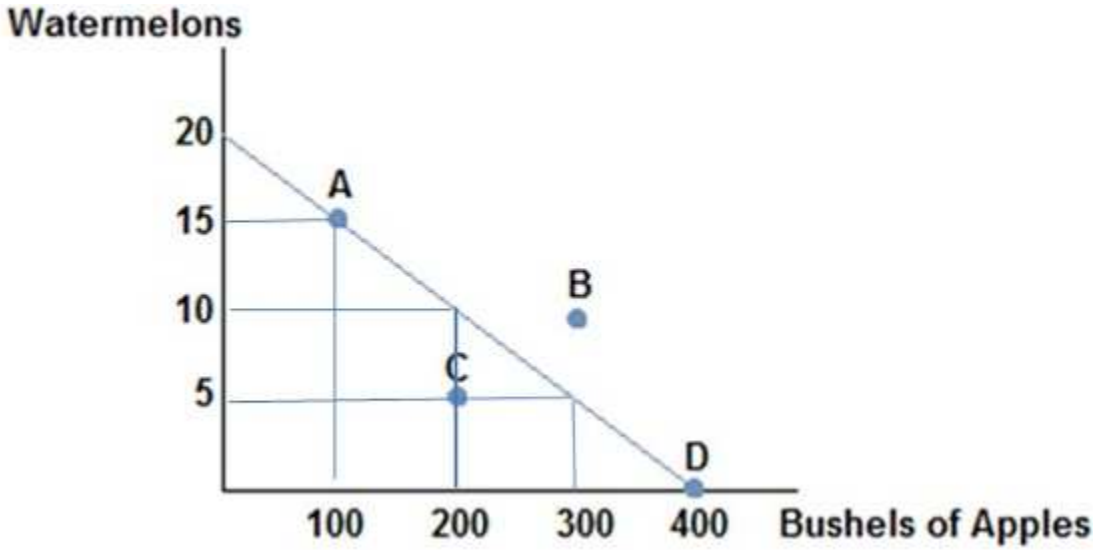
Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could be produced?
A. (20 watermelons, 400 bushels of apples)
B. (15 watermelons, 100 bushels of apples)
C. (10 watermelons, 300 bushels of apples)
D. (10 watermelons, 400 bushels of apples)

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



17.

Consider the production possibilities frontier displayed in the figure shown. Which of the following combinations could **not** be produced?
A. (20 watermelons, 400 bushels of apples)
B. (15 watermelons, 100 bushels of apples)
C. (10 watermelons, 150 bushels of apples)
D. (0 watermelons, 400 bushels of apples)

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

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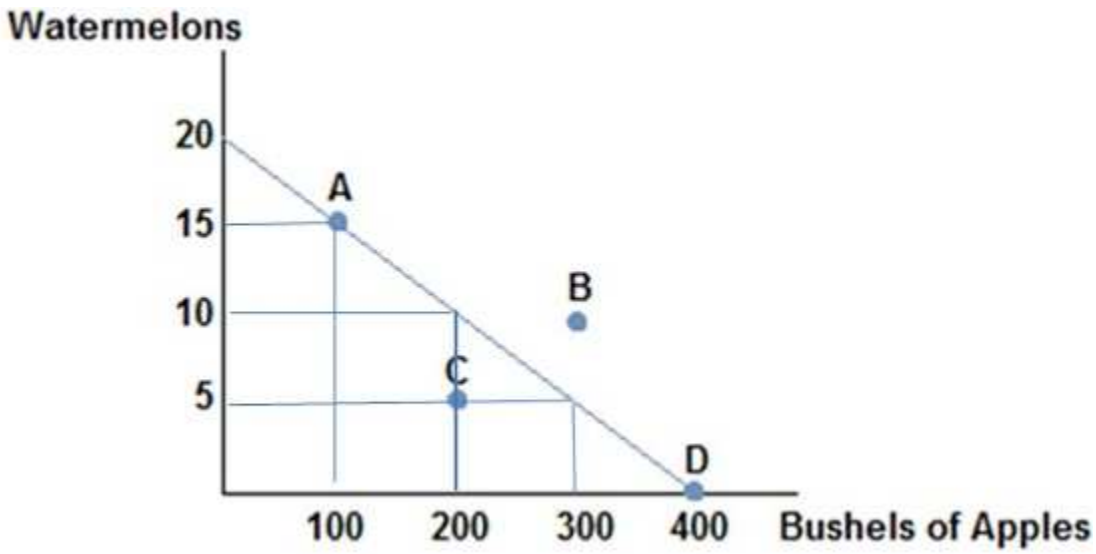
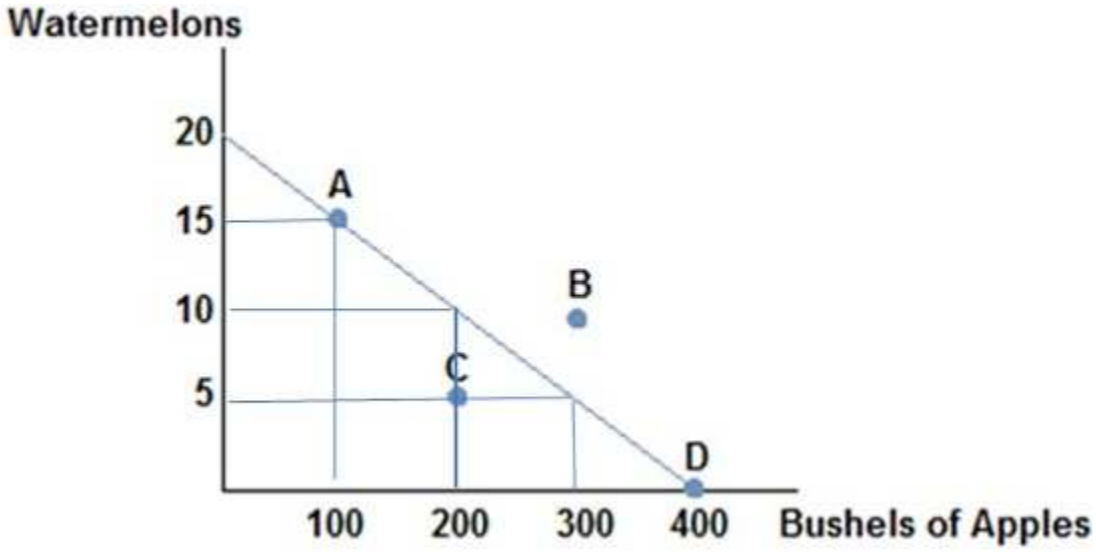


18.

Consider the production possibilities frontier displayed in the figure shown. If this society chooses to produce 15 watermelons in can produce no more than:
A. 400 bushels of apples.
B. 300 bushels of apples.
C. 200 bushels of apples.
D. 100 bushels of apples.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF/Trade-offs



19.

Consider the production possibilities frontier displayed in the figure shown. Which of the following statements is true? The opportunity cost of one watermelon:
A. will decrease as more watermelons are produced.
B. is constant.

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C. will increase as more watermelons are produced.
D. is zero at point C.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Cost/Slope of PPF

20. If we consider the reality that each worker has different skills, then the production possibilities frontier would:
A. have a convex shape.
B. have a concave shape.
C. be a straight line.
D. shift outward.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Realistic PPF

21. If we consider the reality that each worker has different skills, then the production possibilities frontier
A. would display a constant opportunity cost of a good as more of that good is produced.
B. would display a decreasing opportunity cost of a good as more of that good is produced.
C. would display an increasing opportunity cost of a good as more of that good is produced.
D. cannot be drawn, as too many variables would need to be taken into consideration.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF/Opportunity Costs

22. A realistic production possibilities curve:
A. is concave while a simple PPF has constant opportunity costs.
B. is straight lined while a simple PPFhas constant opportunity costs.
C. is straight lined while a simple PPF is bowed outward.
D. is concave while a simple PPFhas increasing opportunity costs.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF/Opportunity Costs

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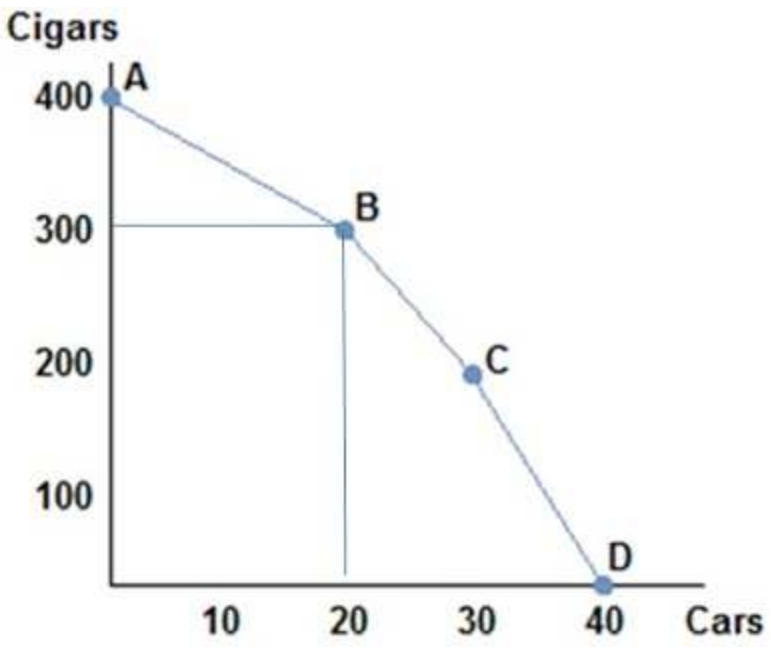
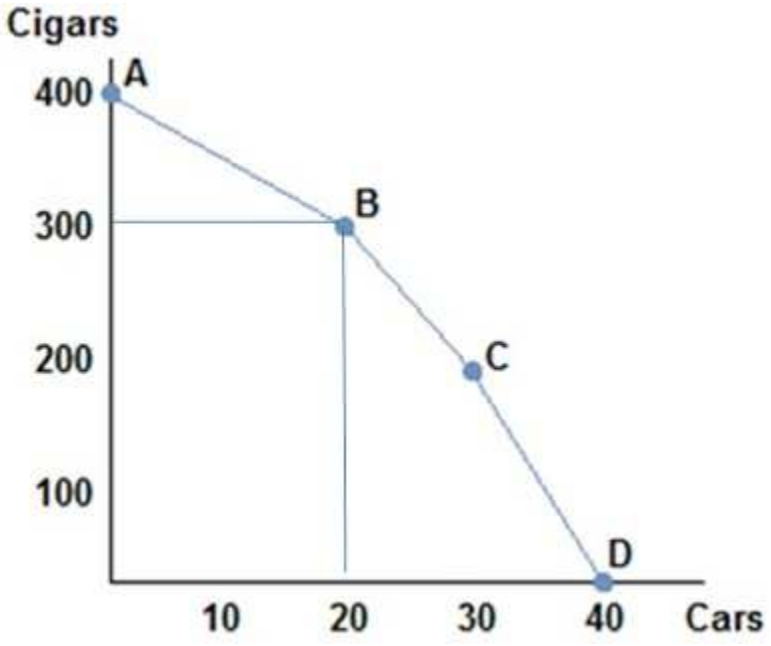
23. 

Consider the production possibilities frontier in the figure shown. As more and more cars are produced the opportunity cost of producing more cars:
A. decreases.
B. stays the same.
C. increases.
D. decreases then increases.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

24. 

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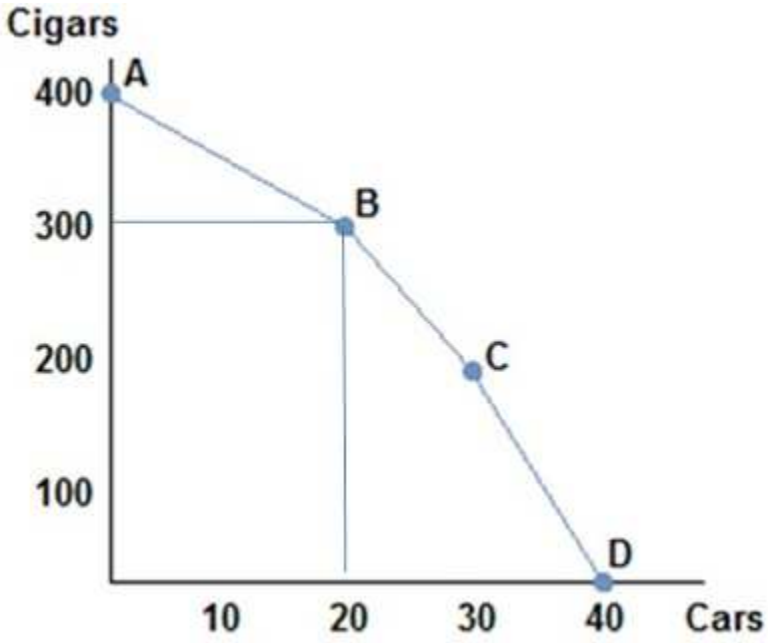
Consider the production possibilities frontier in the figure shown. As more and more cigars are produced the opportunity cost of producing more cigars:
A. decreases.
B. stays the same.
C. increases.
D. decreases then increases.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



25.

Consider the production possibilities frontier in the figure shown. The opportunity cost of moving from point A to point B is:
A. 5 cars per cigar.
B. 10 cars per cigar.
C. 5 cigars per car.
D. 10 cigars per car.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF/Opportunity Costs

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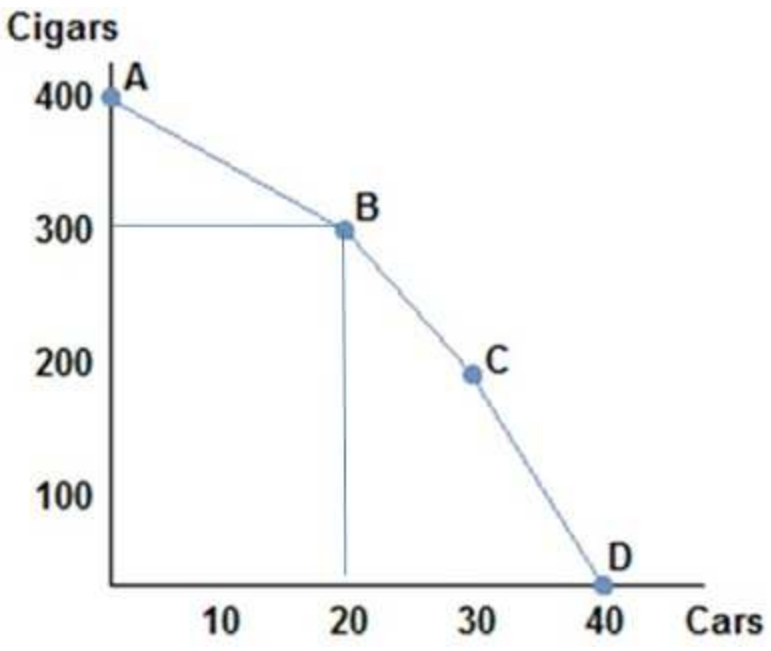
26. 

Consider the production possibilities frontier in the figure shown. The opportunity cost of cars when moving from point B to point C:
A. is greater than the opportunity cost of cars when moving from point A to point B.
B. is less than the opportunity cost of cars when moving from point A to point B.
C. is greater than the opportunity cost of cars when moving between any other two points.
D. there is no opportunity cost when we move from B to C.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

27. Choosing to produce at any point within a production possibilities frontier is:
A. inefficient, meaning the society would not be using all its available resources in their best possible uses.
B. efficient, meaning the society would be using all its available resources in their best possible uses.
C. unobtainable, meaning the society cannot produce that combination of goods.
D. efficient but not attainable.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

28. The production possibilities frontier:
A. can show all possible combinations of goods but not tell us which combination society should choose.
B. can show the best combination of goods which society should choose.
C. cannot show all possible combinations of goods because society is typically inefficient.
D. can show us which possible combinations of goods society should choose, but cannot tell us which points will be inefficient.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.

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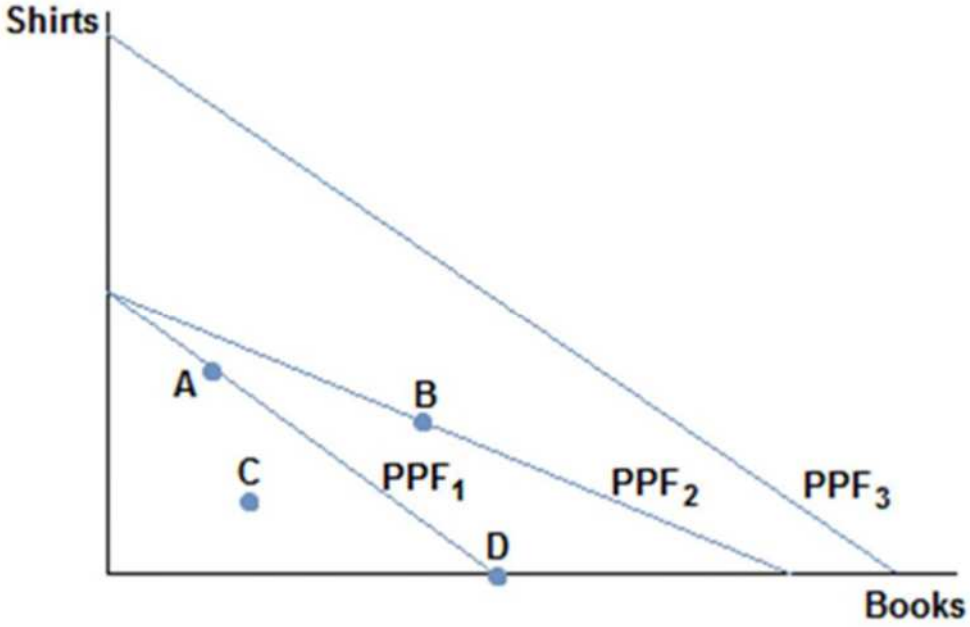
Topic: PPF

29. If society were to experience an increase in its available resources its production possibilities frontier would:
A. shift out.
B. shift in.
C. not move.
D. become convex.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



30.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_2?
A. More workers
B. Better printing press technology
C. A desire to read more books
D. Better sewing technology

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

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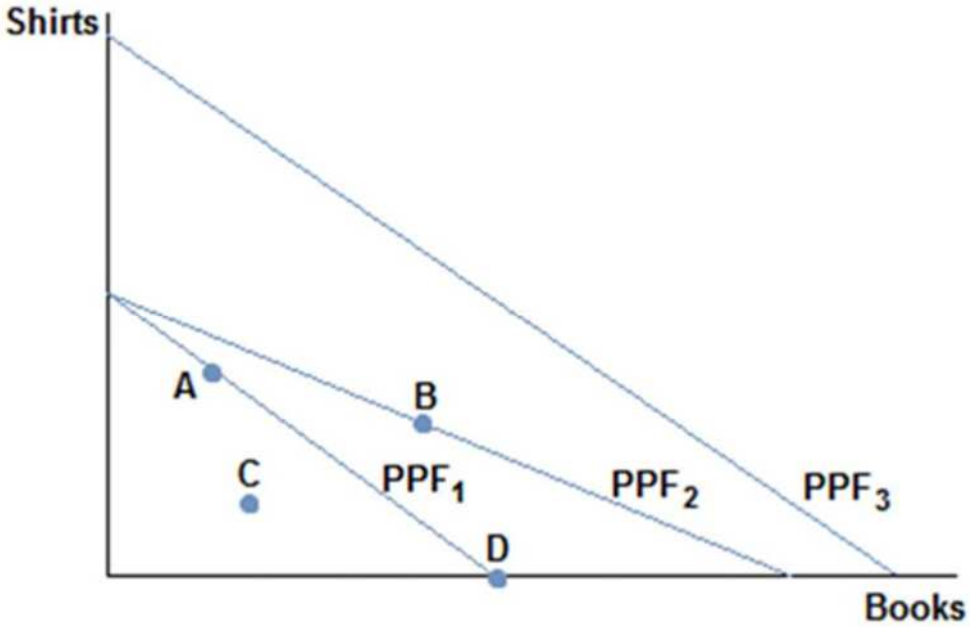
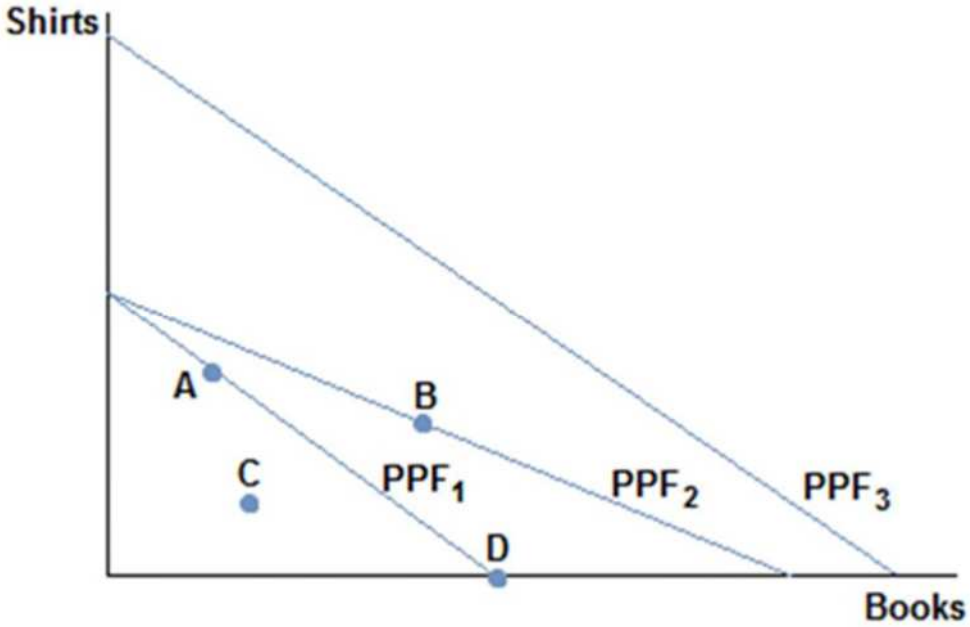


31.

Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_1 to PPF_3?

A. More workers
B. Better printing press technology
C. A desire to read more books
D. Better sewing technology

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF



32.

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Consider a society facing the production possibilities curves in the figure shown. What is the most likely cause of a society moving from PPF_3 to PPF_1?
A. A tornado
B. More workers
C. A desire to read lessbooks
D. Better sewing technology

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

33. An increase in productivity as a result of a new technology would cause the production possibilities frontier to:
A. shift in.
B. shift out.
C. not move until society chooses to move it.
D. become more meaningful in policy decisions.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

34. Hurricane Katrina destroyed much of New Orleans and other parts of the South. Which of the following statements is true? The hurricane:
A. caused the production possibilities frontier of the United States to shift in.
B. caused the production possibilities to increase, since it created a lot of work to rebuild the city affected areas.
C. caused the production possibilities frontier of the United States to shift.
D. didn't change the production possibilities frontier, but moved from a point on the frontier to a point inside the frontier.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

35. When nations trade the result would most likely be:
A. increase in total production, which can benefit every nation involved.
B. increase in total production, which would benefit only the wealthier nation.
C. decrease in total production across nations but increases it for some.
D. decrease in total production across all nations but benefits every nation because they are individually more productive.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Benefits of Trade

36. When nations trade, it:
A. only benefits the stronger nation.
B. only benefits the weaker nation.
C. can benefit all nations involved.
D. can only benefit one nation, but we cannot say which nation without more information.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Benefits of Trade

37. Which of the following statements about trade is true?
A. Trade involves a winner and a loser.
B. Trade often hurts both parties in the long run.
C. Trade is a zero sum proposition.
D. Trade can benefit both parties.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Benefits of Trade

38. If a wealthy nation such as the United States trades with a poorer, less developed nation like Cambodia, then it is likely true that:
A. the United States is taking advantage of Cambodia and is the only beneficiary to the trade.
B. Cambodia is pressured to enter trade and not benefiting at all.
C. both the United States and Cambodia can benefit from trading.
D. the United States is being charitable and not benefiting from the trade at all.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Benefits of Trade

39. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A. (1,000 iPods, 500 tablets).
B. (500 iPods, 500 tablets).
C. (500 iPods, 250 tablets).
D. (750 iPods, 150 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

40. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. Which of the following statements is now true?
A. Country B's production possibilities curve has rotated out for only production of iPods.
B. Country B's production possibilities curve has shifted straight out.
C. Country B's production possibilities curve has shifted straight in.
D. Country B's production possibilities are now more limited because of crowding from having more workers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

41. When a producer is operating efficiently it is producing:
A. at a point on its production possibilities frontier.

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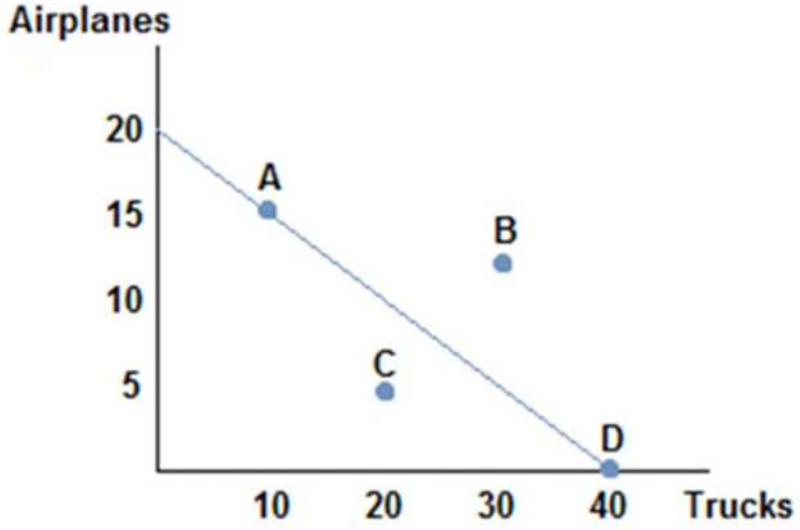
B. at a point on or under its production possibilities frontier.
C. only one good.
D. the good in which it has an absolute advantage.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

42. When a country is producing goods and services efficiently it:
A. is producing at a point on or below its production possibilities frontier.
B. is getting the most output by using all its available resources.
C. has unemployed workers.
D. is able to reach a point beyond its production possibilities frontier.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

43.



Suppose the figure shown represents the production possibilities frontier for Country A. Which of the following combinations of goods could Country A consume in the absence of trade?
A. (15 airplanes, 15 trucks)
B. (10 airplanes, 25 trucks)
C. (10 airplanes, 30 trucks)
D. (5 airplanes, 30 trucks)

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

44. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could potentially make would be:
A. (500 iPods, 500 tablets).
B. (500 iPods, 400 tablets).

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C. (500 iPods, 300 tablets).
D. (500 iPods, 200 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

45. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country A could *not* make would be:
A. (500 iPods, 150 tablets).
B. (500 iPods, 200 tablets).
C. (500 iPods, 250 tablets).
D. (500 iPods, 300 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

46. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A would be using resources efficiently if it produced:
A. (500 iPods, 100 tablets).
B. (500 iPods, 150 tablets).
C. (500 iPods, 200 tablets).
D. (500 iPods, 250 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

47. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A. (400 iPods, 2,000 tablets).
B. (300 iPods, 500 tablets).
C. (200 iPods, 1,500 tablets).
D. (100 iPods, 2,000 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

48. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could potentially make would be:
A. (400 iPods, 2,000 tablets).
B. (200 iPods, 1,500 tablets).
C. (300 iPods, 450 tablets).
D. (400 iPods, 1 tablet).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

49. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. A bundle of goods that Country B could *not* make would be:
A. (400 iPods, 250 tablets).
B. (300 iPods, 500 tablets).
C. (200 iPods, 750 tablets).
D. (100 iPods, 1,000 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

50. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B would be using resources efficiently if they were producing:
A. (200 iPods, 1,750 tablets).
B. (200 iPods, 1,500 tablets).
C. (200 iPods, 1,000 tablets).
D. (200 iPods, 750 tablets).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Efficiency

51. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country A could produce are:
A. (5,000 bananas, 1,000 tomatoes) and (1,000 bananas, 5,000 tomatoes)
B. (5,000 bananas, 0 tomatoes) and (2,500 bananas, 500 tomatoes)
C. (2,500 bananas, 500 tomatoes) and (1,250 bananas, 800 tomatoes)
D. (2,500 bananas, 750 tomatoes) and (1,250 bananas, 750 tomatoes)

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

52. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Two possible consumption bundles that Country B could produce are:
A. (7,200 bananas, 2,400 tomatoes) and (3,600 bananas, 1,200 tomatoes)
B. (7,200 bananas, 0 tomatoes) and (4,000 bananas, 1,200 tomatoes)
C. (3,600 bananas, 1,200 tomatoes) and (1,800 bananas, 1,600 tomatoes)
D. (1,800 bananas, 1,800 tomatoes) and (900 bananas, 2,200 tomatoes)

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Trade-offs

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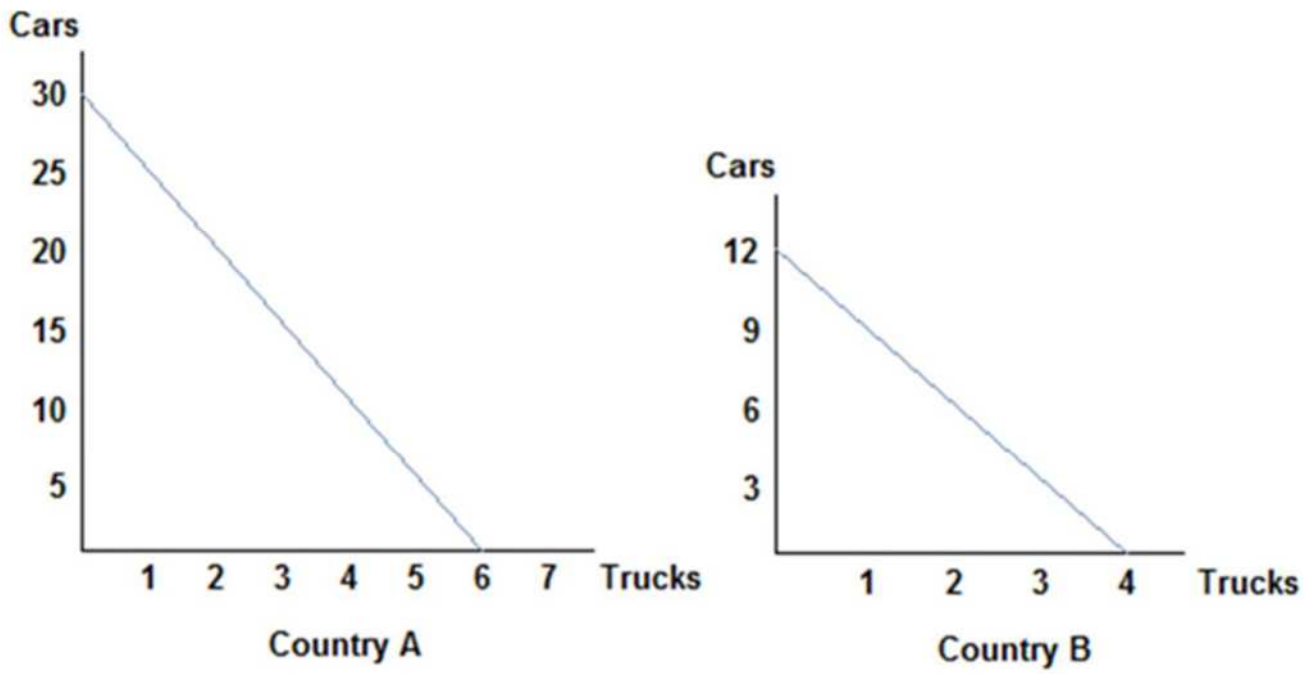

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. If Country A were to divide its resources equally, it could produce:

A. 30 cars and 6 trucks.
B. 25 cars and 5 trucks.
C. 15 cars and 3 trucks.
D. 10 cars and 4 trucks.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

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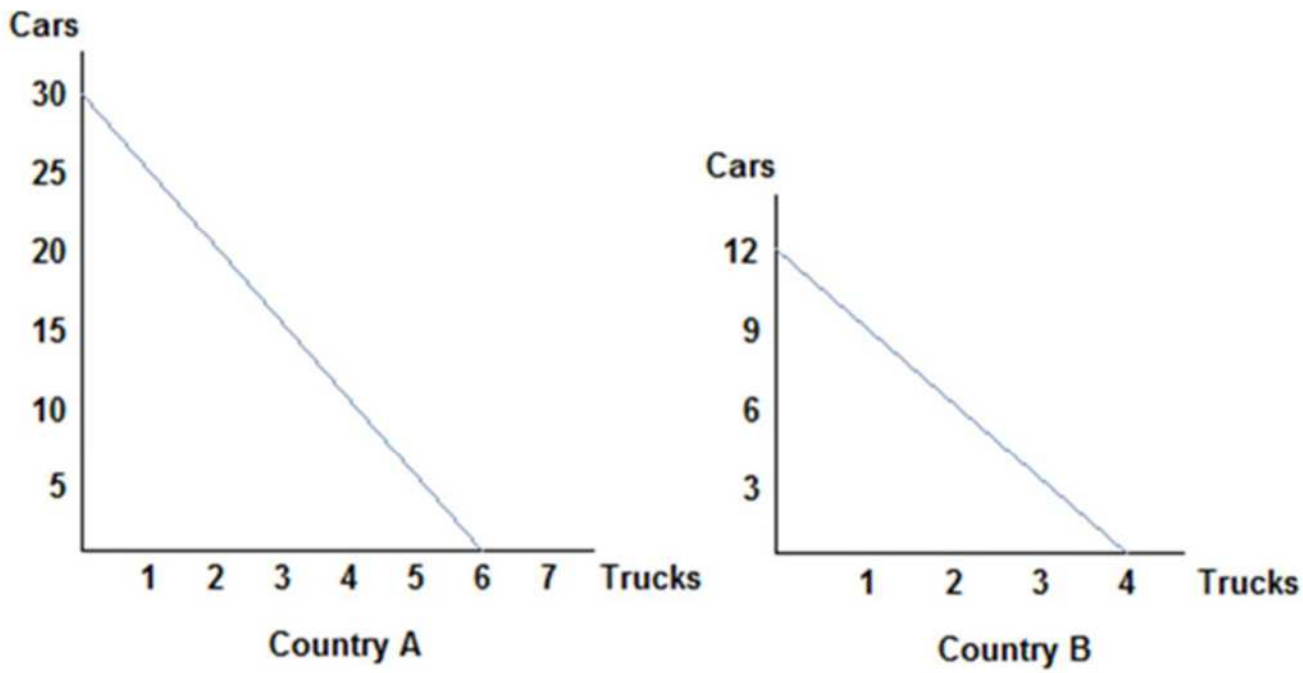

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. The slope of Country A's production possibilities frontier:

A. measures the opportunity cost of trucks in terms of cars.
B. measures the trade-off that Country A face when deciding how to allocate resources.
C. is constant because the opportunity cost remains constant.
D. All of these statements are true.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF/Opportunity Costs

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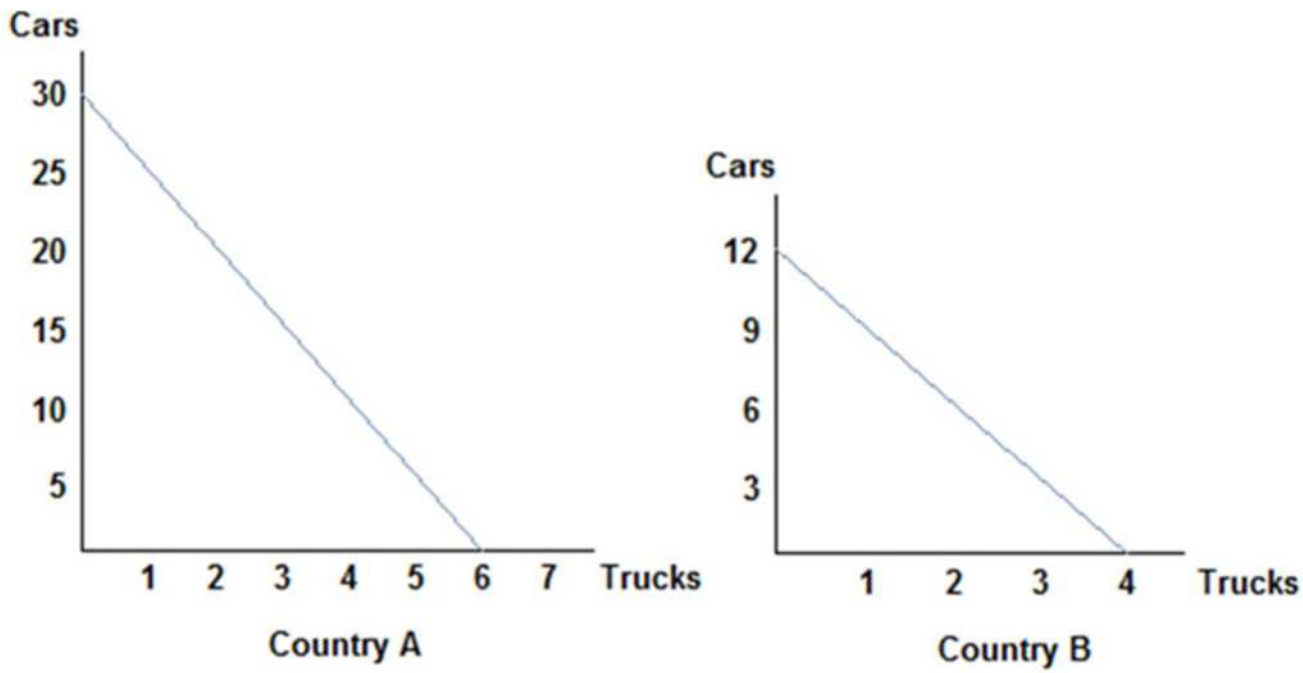

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. The slope of Country A's production possibilities frontier is _____, and Country B's is _____.

A. 5; 3
B. 30; 3
C. 1/5; 1/3
D. 1/5; 1/3

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

56. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. If Tom divides his time evenly between activities and acts efficiently, he will produce:

A. 16 dishes and 4 fences.
B. 12 dishes and 3 fences.
C. 8 dishes and 2 fences.
D. 4 dishes and 3 fences.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

57. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. At the end of the day, Tom could have:

A. (16 dishes, 4 fences) or (8 dishes, 2 fences).
B. (8 dishes, 2 fences), or (4 dishes, 6 fences).

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C. (8 dishes, 2 fences), or (4 dishes, 3 fences).
D. (12 dishes, 3 fences), or (8 dishes, 3 fences).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

58. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. At the end of the day, Jerry could have produced:
A. 14 dishes and 7 fences.
B. 12 dishes and 6 fences.
C. 10 dishes and 5 fences.
D. 6 dishes and 4 fences.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

59. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. At the end of the day, if Jerry was efficient with his resources, he could have produced:
A. 12 dishes and 0 fences.
B. 10 dishes and 2 fences.
C. 8 dishes and 2 fences.
D. 6 dishes and 2 fences.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Efficiency

60. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. For Tom, the opportunity cost of building a fence is _____ dishes made.
A. 16
B. 12
C. 8
D. 4

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

61. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. For Jerry, the opportunity cost of building a fence is _____ dishes made.

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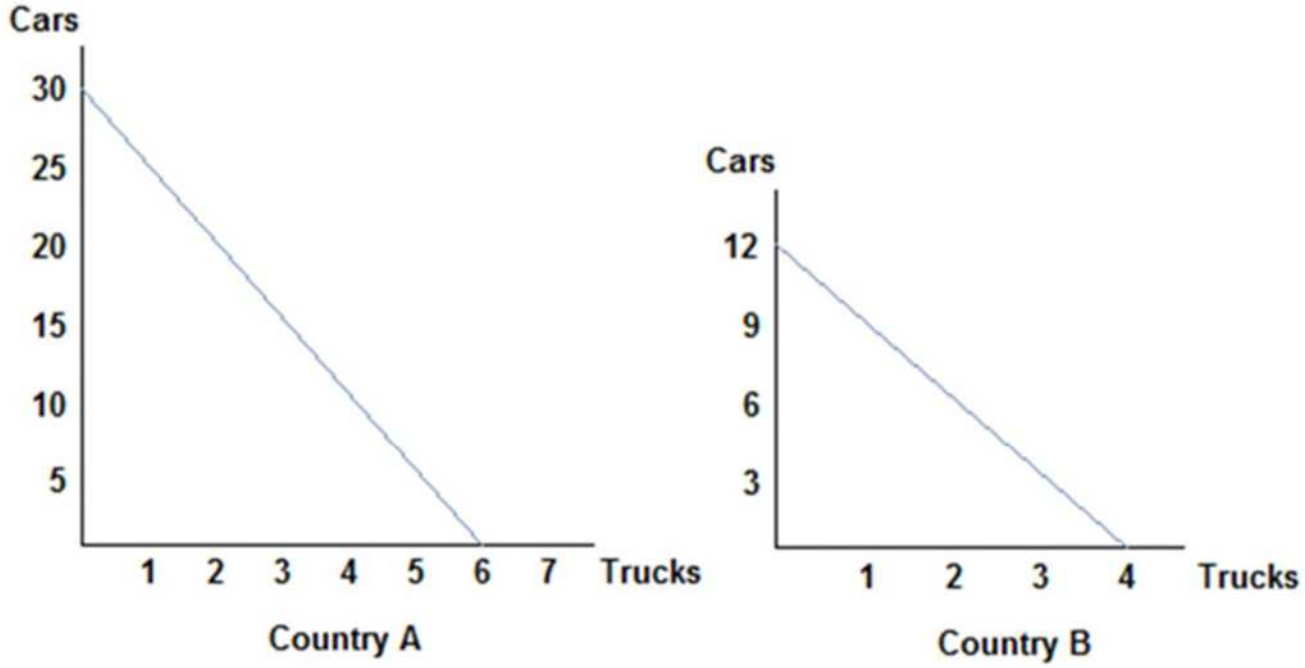
A. 14
B. 7
C. 4
D. 2

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

62.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements is true? The opportunity cost of a truck in Country A is:
A. 30 cars.
B. 6 trucks.
C. 5 cars.
D. 3 cars.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

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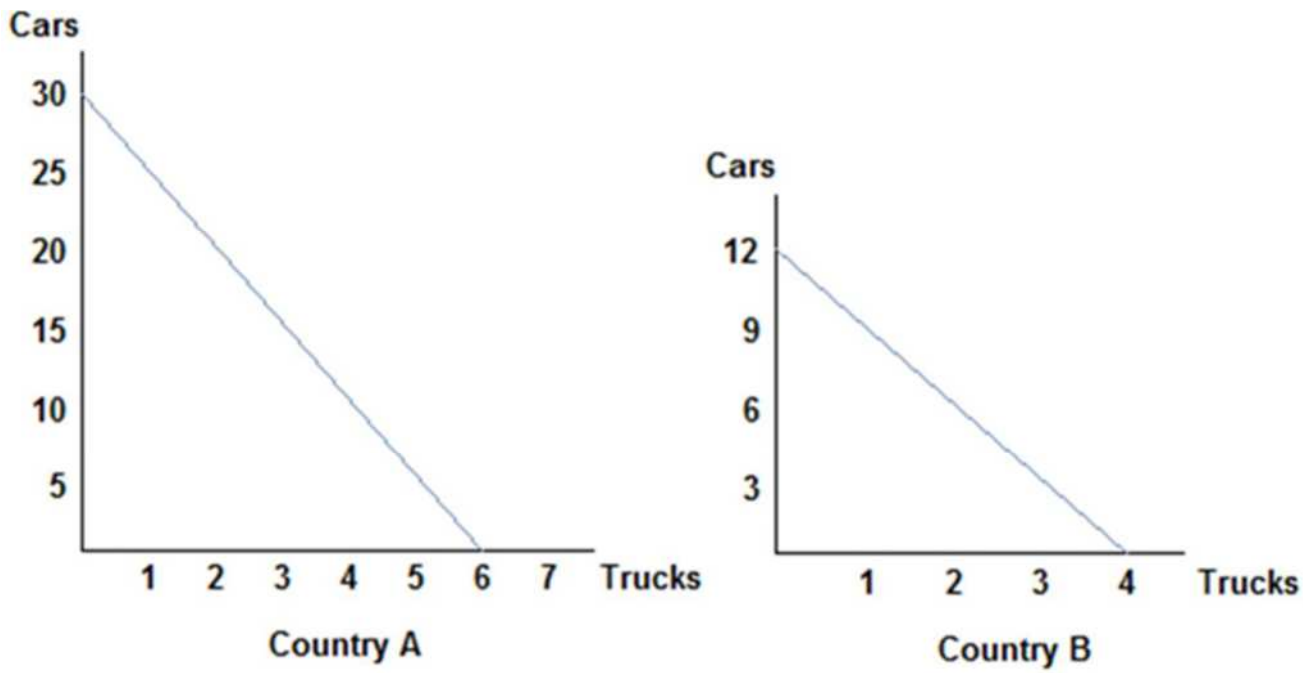

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements is true? The opportunity cost of a truck in Country B is:

A. 12 cars.
B. 4 trucks.
C. 1.5 cars
D. 3 cars.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: Opportunity Costs

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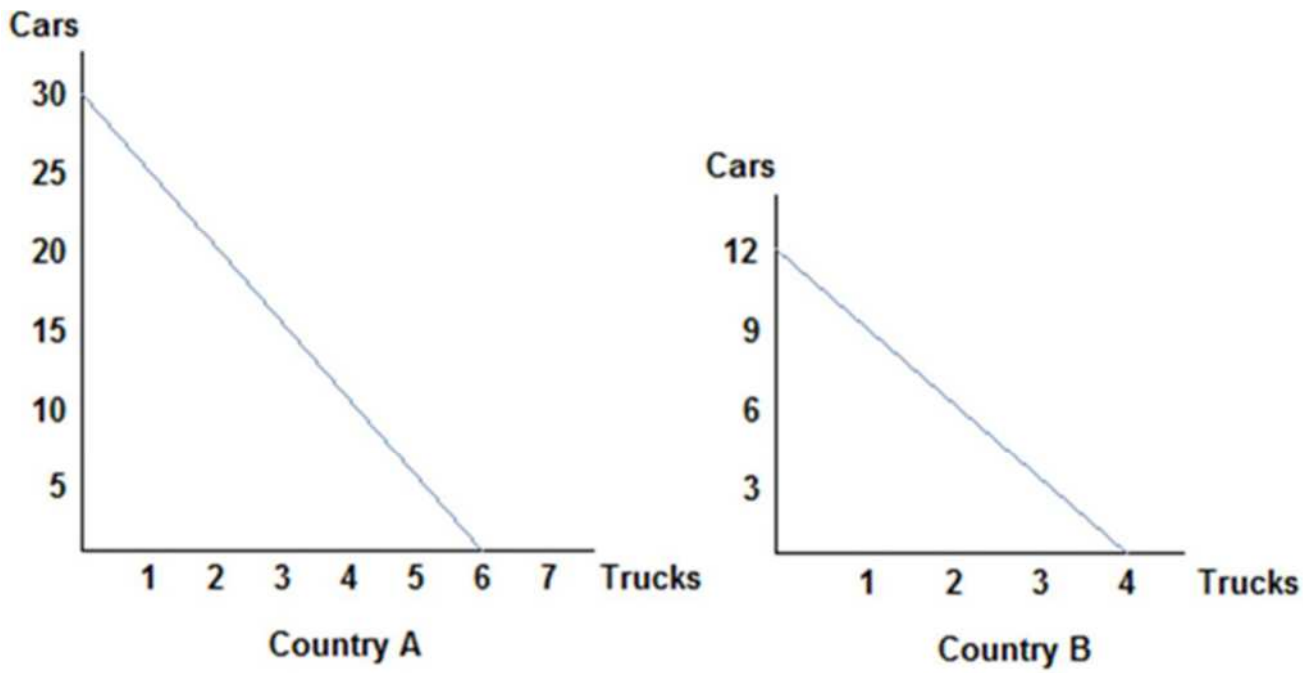

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. One of the reasons why Country A and Country B are not realistic representations of actual countries is:
A. the production possibilities curves are straight lines; realistic ones would be concave.
B. they only represent the production of two goods.
C. they only represent two countries.
D. All of these statements are true.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Construct a production possibilities graph and describe what causes shifts in production possibilities curves.
Topic: PPF

65. If the opportunity cost of producing corn is lower for Ohio than for Iowa, then:
A. Iowa should specialize in corn production.
B. Iowa has the comparative advantage in corn production.
C. Iowa should export corn to Ohio.
D. Ohio has the comparative advantage in corn production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

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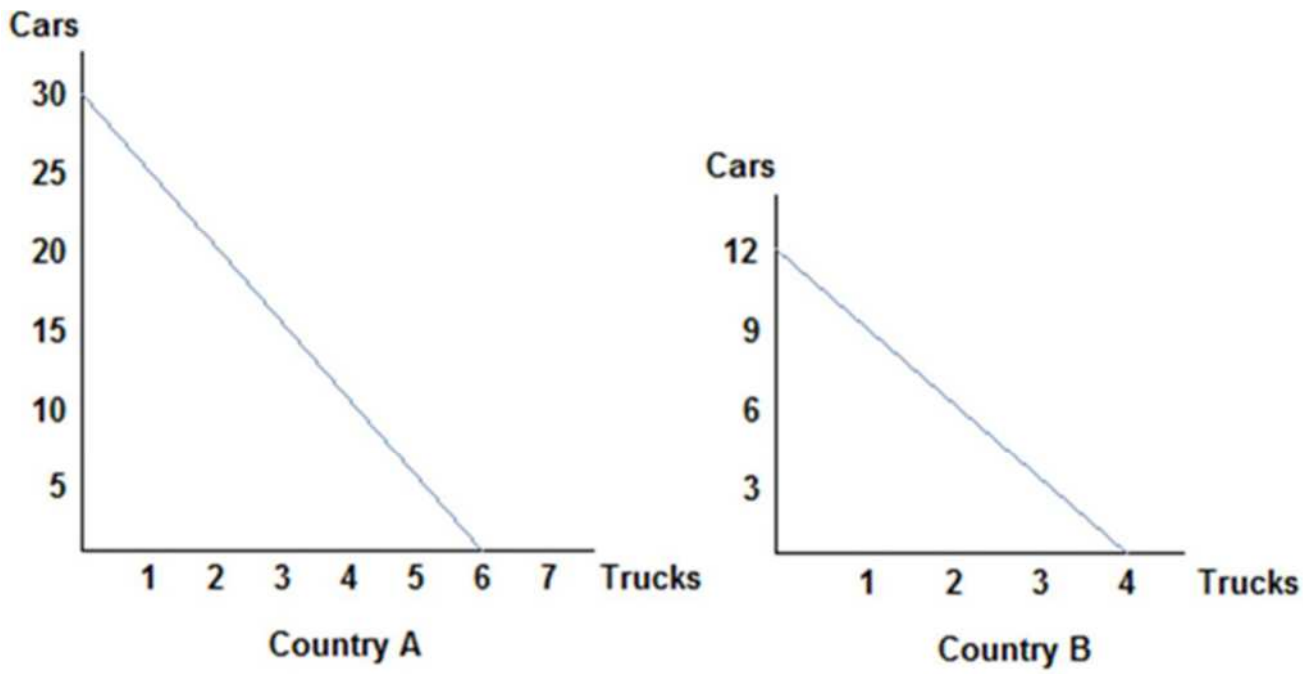

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Which of the following statements can be said of Country A? Country A:

A. has the comparative advantage in car production only.
B. has the comparative advantage in truck production only.
C. has the comparative advantage in car and truck production.
D. does not possess the comparative advantage in either good.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

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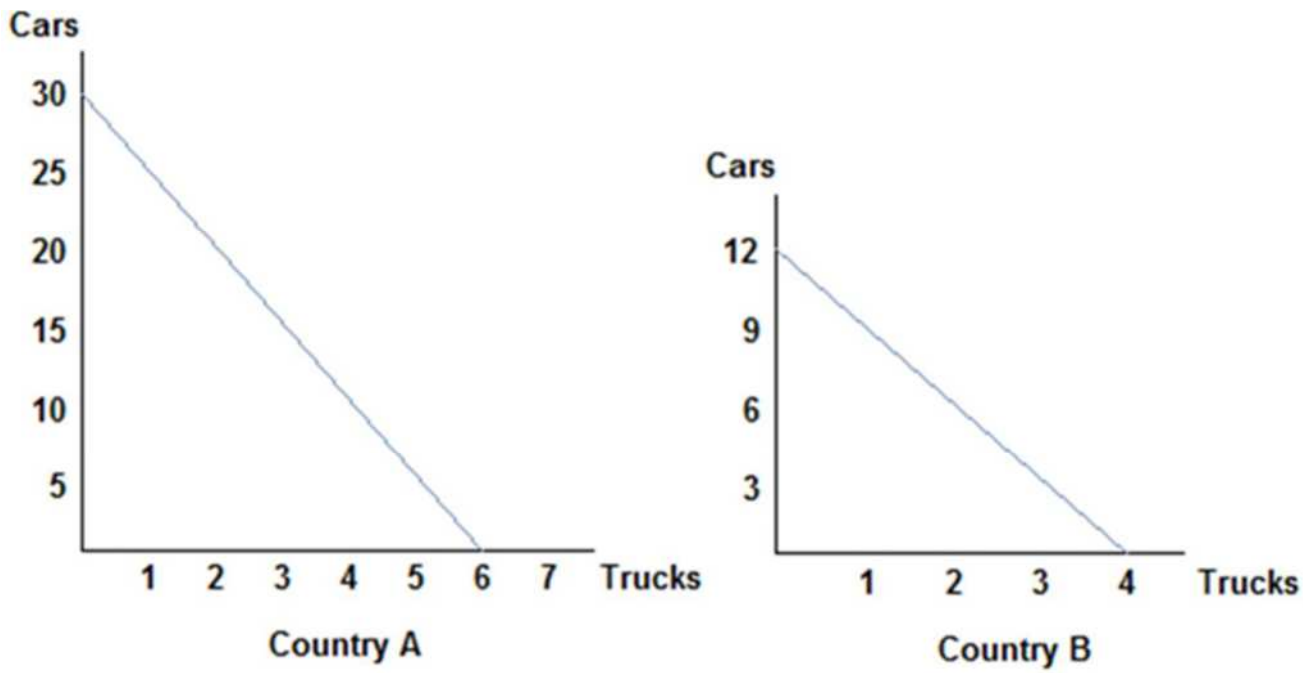

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Assuming both countries have the same amount of resources available to them, which of the following statements is true? Country A has:

A. an absolute advantage in the production of cars, and Country B has the absolute advantage in the production of trucks.

B. an absolute advantage in the production of trucks, and Country B has the absolute advantage in the production of cars.

C. the absolute advantage in the production of both cars and trucks.

D. the absolute advantage in neither the production of cars nor trucks.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

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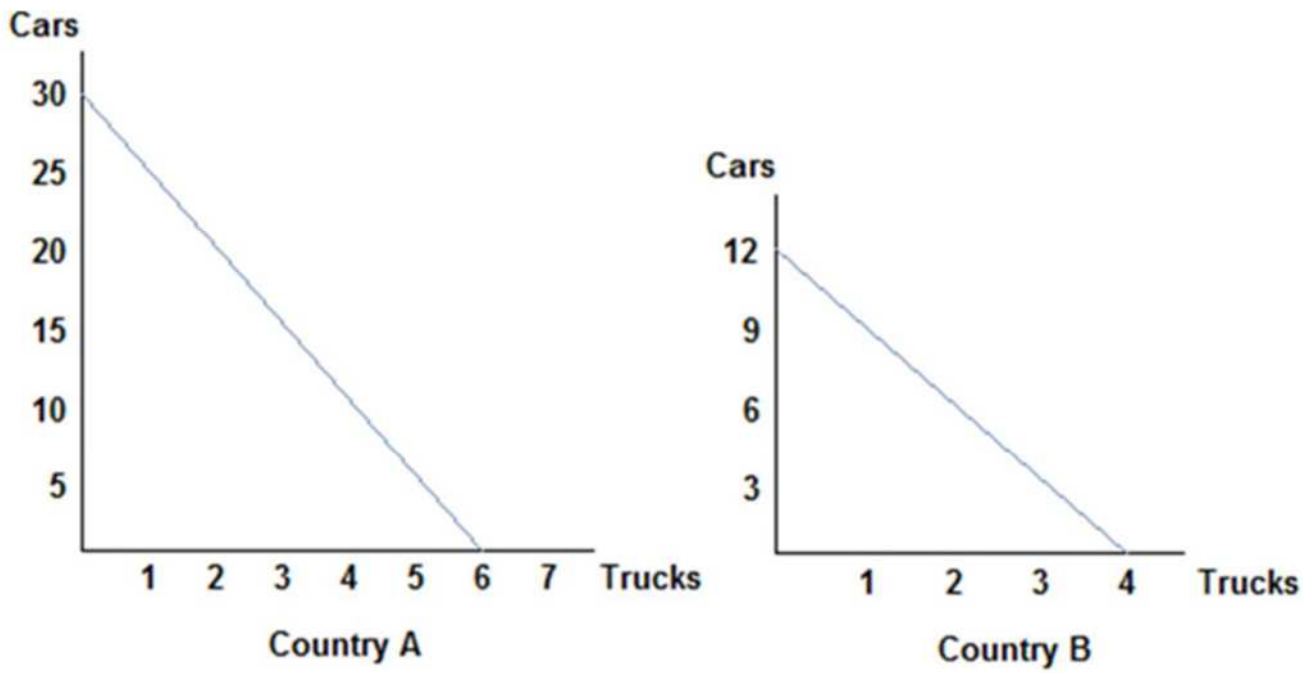

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Country A has the comparative advantage in:
A. cars and Country B has the comparative advantage in trucks.
B. trucks and Country B has the comparative advantage in cars.
C. cars and trucks.
D. neither cars nor trucks.

AACSB: Reflective Thinking
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

69. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country B, the trade-off to making one tomato is:
A. 2 bananas.
B. 3 bananas.
C. 4 bananas.
D. 5 bananas.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Trade-offs

70. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. For a worker in Country A, the trade-off of making one tomato is:
A. 2 bananas.
B. 3 bananas.
C. 4 bananas.
D. 5 bananas.

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AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Trade-offs

71. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the comparative advantage in the production of:
A. iPods only.
B. tablets only.
C. both iPods and tablets.
D. neither iPods nor tablets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

72. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country A has the absolute advantage in the production of:
A. iPods only.
B. tablets only.
C. both iPods and tablets.
D. neither iPods nor tablets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

73. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Suppose Country B's population of workers increased to 600. We can say:
A. Country B now possesses the absolute advantage in the production of both goods.
B. Country B now possesses the absolute advantage in tablets only.
C. Country B now has the comparative advantage in iPod production.
D. Country B has no need to trade now.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

74. Suppose that, given the same number of workers, the United States can produce five times as many computers or 10 times as many airplanes as Mexico. Which of the following statements is true?
A. The United States has an absolute advantage in the production of computers, and Mexico has an absolute advantage in the production of airplanes.
B. The United States has an absolute advantage in the production of airplanes, and Mexico has an absolute advantage in the production of computers.
C. The United States has an absolute advantage in the production of both airplanes and computers.
D. Mexico has an absolute advantage in the production of both airplanes and computers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.

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Topic: Absolute Advantage

75. Suppose that, given the same number of workers, the United States can produce two times as many TVs or 20 times as many potatoes as Chile. Which of the following statements is true?
A. Chile should trade with the United States for potatoes because the United States has an absolute advantage in the production of potatoes.
B. Chile should trade with the United States for TVs because the United States has an absolute advantage in the production of potatoes.
C. The United States can benefit from trading TVs but not potatoes with Chile.
D. The United States has absolute advantage in producing both goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

76. If a country possesses the absolute advantage in the production of one good:
A. then it must also possess the absolute advantage in the production of the other good.
B. then it must also possess the comparative advantage in the production of both goods.
C. then it must also possess the comparative advantage in the production of the other good.
D. it can produce more of that good given the same resources.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

77. Suppose that only two goods are produced in an economy. If a country possesses the comparative advantage in the production of one good then it:
A. must also possess the comparative advantage in the production of the other good.
B. must also possess the absolute advantage in the production of that good.
C. cannot also possess the comparative advantage in the production of the other good.
D. cannot also possess the absolute advantage in the production of that good.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

78. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?

A. The United States has the absolute advantage in the production of both shoes and apples.
B. Canada has the absolute advantage in the production of both shoes and apples.
C. The United States has the absolute advantage in the production of shoes and Canada has the absolute advantage in the production of apples.
D. Canada has the absolute advantage in the production of shoes and the United States has the absolute advantage in the production of apples.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.

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Topic: Absolute Advantage

79. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true? The United States has an absolute advantage:
A. and a comparative advantage in the production of shoes.
B. and a comparative advantage in the production of apples.
C. in the production of both goods and a comparative advantage in the production of neither good.
D. in the production of both goods and a comparative advantage in the production of both goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute and Comparative Advantage

80. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Which of the following statements is true?
A. The United States has a comparative advantage in the production of shoes.
B. Canada has a comparative advantage in the production of shoes.
C. Comparative advantage doesn't exist in this scenario.
D. Both countries have a comparative advantage in the production of shoes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

81. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. When trade opens up, the United States should produce:
A. both goods, since they have an absolute advantage in both goods, and not trade.
B. only shoes, since they have a comparative advantage in the production of shoes, and not trade.
C. apples, since they have a comparative advantage in the production of apples, and not trade.
D. only apples, since they have a comparative advantage in the production of apples, and trade for shoes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

82. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of one pair of shoes for the United States is _____, while the opportunity cost of one pair of shoes for Canada is _____.
A. 5 apples; 2 apples
B. $^1/_5$ apple; Â½ apple
C. 2,000 apples; 200 apples
D. 100 apples; 20 apples

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs and Comparative Advantage

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83. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for the United States is:

A. 5 apples for each pair of shoes.
B. 5 pairs of shoes for each apple.
C. $^1/_5$ apple for each pair of shoes.
D. 1 pair of shoes for every 2 apples.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

84. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost for Canada is:

A. 2 apples for each pair of shoes.
B. 2 pairs of shoes for each apple.
C. ½ apple for each pair of shoes.
D. ½ pair of shoes for every 2 apples.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

85. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. The opportunity cost of a pair of shoes is _____ for the United States than Canada, so Canada has the _____ advantage in shoe production.

A. higher; comparative
B. lower; comparative
C. higher; absolute
D. lower; absolute

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

86. Suppose an American worker can make 20 pairs of shoes or grow 100 apples per day. On the other hand, a Canadian worker can produce 10 pairs of shoes or grow 20 apples per day. Canada has the _____ opportunity cost of a pair of shoes than the United States, so: _____.

A. higher; Canada should specialize in shoe production

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B. lower; Canada should specialize in apple production
C. higher; Canada should specialize in apple production
D. lower; Canada should specialize in shoe production

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

87. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. The opportunity cost of one pair of gloves is:
A. 6 radishes for the United States and 2 radishes for Bangladesh.
B. 60 radishes for the United States and 20 radishes for Bangladesh.
C. 1/6 radishes for the United States and Â½ radishes for Bangladesh.
D. 6,000 radishes for the United States and 2,000 radishes for Bangladesh.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

88. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Using the concept of absolute advantage, which of the following statements is true? The United States:
A. has the absolute advantage in the production of both gloves and radishes.
B. does not have the absolute advantage in the production of either gloves or radishes.
C. has the absolute advantage in the production of gloves, but not radishes.
D. has the absolute advantage in the production of radishes, but not gloves.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

89. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of absolute and comparative advantage, we can say that the United States has the comparative advantage in:
A. the production of both gloves and radishes.
B. neither the production of gloves nor radishes.
C. the production of gloves only.
D. the production of radishes only.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

90. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Using the concepts of advantage and trade, we can say that the opportunity cost of one pair of gloves is:
A. lower for the United States than Bangladesh, therefore the United States has a comparative advantage in glove production.
B. higher for the United States than Bangladesh, therefore the United States has a comparative advantage in radish production.
C. the same for both the United States and Bangladesh, therefore no comparative advantage exists.

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D. the same for both the United States and Bangladesh, therefore they both have the comparative advantage in glove production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

91. Suppose an American worker can make 50 pairs of gloves or grow 300 radishes per day. On the other hand, a Bangladeshi worker can produce 100 pairs of gloves or grow 200 radishes per day. Which of the following statements is true? Bangladesh should:
A. specialize in glove production since it possesses the comparative advantage in glove production.
B. despecialize in radish production since it possesses the comparative advantage in radish production.
C. produce both gloves and radishes since it has the absolute advantage in glove production.
D. only produce radishes since it has the absolute advantage in radish production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

92. Suppose an American worker can make 100 chairs or catch 1,000 fish per day. A Chilean worker, on the other hand, can produce 40 chairs or catch 400 fish per day. Which of the following statements is true?
A. The United States has the comparative advantage in chair production.
B. Chile has the comparative advantage in chair production.
C. Both the United States and Chile have a comparative advantage in chair production.
D. Neither the United States nor Chile has a comparative advantage in chair production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

93. Suppose an American worker can make 100 chairs or catch 1000 fish per day. On the other hand, a Chilean worker can produce 40 chairs or catch 400 fish per day. The United States possesses a(n) _____ advantage in chair production, but *not* a(n) _____ advantage in fish production.
A. absolute; comparative
B. comparative; absolute
C. absolute; absolute
D. comparative; comparative

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

94. Suppose an American worker can make 100 chairs or catch 900 fish per day. On the other hand, a Chilean worker, can make 40 chairs or catch 400 fish per day. The United States has an absolute advantage in the production of both fish and chairs. This means that the United States:
A. should produce only chairs and trade with Chile to get fish.
B. should produce only fish and trade with Chile to get chairs.
C. should take advantage of Chile by trading with them.
D. can produce more fish and chairs than Chile given the same amount of workers.

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Accessibility: Keyboard Navigation

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Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

95. When a producer has the ability to produce a good or service at a lower opportunity cost than others, economists say the producer:
A. has an absolute advantage at producing that good.
B. has a comparative advantage at producing that good.
C. has no reason to trade with others.
D. is efficient in production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

96. When a producer has a comparative advantage in producing a good, it means the producer:
A. can produce more of that good than others with the same number of workers.
B. has the ability to produce the good at a lower opportunity cost than others.
C. has no reason to trade with others.
D. is efficient in production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

97. When a producer has an absolute advantage at producing a good, it means the producer:
A. can produce more of that good than others with the same amount of resources.
B. has the ability to produce a good or service at a lower opportunity cost than others.
C. has no reason to trade with others.
D. is less efficient than other producers.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

98. The United States and Canada trade hockey skates and apple pie. If the United States has an absolute and a comparative advantage in the production of apple pie, then:
A. Canada must have the comparative advantage in the production of skates.
B. Canada must have the absolute advantage in the production of skates.
C. Canada must have the absolute and comparative advantage in the production of skates.
D. the United States must also have the comparative advantage in the production of skates.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

99. Which of the following statements about absolute and comparative advantage is ***not*** true? A country may have:
A. a comparative advantage but not an absolute advantage in the production of a good.
B. an absolute advantage but not a comparative advantage in the production of a good
C. the absolute advantage in the production of all goods.
D. neither absolute nor comparative advantage in the production of any goods.

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AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute and Comparative Advantage

100. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato in Country A is:
A. 100 bananas.
B. 20 bananas.
C. 5 bananas.
D. 4 bananas.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

101. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato in Country B is:
A. 108 bananas.
B. 18 bananas.
C. 6 bananas.
D. 3 bananas.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

102. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The opportunity cost of one tomato is:
A. lower in Country A than Country B.
B. higher in Country A than Country B.
C. the same in both countries.
D. impossible to calculate without more information.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

103. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Suppose that a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has an absolute advantage in:
A. the production of bananas, but not tomatoes.
B. the production of both bananas and tomatoes.
C. the production of tomatoes, but not bananas.
D. neither good.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.

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Topic: Absolute Advantage

104. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. Because Tom has a _____ opportunity cost for one fence compared to Jerry, we know Tom has _____.

A. higher; the comparative advantage in fence production
B. lower; the comparative advantage in fence production
C. similar; no advantage in production of either good
D. higher; the comparative advantage in dish production

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

105. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. Jerry has a comparative advantage in:
A. dish production because he has the lower opportunity cost of a dishes.
B. dish production because he has the higher opportunity cost of a dishes.
C. fence production because he has the lower opportunity cost of a fence.
D. fence production because he has the higher opportunity cost of a fence.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Opportunity Costs

106. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. After looking at the production possibilities for both Tom and Jerry, we can surmise that:
A. Tom has the absolute advantage in the production of both dishes and fences.
B. Jerry has the absolute advantage in the production of both dishes and fences.
C. Tom has the absolute advantage in the production of dishes and Jerry has the absolute advantage in fence production.
D. Tom has the absolute advantage in the production of fences and Jerry has the absolute advantage in dish production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Absolute Advantage

107. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day

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building fences, he will build 7 fences. After looking at the production possibilities for both Tom and Jerry, we can conclude that:
A. Tom has the comparative advantage in dish production.
B. Jerry has the comparative advantage in dish production.
C. Tom has the comparative advantage in fence production.
D. No comparative advantage exists.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-02 Define absolute and comparative advantage.
Topic: Comparative Advantage

108. We say that a country completely specializes in production when it spends all of its resources producing:
A. a particular good.
B. those goods it has an absolute advantage in producing.
C. only what other countries need.
D. what it can make more of than anyone else.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

109. When two countries specialize and trade with one another total production:
A. remains unchanged but consumption rises.
B. increases, but only if comparative advantage exists.
C. may increase, depending on trade relations.
D. and consumption remain unchanged.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

110. People would *not* choose to specialize because:
A. it can lead to more consumption than being self-sufficient.
B. it can lead to consumption beyond the production possibilities frontier.
C. it allows people to acquire goods at a lower opportunity cost.
D. production standards are harder to control if goods are imported from other countries.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

111. The improvement in outcomes that occurs when specialized producers exchange goods and services is called:
A. gains from trade.
B. absolute advantage.
C. comparative advantage.
D. specialization.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.

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Topic: Specialization

112. People will choose to specialize and trade if they can acquire the goods they want:
A. at a lower cost than it would cost them to make the goods themselves.
B. at a higher cost than it would cost them to make the goods themselves.
C. from someone who is willing to trade with them.
D. from a capitalistic system of exchange.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

113. People often choose to specialize and trade because:
A. it will allow them to enjoy more goods than they can create on their own.
B. they can consume a bundle of goods on their production possibilities frontier.
C. it always allows them to produce at a point beyond their own production possibilities frontier.
D. they can take advantage of another nation's poor choices.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

114. Two countries will choose to specialize and trade only if:
A. the terms of trade fall between their opportunity costs for producing the goods on their own.
B. the opportunity costs are the same for the two nations.
C. the opportunity costs are astronomically high for producing the goods on their own.
D. one country possesses the absolute advantage in both goods, but the comparative advantage in only one good.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

115. When a country loses its comparative advantage in the production of a good it:
A. should stop trading and become self-sufficient.
B. will gain the comparative advantage in the production of another good.
C. will become a loser in trade in the long run.
D. will still have the absolute advantage in the production of the good.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

116. If France is capable of producing either cheese or wine or some combination of those two products, then France should:
A. produce the one it is more efficient at producing.
B. produce the one for which it has a comparative advantage.
C. produce the one for which it has a higher opportunity cost.
D. remain self-sufficient if it has the absolute advantage in the production of both.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.

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Topic: Specialization

117. If Spain is capable of producing either tapas or soccer balls or some combination of those two products, then Spain should:
A. produce the good it has an absolute advantage in producing.
B. produce the good it has a comparative advantage in producing.
C. remain self-sufficient if it can produce both efficiently.
D. trade only if it possesses the absolute advantage in the production of both goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

118. Assume that the opportunity cost for Germany to produce a jet is 50 cars. If Germany is producing on its production Possibility Frontier, some possible combinations of output for Germany could be:
A. (1,000 jets, 5,000 cars) and (900 jets, 10,000 cars).
B. (1,000 jets, 5,000 cars) and (900 jets, 15,000 cars).
C. (2,500 jets, 2,000 cars) and (2,300 jets, 20,000 cars).
D. (2,500 jets, 2,000 cars) and (2,300 jets, 3,000 cars).

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Opportunity Costs

119. Suppose England has a comparative advantage over the United States in producing tea. If this is true, then:
A. England should produce more tea than it wants and sell the rest to the United States.
B. England should produce a small amount of tea and buy the rest of the tea it wants from the United States.
C. England should not produce tea, and should instead buy it all from the United States.
D. the United States has nothing to gain from buying tea from England.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

120. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Country B has the _____ advantage in the production of tablets, which means they should specialize in _____.
A. comparative; tablets
B. absolute; tablets
C. comparative; iPods
D. absolute; iPods

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

121. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true? The opportunity cost of:
A. 1 iPod in Country A is 2 tablets.

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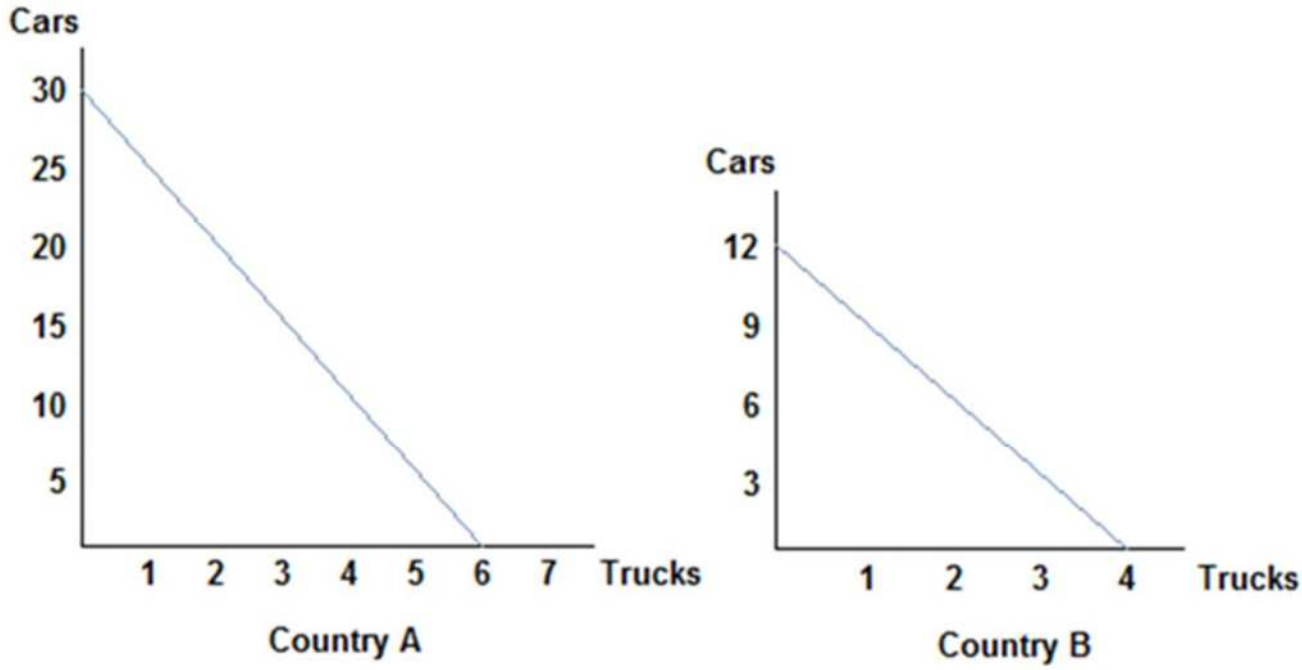
B. 1 tablet in Country A is 2 iPods.
C. tablets is lower in Country A than Country B.
D. 1 iPod in Country B is 2 tablets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Opportunity Costs

122. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. The opportunity cost of one fence is _____ for Tom and _____ for Jerry. Therefore Tom should specialize in _____.
A. 4 dishes; 2 dishes; dishes
B. 16 dishes; 14 dishes; dishes
C. 4 dishes; 2 dishes; fences
D. 16 dishes; 14 dishes; fences

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

123.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After comparing each country's production possibilities curve, it is clear that:
A. Country A should specialize in cars and Country B should specialize in trucks, and both could benefit from trade.
B. Country A should specialize in trucks and Country B should specialize in cars, and both will benefit from trade.
C. Country A will not benefit from trade.

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D. Country B will lose by trading with Country A.

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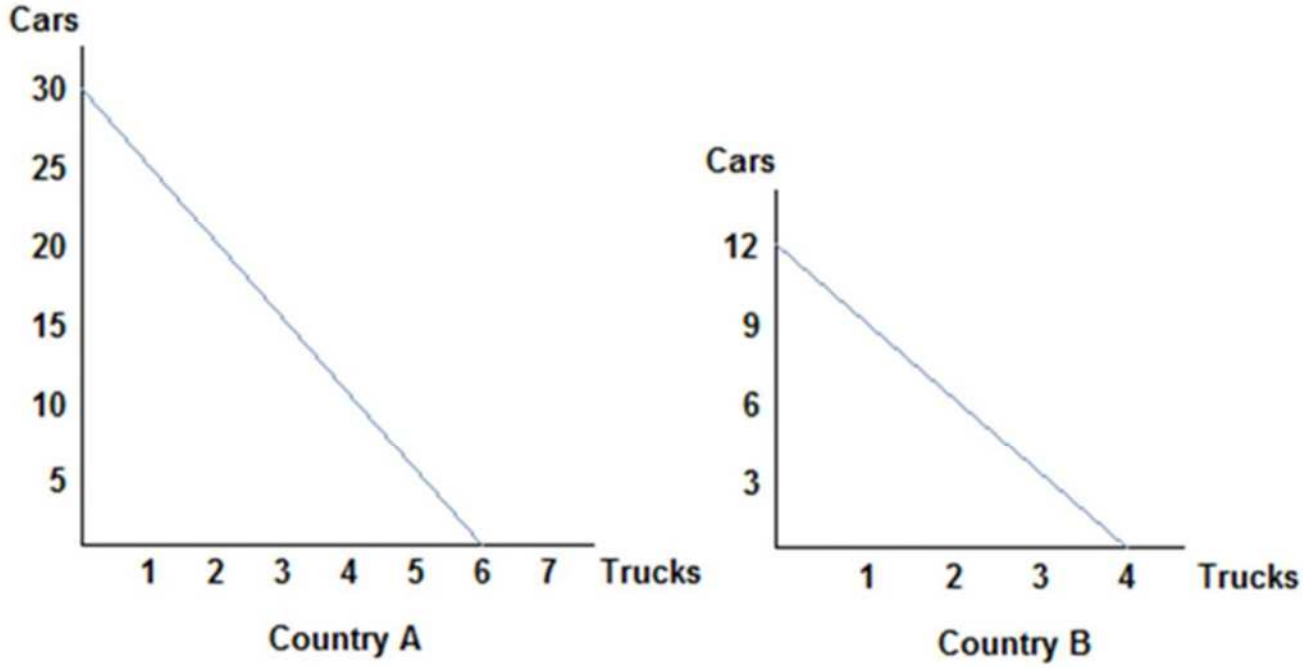
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

124.



Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining each country's production possibilities curve, it is clear that:
A. neither country will benefit from trade.
B. both countries can benefit from trade because absolute advantage exists.
C. both countries could benefit from trade because comparative advantage exists.
D. only Country A will benefit from trade.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Trade

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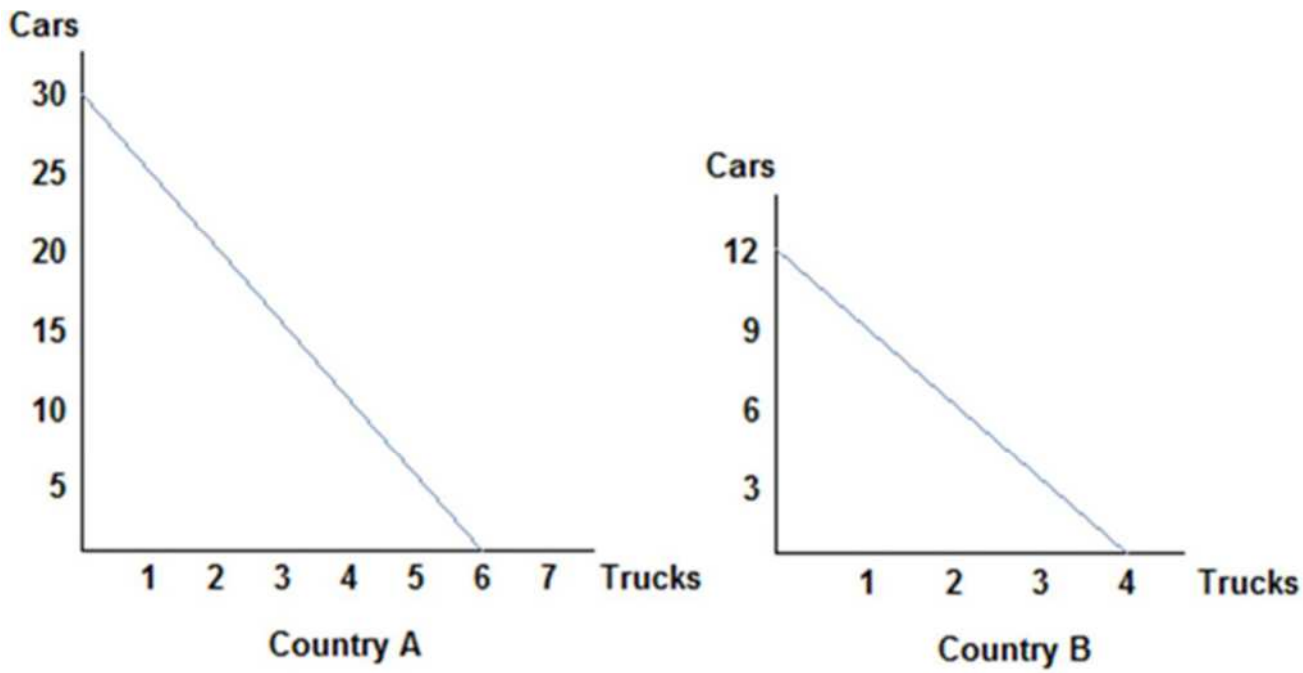

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. After examining the production possibilities of each country, we can surmise that Country A's opportunity cost of a car:

A. is lower than that of Country B, and so they should specialize in cars and trade.
B. is higher than that of Country B, and so they should specialize in cars and trade.
C. is the same as that of Country B, and so they will not benefit from trade.
D. does not determine a country's decision to trade; it is absolute advantage that drives that decision.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Opportunity Costs/Gains from Trade

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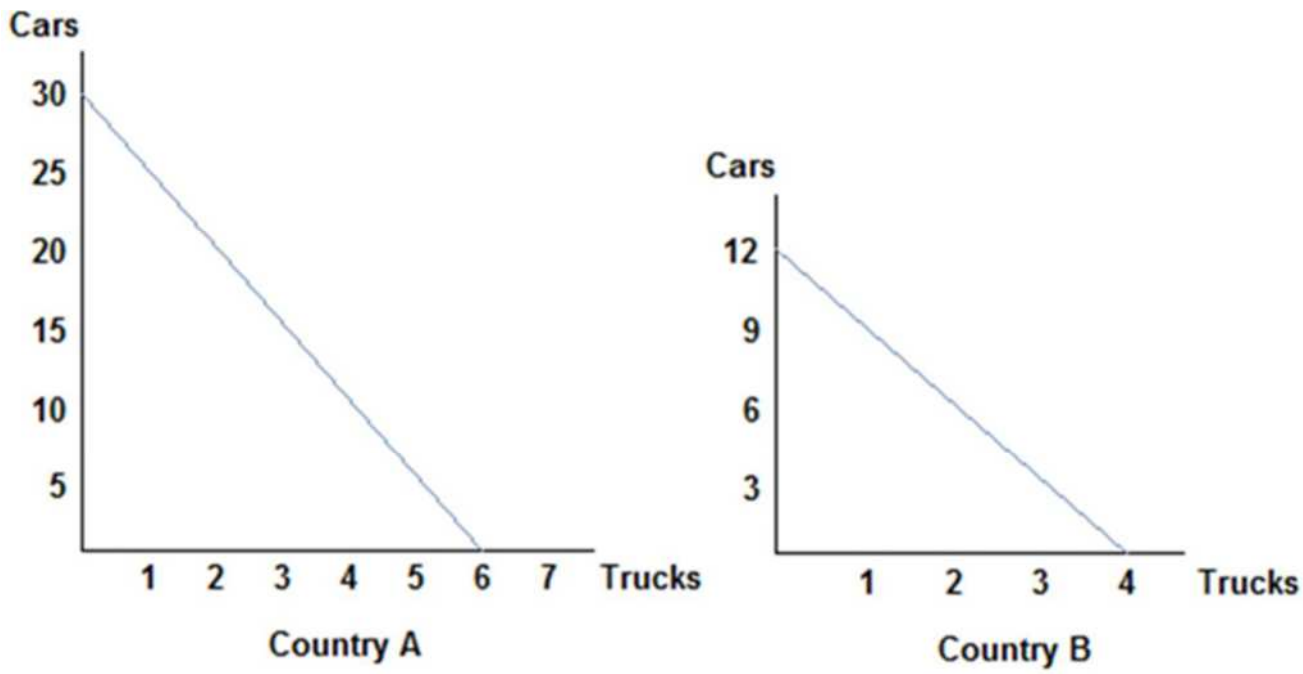

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we know that would both agree to terms of trade of one truck to:

A. two cars.
B. four cars.
C. six cars.
D. eight cars.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Terms of Trade

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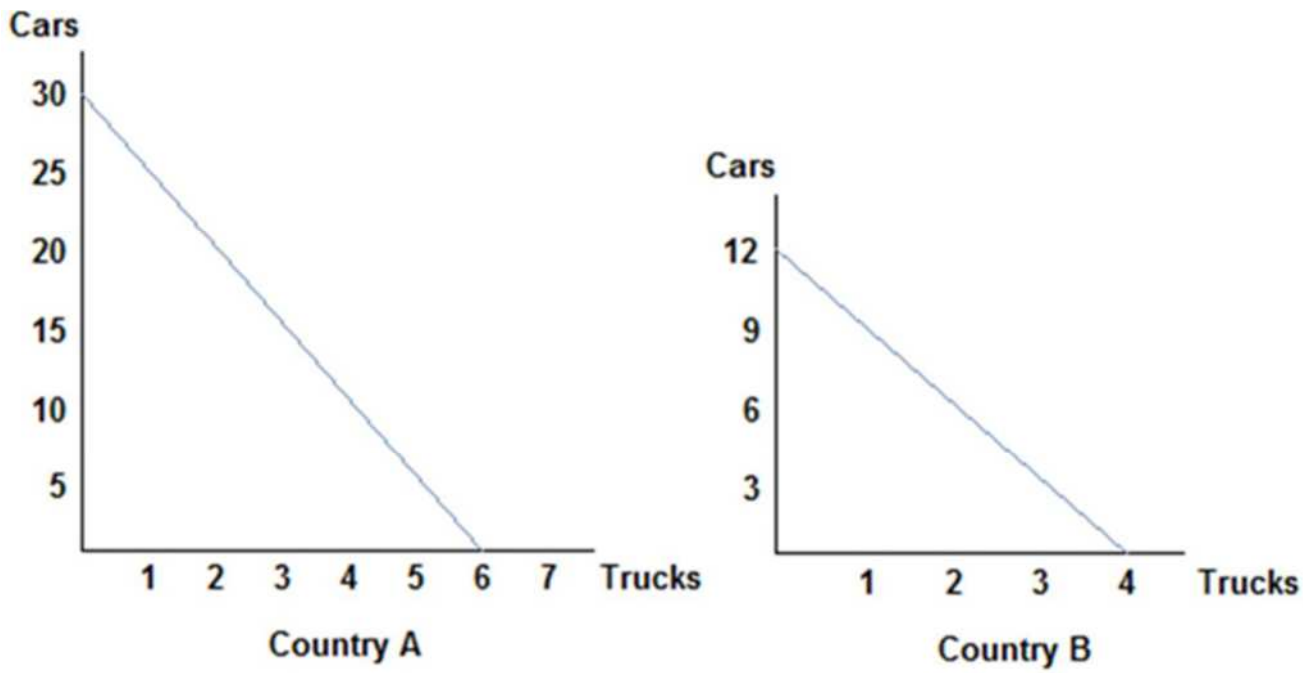

Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can infer that Country A will specialize in:

A. trucks, and be willing to accept no less than 5 cars for each truck.
B. cars, and be willing to give no more than 5 cars for each truck.
C. trucks, and be willing to accept no more than 5 cars for each truck.
D. cars, and be willing to give no less than 5 cars for each truck.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Specialization

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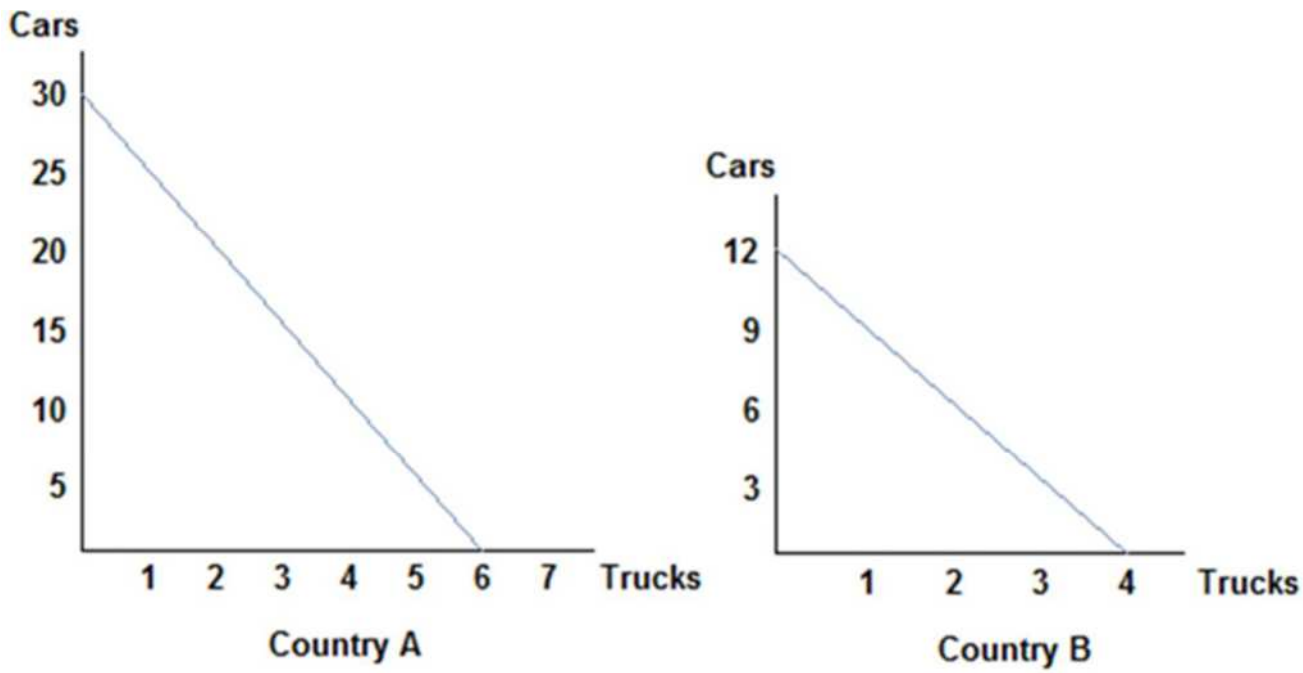
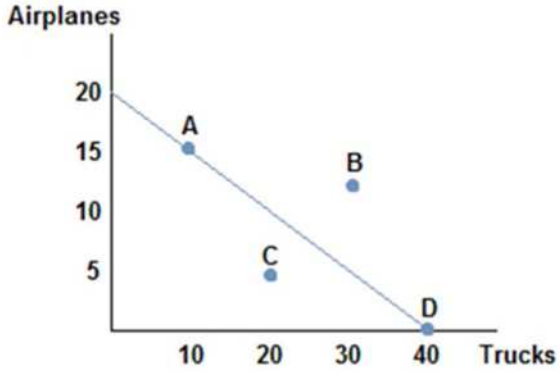


Refer to the figure shown, which represents the production possibilities frontiers for Countries A and B. Considering both country's production possibilities frontiers, we can conclude that Country B will specialize in:

A. trucks, and be willing to accept no fewer than 3 cars for each truck.
B. cars, and be willing to give no more than 3 cars for each truck.
C. trucks, and be willing to accept no more than 3 cars for each truck.
D. cars, and be willing to give no fewer than 3 cars for each truck.

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Specialization/Terms of Trade

129. 

Suppose the figure shown represents the production possibilities frontier for Country A. Country B offers to trade four trucks for every airplane. Assuming Country A specializes in airplane production, which of the following combinations of goods could Country A consume?

A. (15 airplanes, 20 trucks)

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B. (10 airplanes, 20 trucks)
C. (10 airplanes, 30 trucks)
D. (5 airplanes, 20 trucks)

AACSB: Reflective Thinking
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade/Specialization

130. A country's newest ruler has decided the country will become self-sufficient and ceases trade with the rest of the world. The likely outcome of this action will be that the country's citizens will be:
A. forced to consume less than before if they possessed a comparative advantage in the production of a good.
B. better off than before if they possess an absolute advantage in the production of a good.
C. better off than before only if they have the absolute advantage in the production of most goods they consume.
D. better off than before only if they have the comparative advantage in all goods

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

131. Economic theory states that losing comparative advantage in one good means creating a comparative advantage in another. This suggests that:
A. those who experience the transition may find it difficult in the short run.
B. it can be seen as a success in the short run.
C. outsourcing will always be good for every member of a society.
D. in the long run people may not like it, but no one will complain in the short run.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Comparative Advantage

132. Suppose that a worker in Country A can make either 10 iPods or 5 tablets each year. Country A has 100 workers. Suppose a worker in Country B can make either 2 iPods or 10 tablets each year. Country B has 200 workers. Which of the following is true?
A. Country B should produce tablets and Country A should produce iPods, and they could benefit from trade.
B. Country B should produce iPods and Country A should produce tablets, and they could benefit from trade.
C. Neither country can benefit from trade since no comparative advantage exists.
D. Because Country B has the absolute advantage in producing tablets, they should specialize in the production of tablets.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

133. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country A should specialize in _____ because they possess the _____ in the production of that good.
A. bananas; comparative advantage
B. tomatoes; comparative advantage

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C. bananas; absolute advantage
D. tomatoes; absolute advantage

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Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

134. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. The workers in Country B will benefit from trade if they:
A. specialize in bananas because they have a comparative advantage in banana production.
B. specialize in tomatoes because their opportunity cost of tomatoes is higher than Country A's.
C. specialize in tomatoes because their opportunity cost of tomatoes is lower than Country A's.
D. specialize in bananas because they have an absolute advantage in banana production.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-03 Explain why people specialize.
Topic: Specialization

135. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country B decides to specialize in tomatoes, and Country A specializes in bananas. What terms of trade would both countries agree to? One tomato for:
A. one banana
B. two bananas
C. four bananas
D. six bananas

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

136. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country A would find acceptable are Country A will give no:
A. more than 5 bananas for each tomato.
B. less than 5 bananas for each tomato.
C. more than 1 tomato for every 5 bananas.
D. less than 1 tomato for every 5 bananas.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Terms of Trade

137. Suppose that a worker in Country A can make either 25 bananas or 5 tomatoes each year. Country A has 200 workers. Suppose a worker in Country B can make either 18 bananas or 6 tomatoes each year. Country B has 400 workers. Suppose Country A specializes in bananas, and Country B specializes in tomatoes. The limits to the terms of trade that Country B would find acceptable are Country B will accept no:
A. more than 3 bananas for each tomato.
B. less than 3 bananas for each tomato.

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C. more than 1 tomato for every 3 bananas.
D. less than 1 tomato for every 3 bananas.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Terms of Trade

138. What determines a country's limits to acceptable terms of trade?
A. Their opportunity costs in production.
B. Whether they possess the absolute advantage in the production of a good.
C. How much a country likes a good for which they are trading.
D. When a country has a comparative advantage in production of both goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

139. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. Based on their production possibilities frontiers, Tom and Jerry:
A. can both benefit from trade because absolute advantage exists.
B. could both benefit from trade because comparative advantage exists.
C. cannot benefit from trade because Tom has the absolute advantage in both goods.
D. will not decide to trade because no comparative advantage exists.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

140. Tom and Jerry have two tasks to do all day: make dishes and build fences. If Tom spends all day making dishes, he will have make 16 dishes. If he instead devotes his day to building fences, Tom will build 4 fences. If Jerry spends his day making dishes, he will make 14 dishes; if he spends the day building fences, he will build 7 fences. If Jerry decides to specialize in building fences, what are the limits to his terms of trade?
A. Jerry will accept no less than 7 dishes for each fence.
B. Jerry will accept no less than 2 dishes for each fence.
C. Jerry will accept no less than 7 fences for each dishes.
D. Jerry will accept no less than 2 fences for each dishes.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Terms of Trade

141. The concepts of comparative advantage, specialization, and trade form a compelling argument in favor of:
A. free trade.
B. protectionism.
C. self-sufficiency.
D. only exporting goods and not importing goods.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand

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Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

142. The concepts of comparative advantage, specialization, and trade:
A. can be useful in explaining why countries import and export certain goods.
B. can be useful in explaining why individuals typically work at one job, and buy the other goods and services they need.
C. can be useful in explaining why we allow ourselves to be interdependent on others.
D. All of the statements are true.

AACSB: Reflective Thinking
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-04 Explain how the gains from trade follow from comparative advantage.
Topic: Gains from Trade

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